

ECO 610: Managerial Economics
December 2008 Course for UK/TEI Piraeus Program

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Course Description:

In this course we will apply economic theory to managerial decision making. We will employ many of the traditional tools of microeconomics and see how they can be used to analyze practical business problems. We will pay particular attention to the strategy of firms in the marketplace. ECO 610 is a core course in the MBA program and is intended to complement the other core courses. Prerequisites for this course are principles of micro and macroeconomics, basic probability theory and statistics, and introductory calculus.

Textbook

Assigned readings will come from:

Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy* (4th edition), John Wiley & Sons, Inc., 2007.

There will also be assigned readings for each class taken from business periodicals such as the *Wall Street Journal*. **The entire set of readings, including the assigned chapters from the textbook, can be purchased in electronic form in course packets available from XanEdu-ProQuest Learning.** So you do not need to purchase a hard copy of the entire textbook. Instructions on how to purchase the readings are attached.

Grading

Your grade in the course will be based on your performance on (1) in-class quizzes, (2) a short research memorandum, and (3) an in-class final exam. We will have a short quiz based on the assigned outside readings toward the end of each evening's class. There will be eight quizzes in all, and I will drop your lowest and count your top seven scores. I will ask you to write a 6-8 page (12 point font, double-spaced) memorandum, in which you analyze a particular industry of your choosing using the "five-forces" approach as outlined in Chapter 10 of the textbook. This memorandum will be due Monday, January 5, 2009. Finally, we will have a comprehensive final exam, for which you will be able to use your textbook and notes. The quizzes will count 30% in total, the research memorandum will count 30%, and the final exam will count 40% towards the determination of your letter grade in the course.

Class Structure

Since this course is so compact and concentrated, we have to be very efficient in our use of class time. Also, I recognize that many students will have already put in a full day at work before coming to class. We will typically break each evening into three sessions. In the first session, from 6:00 p.m. until 7:15, I will introduce the evening's topic and provide some examples to motivate interest. After a fifteen-minute break, I will provide further theoretical discussion of the topic. The second session will typically last from 7:30 until 8:45. After another fifteen-minute break, we will finish off the evening with an hour-long discussion of cases and applications, ending class at 10:00 p.m. Each evening's short quiz will typically come at the end of the second session.

Course Schedule and Reading Assignments:

Monday, December 1: Introduction to the course—examples of managerial decision-making, economic costs and profitability.

- BDSS: pp. 6-8, 19-23.

Tuesday, December 2: Economic concepts—costs, demand, market structure.

- BDSS “Primer: Economic Concepts for Strategy,” pp. 9-35.
- “Greece offers new wave of wines,” *WSJ*, 8/4/03.
- “Spanish put new accent on olive oil,” *WSJ*, 11/17/03.

Wednesday, December 3: Horizontal boundaries of the firm—economies of scale and scope, diseconomies of size, the learning curve.

- BDSS ch. 2: “Horizontal Boundaries of the Firm,” pp. 74-85, 86-94 (read lightly), 94-100.
- “Power pork: corporations begin to turn hog business into an assembly line,” *WSJ*, 3/28/94.
- “Extinction of the predator—the global car industry,” *The Economist*, 9/10/05.

Thursday, December 4: Vertical boundaries of the firm—make or buy, transactions costs, asset specificity, hold-up, vertical control devices.

- BDSS ch. 3: “Vertical Boundaries of the Firm,” pp. 105-115, 121-132.
- “Made to measure: invisible supplier has Penney's shirts all buttoned up,” *WSJ*, 9/11/03.
- “Growing pains: to bag China's snack market, Pepsi takes up potato farming,” *WSJ*, 2/19/05.
- “Bike maker faces a tactical shift,” *WSJ*, 10/12/98.

Friday, December 5: Competitors and competition—defining a market, elements of market structure, types of market structure.

