

Eco 610 Detailed Course Outline and Reading Assignments (First Half of Course):

Monday, August 17 / Tuesday, August 18

Monday, August 24 / Tuesday, August 25

Topics: introduction, basics of market systems, demand and supply analysis.

Reading assignments:

Text: BSZ, ch. 3, “Markets, Organizations, and the Role of Knowledge.”

Goal of economic systems

Property rights and exchange in a market economy

 Dimensions of property rights

 Gains from trade

Basics of supply and demand

 The price mechanism

 Prices as social coordinators

 Government intervention

Markets versus central planning

 Specific knowledge and the economic system

 Incentives in markets

Contracting costs and existence of firms

 Contracting costs within firms

Required outside readings:

“Tempur-Pedic stock up after report, analysis,” *Lexington Herald-Leader*, July 26, 2012: if you are captain of the ship, how broad is the scope of activities that fall under your purview?

<https://www.kentucky.com/news/business/article44369544.html>

Two countries going in different directions RE markets vs. central planning:

“As Economy Grows, North Korea’s Grip on Society is Tested,” *New York Times*, 5/1/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1893439516/6B98A8736BF04FEA/PQ/2?accountid=11836>

“Venezuela is Starving—Hobbled by Economic Policies, Latin America’s Once-Richest Country Can No Longer Feed its People,” *WSJ*, 5/6/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1895499247/5CF40B45C8B34BB/DPQ/1?accountid=11836>

“Lawmakers Struggle to Define Gasoline Price ‘Gouging,’” *WSJ*, 11/9/05: how will a society allocate scarce resources, and what adjustment process will it use when the relative scarcities of different resources changes?

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398991187?accountid=11836>

“Corn’s Rally Sends Ripples,” *WSJ*, 1/18/07: contemplating a career picking winners and losers in the stock market? When you play chess, do you think two moves ahead or six moves ahead?
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398983538?accountid=11836>

Additional resources:

Milton Friedman: Story of the Pencil—how markets work to allocate resources.
<http://www.youtube.com/watch?v=4ERbC7JyCfU>

How long does it take to buy basic products in Venezuela? (if you want to see more amusing (to those not living in Caracas) videos, type in “price controls and shortages in Venezuela”).
<https://www.youtube.com/watch?v=1CMEemKe5mS0>

CNN report on London terror attack: Is there a socially desirable supply response that might result from price gouging (surge pricing) by Uber?
<http://money.cnn.com/2017/06/04/technology/uber-london-attack-surge-pricing/index.html>

Supply and demand, worth watching not necessarily for the economics lesson but because it contains scenes from several of your professor’s favorite movies.
<https://www.youtube.com/watch?v=RP0j3Lnlazs>

Economic development in four minutes. Alternatively, you could take a month and read *The Wealth of Nations* by Adam Smith. <http://www.youtube.com/watch?v=jbkSRLYSojo>

CIA World Factbook: comparative economic systems—all the facts in one convenient place.
<https://www.cia.gov/library/publications/the-world-factbook/>

Optional additional outside readings:

“Tempur Sealy Appears to Stay Course after Shakeup,” *Lexington Herald-Leader*, 6/1/15: what sometimes happens when the captain charts the wrong course,
<http://infoweb.newsbank.com.ezproxy.uky.edu/resources/doc/nb/news/155B3382624F6E98?p=AWNB>
and another local company that ran aground, costing the captain his job.
<http://smileypete.com/business/lexmark%E2%80%99s-new-leader-hits-reboot-button/>

Allocating a scarce resource via markets vs. central planning—how does society determine what the highest-valued uses of water are?
“Australia’s Model Water Market Struggles with Drought,” *WSJ*, 11/9/18:
<https://search-proquest-com.ezproxy.uky.edu/docview/2131091646/B4B9C23A4A4D4E65PQ/22?accountid=11836>
and “California Farmers Are Trade-War Casualties,” *WSJ*, 9/20/18:
<https://search-proquest-com.ezproxy.uky.edu/docview/17DFFC8A4256PQ/39?accountid=11836> :

“Oil’s Fall Throws Doubt on Fracker Profit Claims,” *WSJ*, 12/5/18: after reading this do you understand why the market supply curve for crude oil slopes upward?

