

## ECO 411: Business Economics

**Instructor:** Frank Scott  
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**Class:** ECO 411-001  
MW 2:00-3:15 p.m.  
B&E 309

**Course Description:** ECO 411, Business Economics, applies basic economic principles to the types of problems faced by business decision-makers. Particular attention is paid to the economics of organizations and to the economics of firm strategy. Topics covered include the nature of economic organizations, the make or buy decision and the vertical chain of production, corporate governance, distribution channels, external market structure, selling decisions, and rivalry and strategy. Applications to management, finance, and marketing are stressed.

**Prerequisites:** It is required that students have satisfactorily completed ECO 201-202, Principles of Micro and Macroeconomics.

**Assigned Readings:** Reading assignments will come from two books:

Paul H. Rubin, Managing Business Transactions, The Free Press, 1990, and

Sharon M. Oster, Modern Competitive Analysis (3<sup>rd</sup> edition), Oxford University Press, 1999.

**Course Requirements:** Students' grades will be determined by performance on a midterm and a final exam, completion of a term project, and class participation. Weights are as follows:

Midterm exam	25%
Final exam	30%
Research Memorandum	35%
Class participation	10%

The exams will cover the material indicated on the course outline below. For the research memorandum students will be asked to select a particular topic or issue in the economics of organizations or business strategy and apply it to the study of an individual firm or group of firms. Detailed instructions will be provided by the instructor. The class participation portion of the grade will be determined by performance on 8-10 in-class concept quizzes. The lowest two quiz scores will be dropped.

**Office Hours:** My office is 335-M in the Gatton Business and Economics Building. Office hours are from 10:00 to 11:00 a.m. on Mondays and Wednesdays. Appointments at other times are welcomed and can be scheduled with me.

## **Course Outline and Reading Assignments:**

- I. Introduction: Oster, Ch. 1, Rubin, Preface.
- II. Neoclassical Theory of the Firm: Class notes.
- III. Boundaries of the firm:
  - A. Make or Buy: Rubin, Ch. 1; Oster, Ch. 11.
  - B. Contractual Relationships: Rubin, Ch. 2.
  - C. Employment Relationships: Rubin, Ch. 3; Oster, Ch. 8, pp. 142-144, 152-161.
- IV. Corporate Control
  - A. Internal Corporate Control: Rubin, Ch. 4.
  - B. Takeovers and Restructurings: Rubin, Ch. 5.
- V. Distributing the Product
  - A. Vertical Controls: Rubin, Ch. 6.
  - B. Franchising: Rubin, Ch. 7.
  - C. Creating a Reputation: Rubin, Ch. 8.

Midterm Exam: Monday, October 17

- VI. Structural Analysis of Industry
  - A. Efficient Markets: Oster, Ch. 2.
  - B. Industry Analysis: Oster, Ch. 3.
  - C. Impediments to Entry: Oster, Ch. 4.
  - D. Groups within Industries: Oster, Ch. 5.
- VII. Rivalry
  - A. Game Theory: Oster, Ch. 13.
  - B. Product Positioning and Strategic Marketing: Oster, Ch. 14.
  - C. Competitive Pricing: Oster, Ch. 15.

Final Exam: Monday, December 12, 10:30 a.m.