

## **ECO 610 Detailed Course Outline and Reading Assignments** **(Second Half of Course):**

**Tuesday, July 5:** 9:00-11:30 a.m.

**Topics:** Geographic and product market definition, market structure.

### **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)

#### **Required outside readings:**

"Greece is the Word," *WSJ*, 7/30/04.

[http://www.sailingissues.com/online.wsj.com/article\\_email/0,,SB109112801159177914-INje4Nplad3oZunaoKGBauBm4,00.html](http://www.sailingissues.com/online.wsj.com/article_email/0,,SB109112801159177914-INje4Nplad3oZunaoKGBauBm4,00.html)

"Winds of Change for Boeing, Airbus," *WSJ*, 3/16/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399095358?accountid=11836>

"The tri-county pizza war," *Lexington Herald-Leader*, 11/10/05.

<http://bit.ly/poGliZ>

"Show Stopper: How Plastic Popped the Cork Monopoly," *WSJ*, 5/1/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/220157523?accountid=11836>

#### **Additional Resources:**

Summary diagram of different types of market structure:

[http://www.bized.co.uk/educators/16-19/economics/firms/presentation/structure\\_map.htm](http://www.bized.co.uk/educators/16-19/economics/firms/presentation/structure_map.htm)

**Optional additional outside readings:**

“Extinction of the Predator—The Global Car Industry,” *The Economist*, 9/10/05: read this article and the next four and see if you are ready to advise a major auto parts supplier on the future of automobile manufacturing in India and China.  
<http://www.economist.com/node/4369762>

“Ford Bets \$5 Billion on Made in China,” *Wall Street Journal*, 4/20/12, p. B1: entry decisions and market structure in the global market for automobiles.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/100279611/7/138B061A8893AB9C9B6/75?accountid=11836>

“Honda Takes on Camry,” *Wall Street Journal*, 8/23/12, p. B8: defining the product market, what cars compete in the midsize sedan market?  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/103464375/3/138BEC54C2255614960/82?accountid=11836>

“Chinese Dilemma: 170 Auto Makers,” *WSJ*, 4/10/13, p. B10: current market structure in the Chinese automobile market.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/132493285/3/13FC446E2464EF90B07/105?accountid=11836>

“Chinese Cars Fall Behind Foreign Brands,” *WSJ*, 2/24/15, p. B5: to see how that competition is shaking out.  
<http://search.proquest.com.ezproxy.uky.edu/docview/1657492317/D8B907E970E440DBPQ/78?accountid=11836>

“China Isn’t Golden for Whirlpool,” *WSJ*, 4/28/11, p. B6: market structure in appliance manufacturing.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/863746367/13FC44BB89AC1166B8/100?accountid=11836>

**Team assignment:** Meet with your Project Connect team to discuss the characteristics of the industry in which your company competes. Define and describe the product market. Define and describe the geographic market. Who are the other competitors in the market and what are their market shares?

**Wednesday, July 6:** 9:00-11:30 a.m.

**Monday, July 11:** 9:00-11:30 a.m.

**Topics:** perfectly competitive markets.

**Reading assignments:**

**Text:**

BDSS, ch. 6: “Competitors and Competition.”

Perfect competition

BSZ, Ch. 6: “Market Structure.”

Markets

Competitive Markets

**Required Outside readings:**

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398158016?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398605851?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399057549?accountid=11836>

**Additional resources:**

Shutting down in the short run when price drops below min AVC:

<http://abcnews.go.com/WNT/video/wasting-strawberry-fields-10220551>

Billy Ray Valentine learns about commodity markets:

<http://www.youtube.com/watch?v=7EjdC0pjo1A>

Khan academy on marginal cost and marginal revenue, marginal revenue below average total cost, long term supply and economic profit, and perfect competition:

<http://www.khanacademy.org/finance-economics/microeconomics/v/perfect-competition>

One of dozens of alligator farming videos on YouTube:

<http://www.youtube.com/watch?v=k3Ei3JK8v8M> . Also try watching “Swamp People” on the History Channel to get a better feel for the culture.

**Optional additional outside readings:**

“As Sales Vanish, Skins Stay on Alligators,” *New York Times*, 11/30/09: more on alligators. [http://www.nytimes.com/2009/11/30/us/30gator.html?\\_r=0](http://www.nytimes.com/2009/11/30/us/30gator.html?_r=0)

“A Crocodile’s Bumpy Road from Farm to Handbag,” *Business Week*, 10/24/13: is raising crocodiles more challenging than raising alligators?  
<http://www.businessweek.com/articles/2013-10-24/a-crocodiles-bumpy-road-from-farm-to-handbag>.

“Shell Shock: Chinese Demand Reshapes U.S. Pecan Business,” *WSJ*, 4/18/11: another perfectly competitive market example.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/862237747?accountid=11836>

“South Sings the Catfish Blues,” *Wall Street Journal*, 4/14/11, p. A3: yet another example of a perfectly competitive market based on an agricultural commodity in the southeastern U.S.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/861779538/138B048F2B2375A167A/10?accountid=11836>

**Wednesday, July 13:** 9:00-11:30 a.m.

**Friday, July 15:** 9:00-11:30 a.m.

**Topics:** monopoly, pricing with market power.

**Reading assignments:**

**Text:**

BSZ, ch. 6: “Market Structure.”

Barriers to Entry

    Incumbent Reactions

    Incumbent Advantages

Monopoly

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

**Required Outside readings:**

“The Complex Anatomy of a Drug Price,” *WSJ*, 12/9/15.

