

ECO 411
Business Economics

Instructor: Professor John Garen
Office: 335C Business & Economics
Hours: 10:45 - 11:30 T, Th and by appt.
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Spring 2003
9:30-10:45 T, Th
BE 308

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Preliminaries

This course applies economic analysis to many business strategy problems, including the internal organization of the firm and competitive practices for dealing with rivals. The goal of the course is for students to learn how to apply economics principles to understand and devise business operations.

Course Materials

Text: Besanko, David; Dranove, David; and Shanley, Mark, Economics of Strategy, John Wiley & Sons, 2000, 2nd edition.

Other assorted reading will be assigned.

Exams and Grades

Two midterms and one final exam will be given. Each exam covers approximately one-third of the course and covers material from the lecture, the text, and other assigned readings. Exams consist of essay and problem solving questions. Each exam counts for 25% of your grade. Also, several quizzes and homework assignments will be given throughout the term. Collectively, these count for 25% of your grade.

Make-up exams: Students who have a valid reason for missing an exam may take a make-up. Valid reasons include a University-excused absence, illness, or a personal emergency (e.g., a death in the family). The instructor must be notified of these occurrences as soon as possible and verification will be required. Arrangements for a make-up must be made with the instructor as soon as possible. One possibility is to place additional weight on the next exam. Make-ups will be scheduled at a time mutually convenient for the student and the instructor. The instructor reserves the option to schedule make-up exams for the hour following the final.

General Course Outline and Readings

<u>Week</u>	<u>Topics</u>	<u>Readings</u>
1/15 - 1/18	Introduction	Introduction, pgs. 1-6; supplemental reading #1
1/19 - 1/25	Review of some basics	Primer, pgs. 9-22, 30-36.
1/26 - 2/1	Economies of Scale and Scope; Vertical Boundaries of the Firm	Ch. 2, Ch. 3
2/2 - 2/8	Vertical Boundaries (cont'd); Transactions Costs of the Market	Ch. 3 (cont'd.); Ch. 4
2/9 - 2/15	Transactions Costs (cont'd); Alternatives to Vertical Integration	Ch. 4 (cont'd.); Ch. 5
2/16 - 2/18	Alternatives to Vert. Inte. (cont'd.)	Supp. reading #2
2/20, Thurs.	FIRST MIDTERM	
2/23 - 3/1	Incentives and Agency	Ch. 15, pgs. 509-530
3/2 - 3/8	Applications: Paying the Sales- force, Bargaining Over Budgets	Supplemental readings #3, #4, and #5
3/9 - 3/15	Another Application: Franchises; Strategy and Structure	Supp. reading #6; Ch. 16 , pgs. 545-560
3/16 - 3/22	Spring break	
3/23 - 3/29	Strategy and Structure (cont'd.); Decision Authority	Ch. 16 (cont'd., same pgs.); Supp. reading #7
4/1, Tues.	SECOND MIDTERM	
4/3 - 4/5	Pricing – some basics	Ch. 7, pgs. 227-242
4/6 - 4/12	Price Discrimination	Supp. readings #8, #9
4/13 - 4/19	Oligopoly and Strategic Commitment	Ch. 7, pgs. 249-258; Ch. 8, pgs. 263-276
4/20 - 4/26	Collusion and Rivalry	Ch. 9, pgs. 289-316
4/27 - 5/3	Network Competition	Supp. reading # 10
5/9, Fri	FINAL EXAM, 10:30 am	

Supplemental Readings

1. Jensen, Michael and Meckling, William, "The Nature of Man," *Journal of Applied Corporate Finance*, Summer 1994.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=5471