- BDSS ch. 6: “Competitors and Competition,” pp. 191-207, 208-219 (read lightly), also go back and read pp. 35-39.
- “Alligator farming shows there’s a lot to be said for cows,” *WSJ*, 8/2/89.
- “Greece is the word,” *WSJ*, 7/30/04.
- “A buyer’s guide to the new gameboxes; Xbox will come out first, but Sony touts its graphics,” *WSJ*, 5/18/05.

Saturday, December 6 and Sunday, December 7: catch up on reading, work on industry study.

Monday, December 8: Strategic commitment—irreversibility and credibility, strategic complements/substitutes, taxonomy of business strategies.

- BDSS ch. 7: “Strategic Commitment,” pp. 223-232, 232-239 (read lightly).
- “Haven’t shareholders had enough chicken?” *WSJ*, 4/4/01.
- “Cruise lines slash their prices as war fears scare travelers,” *WSJ*, 1/29/03.
- “Upstart’s tactics allow it to fly in friendly skies of a big rival,” *WSJ*, 6/23/99.

Tuesday, December 9: Pricing rivalry—prisoner’s dilemma, repeated games and tit-for-tat behavior, market structure and cooperative behavior, price discrimination.

- BDSS ch. 8: “Dynamics of Pricing Rivalry,” pp. 250-272.
- “Dell price cuts put squeeze on rival H-P,” *WSJ*, 8/21/03.
- “Seeking Perfect Prices, CEO Tears Up the Rules,” *WSJ*, 3/27/07.

Wednesday, December 10: Entry and exit—barriers to entry and exit, entry deterring strategies.

- BDSS ch. 9: “Entry and Exit,” pp. 286-306.
- “Café Ole? Madrid gets its first Starbucks,” *WSJ*, 4/11/02.
- “Airports crack down on gamesmanship over gates,” *WSJ*, 6/7/05.
- “The tri-county pizza war,” *Lexington Herald-Leader*, 11/10/05. (A Xerox copy of this reading will be handed out in class.)

Thursday, December 11: Industry analysis—Porter’s five forces, in-class application of five-force analysis to selected Greek industries.

- BDSS ch. 10: “Industry Analysis,” pp. 312-320, 337-339.
- “Oh, sweet revenge,” *Newsweek*, 9/29/03.

Thursday, December 18: Final Exam. Details to be provided later.

Instructions for Industry Analysis Assignment

A major (30%) portion of your grade in this course will come from your analysis of a particular industry of your choosing. Your assignment is to choose an industry that you have some interest in, and to research that industry so that you become something of an expert. Sources that you might use for your research include library and internet resources, as well as discussions with persons knowledgeable about the industry.

Your research should follow the outline of an industry study discussed in Chapter 10 of *Economics of Strategy* by Besanko, Dranove, Shanley, and Schaefer. In other words, you should do a five-forces analysis of your industry. The types of questions you should consider in analyzing your industry are outlined in Appendix 10.1 of the BDSS textbook. Your challenge is to figure out which questions are most relevant to your chosen industry and hence deserving of your attention, and which ones are not particularly important.

You should convey your research findings in a business-style memorandum. Imagine that you have been given the assignment to research a particular industry because a large corporation (your client or employer) is thinking about investing in this industry. You should write a six-to-eight page memorandum (12 pt. font, double-spaced, one-inch margins) addressed to the executive committee. Make sure that you appropriately cite all of the outside references that you use, because the company will not want to make an important decision based on unreliable sources or flimsy evidence and research.

Attach as an appendix to your memorandum a copy of each of the sources that you use. If you cite a book or long article, only include the title page and the pages you refer to in your report. For short articles from periodicals, newspapers, and internet sources, include the entire piece. If you interview a person knowledgeable about the industry, explain who the person is and include a summary of your notes from the interview. Then in writing your memo you can use very brief citations to your sources, e.g. see Appendix, Reference A-1, A-2, etc.

This assignment is due Monday, January 5, 2009. That means that you should mail it on or before that date to:

Professor Frank Scott
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Lexington, KY 40502-0034
USA

Make sure that your packet has a date stamped on it so that I will know that you mailed it on time.