

# Specialization in Regulatory Economics

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# What is regulation?

- Regulation concerns market specific arrangements, which refer essentially on market access, prices, quality and competition conditions.
  - market access regulation: licenses; utilization in a natural monopoly situation
  - price regulation: against “exploitation” by monopolists, also due to social reasons (rent control, public health care)
  - quantity regulation: universities, doctors, notaries, taxies
  - public ownership: direct governmental allocation

# Definition

- (Economic) Regulation: „a state imposed limitation on the discretion that may be exercised by individuals or organizations, which is supported by the threat of sanction“ (Stone, 1982, zit. n. VVH, S. 297)
- Especially:
  - the government control of firm behavior of industries characterized by a lack of competition (traditionally natural monopolies)
- To distinguish: Social regulation: environment protection, consumer protection, public health care, employment protection, etc.
- Most important: energy (gas and electricity), railways, postal services

# Field Course

1. Introduction
2. Perfect competition vs. Monopoly
3. Technology and cost
4. Contestable markets and the war of attrition
5. Why regulate natural monopolies? Efficiency and other goals
6. Price regulation by a fully informed regulator
  1. Optimal linear prices: Ramsey-Boiteux pricing
  2. Peak-Load-Pricing
7. Cost of service and rate of return regulation
  1. The rental price of capital
  2. The Averch-Johnson Model
8. Incentive regulation
  1. Optimal incentive regulation under asymmetric information
9. Regulation under adverse selection
  1. Regulation under adverse selection: further topics
10. (Regulation under moral hazard)
11. Regulatory mechanisms with asymmetric information
12. Market access regulation: vertical aspects

# Syllabus

- 1088 Field Course: Regulatory Economics
  - PI, 3h
  - Tue, 8.30-12.30h
  - First lecture: 7.10.2025
  - ???TC 4.12
  - Test on the 16.12.2025; 9-11h
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- 1089 Research & Policy Seminar: Regulatory Economics
  - PI, 2h
  - Tue, 8.30-12.30h
  - First seminar: 16.12.2025, 11-12.30h (allocation of papers)
  - ???D4 0.047

# Literature

My slides

Paul Joskow: [Regulation of Natural Monopolies](#) August 2006, mimeo, MIT, erschienen im Handbook of Law and Economics, 2007

K. Viscusi, J. Harrington, J. Vernon, Economics of regulation and antitrust. 4th. ed. MIT Press 2005.

Borrmann, J. und Finsinger, J., Markt und Regulierung. Verlag Vahlen 1999.

Mark Armstrong und David Sappington

[Recent developments in the theory of regulation](#). Erschienen im Handbook of Industrial Organization (Vol. III), edited by M. Armstrong and R. Porter.

[Regulation, Competition, and Liberalization](#). Journal of Economic Literature Vol. XLIV (June 2006), pp. 325–366.

# Syllabus

- Grading
- Field Course:
  - Test (60%; min 40% at test), work in class (20%), in class calculation of problem set (20%)
- Research & Policy Seminar:
  - Presentation of a paper of choice (70%), handout (10%), work in class (20%)

# Research & Policy Seminar

- Presentation
  - 60 minutes presentation of a paper from list
  - Slides
  - Hand out (1 page)
- Work in class
  - Questions to the papers
  - General discussion of regulatory topics