2. Dyer, "Dedicated Assets: Japan's Manufacturing Edge," *Harvard Business Review*, Nov. – Dec. 1994.

http://weblinks2.epnet.com/externalframe.asp?tb=1&_ug=db+2+ln+en%2Dus+sid+AE792B40%2DF688%2D442D%2D8926%2DCBDB0484DC23%40Sessionmgr2+D3DA&uh=btn+N+idb+buhish+jdb+buhjnh+op+phrase+ss+ID++%22HBR%22+545E&_us=bs+JN++%22Harvard++Business++Review%22+++and++DT++19941101+db+2+ds+JN++%22Harvard++Business++Review%22+++and++DT++19941101+dstb+KS+fcl+Aut+ri+KAAACB1D00172806+sm+KS+FBC3&fi=buh_9411155382_&tp=CAP&bk=R&tn=21&lpdf=true&pdfs=2.3MB&es=cs%5Fclient%2Easp%3FT%3DP%26P%3DAN%26K%3D9411155382%26rn%3D21%26db%3Dbuh%26is%3D00178012%26sc%3DR%26S%3DR%26D%3Dbuh&fn=1&rn=21

3. Steinbrink, John, "How to Pay Your Salesforce," *Harvard Business Review*, July – Aug. 1978.

http://weblinks2.epnet.com/externalframe.asp?tb=1&_ug=db+2+ln+en%2Dus+sid+78C365F3%2DE98B%2D483D%2DA035%2D65D2B48617FF%40Sessionmgr2+22D4&_uh=btn+N+idb+buhish+jdb+buhjnh+op+phrase+ss+ID++%22HBR%22+545E&_us=bs+JN++%22Harvard++Business++Review%22+++and++DT++19780701+db+2+ds+JN++%22Harvard++Business++Review%22+++and++DT++19780701+dstb+KS+fcl+Aut+ri+KAAACB1D00172869+sm+KS+CABA&fi=buh_3867597_&tp=CP&bk=R&tn=18&lpdf=true&pdfs=2.3MB&es=cs%5Fclient%2Easp%3FT%3DP%26P%3DAN%26K%3D3867597%26rn%3D11%26db%3Dbuh%26is%3D00178012%26sc%3DR%26S%3DR%26D%3Dbuh&fn=1&rn=11

4. Kohn, Alfie, "Why Incentive Plans Cannot Work," *Harvard Business Review*, Sept. – Oct. 1993.

http://weblinks2.epnet.com/externalframe.asp?tb=1&_ug=db+2+ln+en%2Dus+sid+78C365F3%2DE98B%2D483D%2DA035%2D65D2B48617FF%40Sessionmgr2+22D4&_uh=btn+N+idb+buhish+jdb+buhjnh+op+phrase+ss+ID++%22HBR%22+545E&_us=bs+JN++%22Harvard++Business++Review%22+++and++DT++19930901+db+2+ds+JN++%22Harvard++Business++Review%22+++and++DT++19930901+dstb+KS+fcl+Aut+ri+KAAACB1D00172910+sm+KS+ED3E&fi=buh_9312031646_&tp=CAP&bk=R&tn=18&lpdf=true&pdfs=2.2MB&es=cs%5Fclient%2Easp%3FT%3DP%26P%3DAN%26K%3D9312031646%26rn%3D4%26db%3Dbuh%26is%3D00178012%26sc%3DR%26S%3DR%26D%3Dbuh&fn=1&rn=4

5. Jensen, Michael, "Corporate Budgeting Is Broken – Let's Fix It," *Harvard Business Review*, Nov. 2001.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=321520

6. Section on franchising, in *Coordination, Control, and the Management of Organizations: Course Notes*, pp. 78 – 81.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=78008

7. Jensen, Michael and Meckling, William, “Specific and General Knowledge and Organizational Structure,” *Journal of Applied Corporate Finance*, Fall 1995.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=6658

8. Outline of Versioning Information, in Shapiro, Carl and Varian, Hal, *Information Rules*, Boston: Harvard Business School Press, 1999.

<http://www.inforules.com/>

(Select teaching link, then the above chapter outline.)

9. Outline of Recognizing Lock-In, in Shapiro, Carl and Varian, Hal, *Information Rules*, Boston: Harvard Business School Press, 1999.

<http://www.inforules.com/>

(Select teaching link, then the above chapter outline.)

10. Outline of Networks and Positive Feedback, in Shapiro, Carl and Varian, Hal, *Information Rules*, Boston: Harvard Business School Press, 1999.

<http://www.inforules.com/>

(Select teaching link, then the above chapter outline.)