<https://search-proquest-com.ezproxy.uky.edu/docview/2149555009/6DB2B1CBD3344C35PQ/49?accountid=11836>

“Natural-Gas Prices Getting Hotter,” *WSJ*, 10/12/16: shift in supply due to a change in the price of a good that is a complement in production. Can you imagine the sorts of supply and demand exam questions I might devise based on this reading?

<http://search.proquest.com.ezproxy.uky.edu/docview/1827835207/9B539FFD5880458CPQ/82?accountid=11836>

“IKEA’s India Bet Hits Thicket of Rules,” *WSJ*, 2/24/16: doing business around the world—a quick course in comparative economic systems.

<http://search.proquest.com.ezproxy.uky.edu/docview/1767558436/24E6EB9FD2854E73PQ/4?accountid=11836>

Read these two articles after you watch the “economic development in four minutes” video to see a major reason for the location of the U.S. on the grid.

“How the West Was Really Won,” *WSJ*, 5/19/12:

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1014209562/138739061E73E5C67FF/48?accountid=11836> and

“Politics Plays Part in Achieving Rich-Nation Status,” *WSJ*, 5/16/11:

<http://search.proquest.com.ezproxy.uky.edu/docview/866537076/B2B3968D26FA4C00PQ/9?accountid=11836>

Monday, August 31 / Tuesday, September 1

Topics: determinants of demand, estimating demand, elasticity.

Reading assignments:

Text: BSZ, ch. 4: “Demand.”

- Demand functions

- Demand curves

 - Law of demand

 - Elasticity of demand

- Other factors that influence demand

 - Prices of related products, income, other variables

- Industry vs. firm demand

- Product attributes

- Product life cycles

- Demand estimation

 - Interviews

 - Price experimentation

 - Statistical analysis

Required Outside readings:

“PepsiCo Pushes Breakfast in Bid to Heat Up Oatmeal,” *WSJ*, 7/28/10: imagine that you are named brand manager for this newly acquired product line and are tasked with pumping up demand for Quaker Oats.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/732571063?accountid=11836>

“Thrill parks try to boost attendance: Some lower their fees to attract crowds,” *Lexington Herald-Leader*, 5/27/06: to increase our revenues, should we raise or lower the price of admission?

<http://bit.ly/odthLq>

“For Dollar Stores, a Mixed Bag,” *WSJ*, 7/11/13: do all companies suffer in a recession?

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1399253185/13FBAC776B7259CDD87/82?accountid=11836>

“The Millennial vs. Boomer Stock Smackdown,” *WSJ* 6/7/19: trying to decide what stocks to include in your personal retirement account?—how tastes/preferences differ across socio-economic groups and how that affects profitability.

<https://search-proquest-com.ezproxy.uky.edu/docview/2236060595/4368C0827FFF4982PQ/81?accountid=11836>

Additional resources:

Simple and straightforward explanation of own-price elasticity:

https://www.youtube.com/watch?v=4oj_lnj6pXA

Optional additional outside readings:

“UK Hopes Ticket Price Hike will Increase Student Attendance,” *Lexington Herald-Leader*, 7/25/17: the title of this article alone should intrigue you enough to read it.

<http://infoweb.newsbank.com.ezproxy.uky.edu/resources/doc/nb/news/165DFF32A555EC20?p=AWNB>

“Big Brewers Start to Feel Parched,” *WSJ*, 5/10/18: changing consumer tastes and other determinants of demand for various alcoholic beverages.

<https://search-proquest-com.ezproxy.uky.edu/docview/2036663000/17A76E58B1374E74PQ/48?accountid=11836>

“Free MBAs Attract a Lot of Business,” *WSJ*, 4/7/16: what happens to demand when price drops to zero?

<http://search.proquest.com.ezproxy.uky.edu/docview/1778927385/C9EAA51FA95D4812PQ/75?accountid=11836>

“Economy’s Future Plays Out in Rust Belt,” *WSJ*, 4/6/18: using the concept of income elasticity, can you explain why Elkhart, IN has such a boom or bust economy? <https://search-proquest-com.ezproxy.uky.edu/docview/2022065136/D2753C5DA5746A0PQ/3?accountid=11836>

Monday, September 7 / Tuesday, September 8
Monday, September 14 / Tuesday, September 15

Topics: production, economic costs, economic profit.

