

ECO 610 Detailed Course Outline and Reading Assignments:

Note: You are only responsible for reading the sections in the textbook chapters that are outlined below. You are not responsible for sections in the textbook chapters that are not listed below.

Brickley, Smith, and Zimmerman (*BSZ*), *Managerial Economics and Organizational Architecture* (4th edition), McGraw-Hill Irwin, 2007, and

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

Monday, October 26

Topics: 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

Outside readings:

“China’s Winter of Discontent,” *WSJ*, 3/14/06.

“Indonesia Has Lots of Coal—And Blackouts in Capital,” *WSJ*, 7/29/08.

“Corn’s Rally Sends Ripples,” *WSJ*, 1/18/07.

Tuesday, October 27

Topics: production theory, 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

Outside readings:

“Frito-Lay Aims to Cut Gas Bill’s Bite,” *WSJ*, 6/5/06.

“Small Talk,” *WSJ* 5/30/06.

Individual assignment: take virtual plant tours of Toyota’s Georgetown, KY manufacturing facility (<http://www.toyotageorgetown.com/vtour/vtour.asp>) and Purity Dairy’s dairy processing facility (<http://www.puritydairies.com/tour/index.html>) in Nashville, TN.

As you tour these two plants, try to understand how various different inputs are used in each production process to produce different outputs. You should attempt to connect each theoretical concept 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? A longer time horizon? How difficult would it be to change the amounts of different inputs? Are any of the human or physical capital inputs specialized to this particular production process? How much of the investment in plant and equipment is fixed and irreversible?

Thursday, October 29

Topics: horizontal boundaries of the firm, economies of scale, economies of scope, the learning curve.

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

The learning curve versus economies of scale

Outside readings:

“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.

Friday, October 30

Topics: vertical boundaries of the firm, make or buy, transactions costs, specific assets and the hold-up problem.

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

Outside readings:

“Made to Measure: Invisible Supplier Has Penney’s Shirts All Buttoned Up,”

WSJ, 9/11/03.

“Boeing Scrambles to Fix Problems with New 787,” *WSJ*, 12/7/07.

(See also “Boeing Tightens Its Grip on Dreamliner Production,” *WSJ*, 7/2/09.)

Monday, November 2

Topics: Geographic and product market definition, elements of market structure, types of market structure, perfectly competitive markets.

Reading assignments:

Text:

BDSS, ch. 6, "Competitors and Competition."

Competitor identification and market definition

Basics of competitor identification

Putting competitor identification into practice

Empirical approaches to competitor identification

Geographic competitor identification

Measuring market structure

Market structure and competition

Perfect competition

Monopoly

Monopolistic competition

Oligopoly (skim technical parts)

BSZ, Ch. 6: "Market Structure."

Markets

Competitive Markets

Firm Supply

Competitive Equilibrium

Outside readings:

"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; Choosing Mario over Movies," *WSJ*, 5/18/05.

"Alligator Farming Shows There's a Lot to be Said for Cows," *WSJ*, 8/2/89.

"Economic Woes Take a Bite out of Alligator Ranching," *WSJ*, 11/12/97.

"A Run on Alligators Sends Designers Scrambling," *WSJ*, 3/18/06.

Tuesday, November 3

Topics: monopoly, monopolistic competition, pricing with market power.

Reading assignments:

Text:

BSZ, ch. 6: “Market Structure.”

Barriers to Entry

 Incumbent Reactions

 Incumbent Advantages

Monopoly

Monopolistic Competition

BSZ, ch. 7: “Pricing with Market Power.”

Pricing objective

Benchmark case: single price per unit

 Profit maximization

 Potential for higher profits

Homogeneous consumer demands

 Block pricing

 Two-part tariffs

Price discrimination—heterogeneous consumer demands

 Exploiting information about individual demands

 Using information about the distribution of demands

Bundling

Other concerns

 Multiperiod considerations

 Strategic interaction

Outside readings:

“Seeking Fame in Apple’s Sea of Apps,” *WSJ*, 7/15/09.

“Seeking Perfect Prices, CEO Tears Up the Rules,” *WSJ*, 3/27/07.

Individual assignment: go to <http://disneyworld.disney.go.com/wdw/index> and check out Disney World’s pricing strategy for its theme parks, resort hotels, special events, etc. Also visit your favorite airline’s web site, e.g. <http://www.deltavacations.com/>, and analyze pricing for air travel and vacation packages. Then think of other creative pricing strategies that you have encountered whereby firms with market power sort customers according to their willingness to pay and then extract as much money from each one as possible.

Wednesday, November 4 and Thursday, November 5

Topics: oligopoly, rivalry, game theory and strategic behavior.

Reading assignments:

Text:

BSZ, ch. 6: "Market Structure."

Oligopoly

Nash Equilibrium

Cooperation and the Prisoners' Dilemma

BSZ, ch. 9: "Economics of strategy: game theory."

Game theory

Simultaneous-move, nonrepeated interaction

Analyzing the payoffs

Dominant payoffs

Nash equilibrium revisited

Competition versus coordination

Mixed strategies

Managerial implications

Sequential interactions

First-mover advantage

Strategic moves

Managerial implications

Repeated strategic interaction

Outside readings:

"Haven't Shareholders Had Enough Chicken?" *WSJ*, 4/4/01.

"Cruise Lines Slash Their Prices as War Fears Rattle Travelers," *WSJ*, 1/29/03.

"Upstart's Tactics Allow it to Fly in Friendly Skies of a Big Rival," *WSJ*, 6/23/99.

"Techdom's Two Cold Wars," *WSJ*, 7/22/09.

Friday, November 6

Topics: industry analysis—Porter’s five forces model, in-class application of five-forces analysis to selected Greek industries.

Text:

BDSS, ch. 10: “Industry Analysis.”

Performing a Five-Forces Analysis

Internal Rivalry

Entry

Substitutes and Complements

Supplier Power and Buyer Power

Applying the Five Forces: Some Industry Analyses (skim the three industry analyses of hospitals, airframes, and sports so that you can better understand how to conduct your own industry study.)

Outside Readings:

“Greek Vintners Pour Energy into Selling New Wave of Wines,” *WSJ*, 8/4/03.

“Growing Pains: To Bag China’s Snack Market, Pepsi Takes Up Potato Farming,” *WSJ*, 12/19/05.