

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

Friday, June 12: 9:00-11:30 a.m.

Monday, June 15: 9:00-11:30 a.m.

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

Required outside readings:

“Tempur-Pedic stock up after report, analysis,” *Lexington Herald-Leader*, July 26, 2012, p. B5: <http://www.kentucky.com/2012/07/25/2270718/tempur-pedic-stock-up-after-2q.html>

“China’s Winter of Discontent,” *WSJ*, 3/14/06.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398959819?accountid=11836>

“Lawmakers struggle to define gasoline price ‘gouging,’” *WSJ*, 11/9/05.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398991187?accountid=11836>

“Indonesia Has Lots of Coal—And Blackouts in Capital,” *WSJ*, 7/29/08.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399108953?accountid=11836>

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

<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>

Youtube: Supply and demand, a thug story,
http://www.youtube.com/watch?v=7MY7E_VhKMM

Youtube: economic development in four minutes,
<http://www.youtube.com/watch?v=jbkSRLYSojo>

CIA World Factbook, comparative economic systems
<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, p. B1: what sometimes happens when the captain charts the wrong course.
<http://infoweb.newsbank.com.ezproxy.uky.edu/resources/doc/nb/news/155B3382624F6E98?p=AWNB>

“Prices Low, Oil-Service Firms Can’t Dig It,” *Wall Street Journal*, 7/20/09: does the market supply curve slope upward to the right?
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399120534/fulltext/13873851A1117392CE1/65?accountid=11836>

“Crop technology helps limit corn losses during drought,” *Lexington Herald-Leader*, July 12, 2012, p. A7: change in technology causes supply curve to shift to the right. <http://bigstory.ap.org/article/drought-cuts-projected-corn-harvest-12-percent>

“Soybeans vs. Corn: Farmers Weigh their Options,” *Wall Street Journal*, 3/30/15, p. C1: change in price of a good that is a substitute in production shifts supply.
<http://search.proquest.com.ezproxy.uky.edu/docview/1667308354/7286A807C2624BC3PQ/82?accountid=11836>

“With Venezuelan Food Shortages, Some Blame Price Controls,” *New York Times*, 4/20/12: what would Juan Valdez say about coffee shortages in Venezuela?
http://www.nytimes.com/2012/04/21/world/americas/venezuela-faces-shortages-in-grocery-staples.html?pagewanted=all&_r=0

“Indian Fiber Weaves a Crisis,” *Wall Street Journal*, 6/23/12, p. A7: government protection of one industry creates big problems for a downstream sector.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/102178689/7/138738DE50B197BAE7A/25?accountid=11836>

“How the West Was Really Won,” *Wall Street Journal*, 5/19/12, p. A15;

<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,” *Wall Street Journal*, 5/16/11, p. A2:

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

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

Wednesday, June 17: 9:00-11:30 a.m.

Friday, June 19: 9:00-11:30 a.m.

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.

<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. <http://bit.ly/odthLq>

“For Dollar Stores, a Mixed Bag,” *WSJ*, 7/11/13.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/139925318/1/13FBAC776B7259CDD87/82?accountid=11836>

Additional resources:

Optional additional outside readings:

“India Has 1.2 Billion People, But Not Enough Drink Coke,” *Wall Street Journal*, 6/27/12, p. B1: ascertaining consumer tastes and other determinants of demand in foreign markets.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/102224723/1/1387395E1291FB8BA98/79?accountid=11836>

“Restaurants Burned by Deep Discounts,” *WSJ*, 7/15/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399119361?accountid=11836>

“The Evolving Economics of the App,” *WSJ*, 3/4/13.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/131430198/7/13FBACD87F12ECE674C/73?accountid=11836>

Team assignment: Meet with your Project Connect team to discuss your company. What are its products? Who are its customers? Discuss conceptually the economic factors that influence customer demand for your company’s products. Then consider how you would go about conducting an empirical demand study, if you were given a \$50,000 budget to collect and analyze data.

Monday, June 22: 9:00-11:30 a.m.

Wednesday, June 24: 9:00-11:30 a.m.

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:

“Holiday Hiring Call: People vs. Robots,” *WSJ*, 12/20/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/818622450?accountid=11836>

“Honda’s Flexible Plants Provide Edge,” *WSJ*, 9/23/08.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399105360?accountid=11836>

“Small Talk,” *WSJ* 5/30/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399047133?accountid=11836>

“Small Investments with Major Returns,” *WSJ*, 1/5/09.