Reading assignments:

Text: BSZ, ch. 5: “Production and cost.”
Production functions
 Returns to scale
 Returns to a factor
Choice of inputs (skim the whole section)
Costs
 Cost curves
 Short run vs. long run
 Minimum efficient scale
 Learning curves
 Economies of scope

Required Outside readings:

“Amazon Robots Get Ready for Christmas,” *WSJ*, 11/20/14: could you head up a project to determine the cost-minimizing mix of robots vs. workers in the peak and off-peak seasons?
<http://search.proquest.com.ezproxy.uky.edu/docview/1626121572/92A2AB457DB74662PQ/67?accountid=11836>

“Subaru’s Got a Big Problem: It’s Selling Too Many Cars,” *WSJ*, 8/21/13: short-run law of diminishing returns can bite when plant size is too small.
<http://search.proquest.com.ezproxy.uky.edu/docview/1426497632/D37A78AD1E014597PQ/73?accountid=11836>

“Small Talk,” *WSJ* 5/30/06: thinking about buying an existing business so you can be your own boss? Here are some things to consider.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399047133?accountid=11836>

“Accounting’s 21st Century Problem,” *WSJ*, 3/22/16: it was also a problem during the 20th century.
<http://search.proquest.com.ezproxy.uky.edu/docview/1774739976/CC673B578D9941CEPQ/69?accountid=11836>

Additional resources:

Khan academy: see the example on accounting profit vs. economic profit,
<http://www.khanacademy.org/science/microeconomics/firm-economic-profit/economic-profit-tutorial/v/economic-profit-vs-accounting-profit>, and
<http://www.khanacademy.org/science/microeconomics/firm-economic-profit/economic-profit-tutorial/v/depreciation-and-opportunity-cost-of-capital>

Production functions and the law of diminishing returns,
<http://www.youtube.com/watch?v=FBkftZikIdU>

Robots come to dairy farming, <http://www.nytimes.com/2014/04/23/nyregion/with-farm-robotics-the-cows-decide-when-its-milking-time.html>

Numerical example of short-run costs: <http://tutor2u.net/economics/revision-notes/a2-micro-supply-shortrun-costs.html>

Optional additional outside readings:

“Economic Profit vs. Accounting Profit,” *WSJ*, 6/2/03: an esoteric discussion of the concept of profit as treated in ACC 201 vs. ACC 202. If you understand this article, you are ready to work for Warren Buffett as an investment analyst.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398903478/138739DD9F16BF6DFC8/40?accountid=11836>

“Hedge Fund Bets on Taxi Business,” *WSJ*, 10/15/18: there is an active market for taxi medallions in New York City—how do hedge fund managers determine how much a medallion is worth?

<https://search-proquest-com.ezproxy.uky.edu/docview/2119809168/6DD8674FF78844ECPO/61?accountid=11836>

Warren Buffet on economic profit: *The Essays of Warren Buffett: Lessons for Corporate America*, 2nd edition, 2008, Chapter 6C, “Economic Goodwill vs. Accounting Goodwill.” Also take a look at the first part of his 1983 letter to Berkshire Hathaway shareholders:

<http://www.berkshirehathaway.com/letters/1983.html> His entire set of letters can be found at: <http://www.berkshirehathaway.com/letters/letters.html>

“The Market’s Tough Love Delivers,” *WSJ*, 5/22/17: you issue pieces of paper giving a claim to future profits; you can use that capital to do anything and don’t even have to pay it back; but if you want more . . .

<http://search.proquest.com.ezproxy.uky.edu/docview/1900666215/C1DD15FA68BF4EB2PQ/41?accountid=11836>

“Walmart Employs Robots in Effort to Control Labor Costs,” *WSJ*, 4/9/19: tradeoff between capital and labor in the production process.

<https://search-proquest-com.ezproxy.uky.edu/docview/2205207529/A2E93CB548BB4DBFPQ/63?accountid=11836>

See robots in action in an Amazon distribution facility:

<http://www.youtube.com/watch?v=6KRjuuEVEZs>

“Frito-Lay Aims to Cut Gas Bill’s Bite,” *WSJ*, 6/5/06: deciding whether it is economical to substitute capital for energy in making potato chips.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398990274/13873A32DD169DE1D01/38?accountid=11836>

“Autonomous Robots in the O.R.: Scientists are Developing Machines that Perform Surgical Tasks with Little Oversight from Humans,” *WSJ* 9/11/20: the optimal mix of human labor and physical capital in the operating room. <https://search-proquest-com.ezproxy.uky.edu/docview/2441453163/32DB8D443D22430BPQ/96?accountid=11836>

“GM Wrestles with Excess Capacity,” *WSJ*, 10/10/17: contrast where on its LRAC a typical GM plant is operating with Subaru’s Indiana plant.

