

MODERN INDUSTRIAL ORGANIZATION (M.I.O.)

LUPUT Iulian

University of Oradea Faculty of Management and Tehnological Engineering

M. I.O. has the latest theories about the organization of firms and industries.

Industrial organization is a field of economics that studies the strategic behavior of firms, the structure of markets and their interactions. The study of industrial organization adds to the perfectly competitive model real-world frictions such as limited information, transaction cost, cost of adjusting prices, government actions, and barriers to entry by new firms into a market. It then considers how firms are organized and how they compete. Perhaps a most appropriate term is the "Economics of Imperfect Competition

The study of industrial organization adds to the perfectly competitive model real-world frictions such as limited information, transaction costs, cost of adjusting prices, government actions, barriers that new firms have to entry into a new market. It took a long time and two waves of interest for industrial organization to become nowadays one of the main fields of economics.

- **the first wave**, associated with the names of Joe Bain and Edward Mason and sometimes called the Harvard tradition, was empirical in nature and developed the famous "structure-conduct-performance" paradigm.

- **the second wave of interest**, "the new Industrial Organization" which was theoretical, started in the 1970's .

Today most industrial organization research and courses are well grounded in microeconomic theory. The reason of this approach is the recent availability of data at a more micro level and advances in price theory. In recent years, three specifically theoretical applications of price theory have won substantial support :

- **transaction cost analysis** that are the expenses of trading with others above and beyond the price, such as the cost of writing and enforcing contracts.
- **game theory** which uses formal models to analyze conflict and cooperation between firms and individuals.
- **contestable market analysis**, markets in which many firms can enter rapidly if prices exceed costs and can exit rapidly if prices drop below costs

The Industrial Organization has become not only a very lively field of economics in its own right but has also been an important source of intellectual arbitrage to many other areas of economics such as "new trade theory, macroeconomics and strategy management. Nowadays Modern Industrial organization combines the latest theories with empirical evidence about the organization of firms and industries. It goes beyond the descriptive traditional structure-conduct-performance approach by using the latest advances microeconomic theory, including transaction cost analysis, game theory, contestability and information theory.

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