<http://online.wsj.com/article/SB123116077359153453.html>

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>

YouTube: production functions and 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>

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

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

Optional additional outside readings:

“Economic Profit vs. Accounting Profit,” *Wall Street Journal*, 6/2/03, A17: 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 go to work for Warren Buffett.

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

“Amazon Adds That Robotic Touch,” *Wall Street Journal*, 3/20/12, p. B1: tradeoff between capital and labor in the production process.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/929078080/13873A065957AB4D7/74?accountid=11836>

“Amazon Robots Get Ready for Christmas,” *Wall Street Journal*, 11/20/14, p. B1: could you head up a project to determine the cost-minimizing mix of robots and workers during the peak and off-peak seasons?

<http://search.proquest.com.ezproxy.uky.edu/docview/1626121572/92A2AB457D/B74662PQ/67?accountid=11836>

See the robots in action at: <http://www.youtube.com/watch?v=6KRjuuEVEZs>

“Frito-Lay Aims to Cut Gas Bill’s Bite,” *Wall Street Journal*, 6/5/06, p. B2: 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>

“New Role for the Gator: Chicken Farmer’s Friend,” *New York Times*, 6/18/2000: 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>

“Kraft Picks Leaders for Split,” *Wall Street Journal*, 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/908477763/13873A4DA7C70384EF8/83?accountid=11836>

Individual assignment: take virtual plant tours of Toyota’s Georgetown manufacturing facility (<http://www.toyotageorgetown.com/tourvid.asp>) and Purity Dairy’s dairy processing facility (<http://www.puritydairies.com/company/tour/index.html>). 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=IXkxl8dSXb4>

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

Friday, June 26: 9:00-11:30 a.m.

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. Also check out various YouTube videos on hog production.

<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.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/126699014/0/13FBAE3E923680778EB/71?accountid=11836>

"Going to the Well: A Powerful Idea," *Lexington Herald-Leader*, 7/4/11.

<http://bit.ly/nHKQQA>

Additional resources:

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

YouTube: Specialization of capital and economies of scale, <http://www.youtube.com/watch?v=SXEsDq7JAMI> , or drive out Richmond Road and watch the production process in person while enjoying a cup of coffee.

More on pork production:

http://www.soc.duke.edu/NC_GlobalEconomy/hog/value.shtml

Electronics design company's discussion of economies of scale:

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

Optional additional outside readings:

“Boeing Struggles to Find Buyers for Early Version Dreamliners,” *WSJ*, 8/29/14, would you like to be part of the learning process that Boeing workers go through? http://online.wsj.com/articles/boeing-struggles-to-find-buyers-for-early-version-dreamliners-1409347948?mod=WSJ_hp_LEFTWhatsNewsCollection.

“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?

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

Team assignment: Meet with your Project Connect team to discuss your company’s production process and cost structure. What are the different inputs used to produce the company’s products? How easily can each of them be varied (short run vs. long run)? Are there economies of scale or scope? Is any of the capital fixed and irreversible?

Monday, June 29: 9:00-11:30 a.m.

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.

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

“Bike Maker Faces a Tactical Shift,” *WSJ*, 10/28/98.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398673631?accountid=11836>

“Companies More Prone to Go ‘Vertical,’” *WSJ*, 11/30/09.

<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>

Value chain charts from Google (fascinating array of businesses!):

<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’?” *Wall Street Journal*, 4/11/12, p. B1:
vertical integration strategy and competing retailing venues.

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

“Burger King Franchisees Can’t Have It Their Way,” *Wall Street Journal*,
1/21/10, p. B1: 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/399142145/13873AA0B0474F2D72F49?accountid=11836>

“Jet Blues: Boeing Scrambles to Repair Problems with New Plane,” *Wall Street Journal*, 12/7/07, p. A1: 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,” *Wall Street Journal*, 7/2/09, p. B1;

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

“Tyson Hatches a New China Strategy,” *Wall Street Journal*, 12/10/13, p. B1: uncertainty and information asymmetry as reasons to vertically integrate.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/146637873/0/35212C2760384ABCPQ/70?accountid=11836>

Team assignment: Meet with your Project Connect team to discuss the vertical structure of production in your industry. Who are your upstream suppliers, i.e. what inputs are used in your production process and how are they acquired? Downstream customers? What is the nature of the relationship between you and upstream and downstream entities? Vertical integration? Arms-length spot market transactions? Something in between?