[https://search-proquest-](https://search-proquest-com.ezproxy.uky.edu/docview/1948904242/7FB00A1F77964D91PQ/56?accountid=11836)

[com.ezproxy.uky.edu/docview/1948904242/7FB00A1F77964D91PQ/56?accountid=11836](https://search-proquest-com.ezproxy.uky.edu/docview/1948904242/7FB00A1F77964D91PQ/56?accountid=11836)

Individual assignment (for your personal edification): take virtual plant tours of Toyota’s Georgetown manufacturing facility (<http://www.toyotageorgetown.com/tourvid.asp>) and Reid Dairy’s processing facility (<https://www.youtube.com/watch?v=mTtbXot3lik>). As you tour these two plants, try to understand how various different inputs are used in each production process to produce different outputs. Connect theoretical concepts in the textbook reading with something you observe in the plant tour. If you were plant manager, how would you go about increasing output over a short time horizon? Over a longer time horizon? How difficult would it be to change the amounts of different inputs? How specialized are the human or physical capital inputs used in this particular production process? How much of the investment in plant and equipment is fixed and irreversible? Contrast the Toyota plant with auto manufacturing in an earlier era:

Ford Model T’s: <http://www.youtube.com/watch?v=IXkx18dSXB4>

1936 Chevrolets: <http://www.youtube.com/watch?v=VvAH-Yskyio&feature=related>

Monday, September 21 / Tuesday, September 22

Topics: horizontal boundaries of the firm.

Reading assignments:

Text: BDSS, ch. 2: “The Horizontal Boundaries of the Firm: Economies of Scale and Scope.”

Where do economies of scale come from?

Definition of economies of scale

Definition of economies of scope

Where do scale economies come from?

Indivisibilities and the spreading of fixed costs

Inventories

The cube-square rule and the physical properties of production

Special sources of economies of scale and scope (skim the whole section)

Sources of diseconomies of scale (skim the whole section)

The learning curve

The concept of the learning curve

Expanding output to obtain a cost advantage

Learning and organization

The learning curve versus economies of scale

Required Outside readings:

“Power Pork: Corporations Begin to Turn Hog Business into an Assembly Line,” *WSJ*, 3/28/94: what happened to chicken production in the 1960s comes to pigs.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398373847?accountid=11836>

“Meet the World’s Largest Cargo Ships,” *WSJ*, 1/8/13: How do you think the widening of the Panama Canal is going to affect the supply chains of companies in the eastern U.S?

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1266990140/13FB AE3E923680778EB/71?accountid=11836>

“New Role for the Gator: Chicken Farmer’s Friend,” *New York Times*, 6/18/2000: read this and you will never forget the concept of economies of scope.

<http://www.nytimes.com/2000/06/18/us/camilla-journal-new-role-for-the-gator-chicken-farmer-s-friend.html?pagewanted=all&src=pm>

Additional resources:

Economies of scale, <http://www.youtube.com/watch?v=68-vmWJQlo&feature=related>

Specialization of capital and economies of scale, <http://www.youtube.com/watch?v=SXEdq7JAMI> , or drive out Richmond Road and watch the production process in person while enjoying a cup of coffee.

One approach to growing and selling vegetables like carrots:

<https://www.youtube.com/watch?v=bKCs23drsRs>

Alternatively, growing carrots: <https://www.youtube.com/watch?v=Ebc-FsJsbll> ,

processing carrots: <https://www.youtube.com/watch?v=LDOFidrTGvU> ,

and distributing carrots: <https://www.youtube.com/watch?v=H-CtcK6lOXU>

Electronics design company’s discussion of economies of scale:

<http://airborn.com.au/method/volume.html>

Major consumer goods producers and the scope of their product lines:

<http://www.convergencealimentaire.info/map.jpg>

Optional additional outside readings:

“Kraft Picks Leaders for Split,” *WSJ*, 12/6/11: economies of scope or diseconomies of scope, and implications for mergers and divestitures.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/908477763/13873 A4DA7C70384EF8/83?accountid=11836>

“Boeing Struggles to Find Buyers for Early Version Dreamliners,” *WSJ*, 8/29/14: would you as an airline passenger like to be part of the learning process that Boeing workers go through?

