

# DISSERTATION PROPOSAL

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## "Essays on Microeconomic Theory and Applications"

Friday, November 21, 2014

10:30 am

388 Posner Hall

In the first essay, I study intermediary organizations that act like consumer unions by negotiating with (goods or service) producers on behalf of consumers over prices and allocations. Two examples of such intermediaries are public utility commissions that regulate utilities such as electricity and natural gas in each state of the United States and online travel companies like Expedia and Priceline that book services such as hotel rooms and airline seats for their customers. By constructing a general equilibrium model of imperfect competition, I gauge the impact of consumer unions on consumer welfare. I establish, contrary to a first intuition, that consumer unions may reduce consumer welfare rather than promoting it. I also prove that consumer unions discourage producers' investments, which may have repercussions on long-term consumer welfare. Finally, I show that depending on the production technology, antitrust policy can be more effective in promoting consumer welfare than regulation that mimics unionization.

In the second essay (with Stephen Spear), we study endogenous shocks driven by collective actions of managers. A good recent example of this is how the collective actions of bank managers engaging in securitization of loans ended up freezing the world financial markets in 2008. Motivated by examples like the 2008 crisis, we analyze how endogenous shocks driven by collective actions of managers impact social welfare by using a dynamic general equilibrium model. We first show that such endogenous shocks render competitive equilibrium allocations inefficient due to externalities. We establish that a socially optimal allocation can only be attained by paying managers the socially optimal wages, and this can be achieved by imposing wage taxes (or subsidies) on managers. Finally, we extend the model by allowing for information asymmetry, and show that it is not possible to attain a socially optimal (i.e., first-best) allocation. We instead examine second-best allocations.

In the third essay (with Stephen Spear), we study economies in which technology exhibits increasing returns to scale (IRTS). IRTS technologies have been the driving force of endogenous growth (via innovation, research and development), and it has been the key to understanding imperfect competition in the industrial organization literature. However, the general equilibrium literature either ignores IRTS due to unbounded production or examines IRTS under perfect competition, and shows the existence of finite production only when firms require government subsidies to survive. In this paper, we prove the existence of equilibrium in IRTS sectors in a general equilibrium setting with imperfect competition. We also show that such an equilibrium restricts the number of firms. This finding is corroborated by the industrial organization literature, which has established that monopolistic or oligopolistic market structures are due to increasing returns.