Alternative Resources for the Textbook Readings:

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

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

Investopedia:

Basics of supply and demand,

<http://www.investopedia.com/university/economics/economics3.asp#axzz21I4HK4Fc>

Khan Academy:

Law of demand, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/law-of-demand>

Shifts in demand, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/change-in-expected-future-prices-and-demand>, and <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/changes-in-income--population--or-preferences>

Normal and inferior goods,

<http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/normal-and-inferior-goods>, and

<http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/inferior-goods-clarification>

Law of supply, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/supply-curve-tutorial/v/law-of-supply>

Shifts in supply, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/supply-curve-tutorial/v/factors-affecting-supply>

Market equilibrium, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/market-equilibrium-tutorial/v/market-equilibrium>

Changes in market equilibrium,

<http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/market-equilibrium-tutorial/v/changes-in-market-equilibrium>

Textbook assignment: BSZ, ch. 4: “Demand.”

Khan Academy:

Law of demand, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/law-of-demand>

Shifts in demand, <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/change-in-expected-future-prices-and-demand>, and <http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/changes-in-income--population--or-preferences>

Normal and inferior goods,

<http://www.khanacademy.org/science/microeconomics/supply-demand->

[equilibrium/demand-curve-tutorial/v/normal-and-inferior-goods](http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/normal-and-inferior-goods), and
<http://www.khanacademy.org/science/microeconomics/supply-demand-equilibrium/demand-curve-tutorial/v/inferior-goods-clarification>

Own-price elasticity of demand,

<http://www.khanacademy.org/science/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/price-elasticity-of-demand>,

<http://www.khanacademy.org/science/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/more-on-elasticity-of-demand>, and

<http://www.khanacademy.org/science/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/perfect-inelasticity-and-perfect-elasticity-of-demand>,

Elasticity and total revenue,

<http://www.khanacademy.org/science/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/total-revenue-and-elasticity>, and

<http://www.khanacademy.org/science/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/more-on-total-revenue-and-elasticity>

Cross-price elasticity, <http://www.khanacademy.org/science/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/cross-elasticity-of-demand>

Investopedia:

Elasticity,

<http://www.investopedia.com/university/economics/economics4.asp#axzz2114HK4Fc>

Textbook assignment: BSZ, ch. 5: “Production and cost.”

Inflate your mind:

Implicit and explicit costs,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=111:section-3-united-states-federal-government-expenditures&catid=15:unit-5&Itemid=142

Economic profit,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=112&Itemid=143

Production functions and short-run diminishing returns,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=106:section-3-united-states-federal-government-expenditures&catid=14:unit-4&Itemid=136

Production and costs,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=107:section-3-united-states-federal-government-expenditures&catid=14:unit-4&Itemid=137

Total and per unit costs,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=113&Itemid=144

Short-run and long-run cost relationships,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=114&Itemid=145,

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=115&Itemid=146, and

http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=116&Itemid=147

Khan Academy:

Marginal product of labor, <http://www.khanacademy.org/science/microeconomics/firm-economic-profit/labor-marginal-product-rev/v/a-firm-s-marginal-product-revenue-curve>

Average and marginal costs, <http://www.khanacademy.org/science/microeconomics/firm-economic-profit/average-costs-margin-rev/v/marginal-cost-and-average-total-cost> , and <http://www.khanacademy.org/science/microeconomics/firm-economic-profit/average-costs-tutorial/v/fixe--variable--and-marginal-cost>

Textbook assignment: BDSS, ch. 2: “The Horizontal Boundaries of the Firm: Economies of Scale”

The only decent alternative to the text that I have found is

BizEd on economies of scale (click on the power point slide presentation):

<http://www.bized.co.uk/educators/16-19/economics/firms/lesson/scale.htm>

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

Two power-point presentations based on the above textbook reading are:

<http://www.slideshare.net/Annie05/the-vertical-boundaries-of-the-firm-presentation-684027>, and

bear.warrington.ufl.edu/dinopoulos/ECP6701/.../ECP6701-CH03.ppt (Google “vertical boundaries of the firm” and this should be the second link that shows up).