<https://search-proquest-com.ezproxy.uky.edu/docview/1558679198/6261130EDF1540BAPQ/2?accountid=11836>

“Sharp’s New Plant Reinvents Japan Manufacturing Model,” *WSJ*, 11/30/09: there is a clear upside, but can you see a downside for suppliers who locate on site? Keep this in mind when we discuss asset specificity in the next section.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399128309?accountid=11836>

Monday, September 28 / Tuesday, September 29

Topics: vertical boundaries of the firm.

Reading assignments:

Text: BDSS, ch. 3: “The Vertical Boundaries of the Firm.”

Make vs. buy

Upstream, downstream

Defining boundaries

Some make-or-buy fallacies

Reasons to “buy”

Exploiting scale and learning economies

Reasons to “make”

Coordination of production flows through the vertical chain

Transactions costs

Relationship-specific assets

Rents and quasi-rents

The holdup problem

The holdup problem and transactions costs

Recap: from relationship-specific assets to transactions costs

Summarizing make-or-buy decisions: the make-or-buy decision tree

Required Outside readings:

“Made to Measure: Invisible Supplier Has Penney’s Shirts All Buttoned Up,” *WSJ*, 9/11/03: who is “outsourcing” to whom?

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398953831?accountid=11836>

“Plane Makers Want a Bigger Part of Parts,” *WSJ*, 9/8/17: value chain, make or buy, supplier power, supply chain management—this article has it all. <https://search-proquest-com.ezproxy.uky.edu/docview/1936420682/3B95B99B20C4FF6PQ/60?accountid=11836>

“Companies More Prone to Go ‘Vertical,’” *WSJ*, 11/30/09: fads and trends vs. fundamental economic reasons whether to make or to buy.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399140920?accountid=11836>

Additional resources:

Wikipedia (!!??): http://en.wikipedia.org/wiki/Vertical_integration

The Economist: <http://www.economist.com/node/13396061>

Should GM make or buy diesel engines for its pickup trucks?

<https://www.trucks.com/2017/10/16/gm-duramax-diesel-engine-assembly-video/>

Value chain charts from Google:

<https://www.google.com/search?q=value+chain+diagrams&tbm=isch&tbo=u&source=univ&sa=X&ved=0ahUKewiH8NHrrJjUAhUIyoMKHdTQAvGQsAQIJQ&biw=1920&bih=974#imgrc=E2Vo5VVzQ6psWM>:

Vertical integration charts from Google:

<http://www.google.com/search?q=vertical+integration&hl=en&prmd=imvnsb&tbm=isch&tbo=u&source=univ&sa=X&ei=TLMSUNuzG4rX0QHfkIH0CA&sqi=2&ved=0CGkQsAQ&biw=1680&bih=907>

Optional additional outside readings:

“Can Retailers Halt ‘Showrooming’?” *WSJ*, 4/11/12: vertical integration strategy and competing retailing venues.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/993081211/13873A78AD0545FDF99/74?accountid=11836>

and since we are so interested in Tempur Sealy’s fortunes, “Pillow Fight Inflicts Hard Blows,” *WSJ*, 1/31/17,

<http://search.proquest.com.ezproxy.uky.edu/docview/1862838009/150F15740FE74D80PQ/61?accountid=11836>

“Burger King Franchisees Can’t Have It Their Way,” *WSJ*, 1/21/10: franchising as an intermediate vertical strategy between arms’ length spot market transactions and complete vertical integration.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399142145/13873AA0B0474F2D72F/49?accountid=11836>

“Jet Blues: Boeing Scrambles to Repair Problems with New Plane,” *WSJ*, 12/7/07: outsourcing, its advantages, and its disadvantages.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399080708/13873AD6059625FF222/4?accountid=11836> and “Boeing Tightens Its Grip on Dreamliner

Production,” *WSJ*, 7/2/09,

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399125788/13873AED4393B29D258/46?accountid=11836>

“Tyson Hatches a New China Strategy,” *WSJ*, 12/10/13: uncertainty and information asymmetry as reasons for vertical integration.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1466378730/35212C2760384ABCPQ/70?accountid=11836>

“Retailers are Bottling their Own Milk, Raising Pressure on Dairy Companies,” *WSJ*, 10/13/17: keep this example of vertical integration in mind when we introduce Porter’s five forces model in the second half of the course.

<https://search-proquest-com.ezproxy.uky.edu/docview/1950589711/1659926687534188PQ/58?accountid=11836>