<http://search.proquest.com.ezproxy.uky.edu/docview/1746810875/BA22CB528BCC4A24PQ/1?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399087647?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399036795?accountid=11836>

**Additional resources:**

A good example of incumbents blocking entry through regulation:

<http://ij.org/louisiana-caskets-release-3-20-13>

Another example, more local and involving a UKMBA alum:

<http://www.kentucky.com/2015/01/04/3623240/george-will-wildcat-moving-case.html>

Khan academy on monopoly: <http://www.khanacademy.org/finance-economics/microeconomics/v/monopoly-basics> (five video clips).

Microsoft monopoly: <http://www.youtube.com/watch?v=dLKVeFau6vo> What do you think of the Windows monopoly these days?

Price discrimination: [http://www.youtube.com/watch?v=N\\_7BpKILjD0](http://www.youtube.com/watch?v=N_7BpKILjD0)

**Optional additional outside readings:**

“The Transportation Trustbuster,” *WSJ*, 1/26/13, p. A13: how technological change can radically alter a previously blockaded market.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/128130529/2/13FC477390B2C7B84CD/34?accountid=11836>

“More Law Schools Hagggle on Scholarships,” *WSJ*, 7/30/12, p. B4: first degree price discrimination as practiced by law schools.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/103007094/3/138B00F13ED129D5D44/87?accountid=11836>

“Attention, ‘Discount Junkies’,” *WSJ* 1/29/14, p. B1: truly personalized price discrimination.

<http://search.proquest.com.ezproxy.uky.edu/docview/1640656018/282BDA0784EC4495PQ/60?accountid=11836>

“Inside the Phone-Plan Pricing Puzzle,” *WSJ*, 8/1/13, p. B4: sorting customers into different willingness-to-pay categories as practiced by cell-phone providers.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/141601215/8/13FC4793A95703AF36B/87?accountid=11836>

“Say Goodbye to the Car Salesman,” *Wall Street Journal*, 11/21/13, p. B1: what happens to a firm’s ability to price discriminate when technology reduces consumers’ search costs.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1459954482/AD54D69B5CE149A8PQ/67?accountid=11836>

**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.delta.com/home/index.jsp>, and analyze pricing for air travel and vacation packages. Finally, visit your local cable monopoly and check out its bundling strategy: [http://midwest-offer.airpx.timewarnercable.com/west/tv\\_internet\\_phone.php?airk=twcmw&cid=ppc:aim:00000220&oo=1&qso=1&teng=go&geng=s01-d&aeng=qsooo\\_adgs01-d-j&keng=time%20warner&meng=p&peng=1t1](http://midwest-offer.airpx.timewarnercable.com/west/tv_internet_phone.php?airk=twcmw&cid=ppc:aim:00000220&oo=1&qso=1&teng=go&geng=s01-d&aeng=qsooo_adgs01-d-j&keng=time%20warner&meng=p&peng=1t1) 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.

**Monday, July 18:** 9:00-11:30 a.m.

**Wednesday, July 20:** 9:00-11:30 a.m.

**Topics:** oligopoly, rivalry, strategic behavior.

**Reading assignments:**

**Text:**

BSZ, ch. 6: “Market Structure.”

Monopolistic Competition

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

## **Required Outside readings:**

“Haven’t Shareholders Had Enough Chicken?” *WSJ*, 4/4/01.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398780117?accountid=11836>

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

<http://online.wsj.com/article/SB1043780266145632024.html>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398729938?accountid=11836>

“Bigger Proves Far From Better for Canadian Jet Maker,” *WSJ*, 1/9/15.

<http://search.proquest.com.ezproxy.uky.edu/docview/1643323053/8A341AD473946EAPQ/6?accountid=11836>

## **Additional resources:**

Khan academy on oligopoly, collusion, game theory, Nash equilibrium, and cartel theory (six video clips): <http://www.khanacademy.org/finance-economics/microeconomics/v/oligopolies-and-monopolisitic-competition>

Prisoner’s dilemma game: <http://www.youtube.com/watch?v=zpahL4fu5R8>

The dating game: <http://www.youtube.com/watch?v=TDtwsShOTjw>

Solving simple sequential move games:

<http://www.youtube.com/watch?v=1fIM78Gs0Ak>

From his own mouth, Michael Porter’s five forces model:

[http://www.youtube.com/watch?v=mYF2\\_FBCvXw](http://www.youtube.com/watch?v=mYF2_FBCvXw)

**Optional additional outside readings:**

“Diamond Miners Band Together,” *WSJ*, 11/17/09, p. B1: why engagement rings are so expensive.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399135128/13FC48BFB046D468D8/49?accountid=11836>

“Cartel Pushes up Price of Rubber,” *Wall Street Journal*, 8/20/12, p. C4: the incentive to collude, and problems faced by cartels in maintaining “discipline”.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/103418919/3/138BEC89E30386A57F9/99?accountid=11836>

“Potash Cartel Breaks Apart,” *WSJ*, 7/31/13, p. B1: what the heck is potash and are corn prices headed downward?

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/141557617/5/13FC48F423965C114E3/79?accountid=11836> and  
<http://search.proquest.com/docview/1415577714/13FC48F423965C114E3/81?accountid=11836>

“Apple-Amazon War Heats Up,” *Wall Street Journal*, 7/26/12, B3: head-to-head competition by duopolists.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/102782163/5/138B0140DCF121A6495/84?accountid=11836>

“Apple and Google Expand Battle to Global Map Apps,” *Wall Street Journal*, 6/5/12, p. A1: more duopoly battles.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/101846460/5/138B05C17DF25B9A74A/2?accountid=11836>

“Huge Cruise Ships Prepare for Launch but Face Uncertain Waters,” *Wall Street Journal*, 12/04/09, B1: how cruise lines have to make capacity commitments before they know the exact state of demand.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399127167/138B03F609C59AFF144/53?accountid=11836>

“Oversize Expectations for the Airbus 380,” *New York Times*, 8/10/14: who was right in their assessment of the superjumbo market in 2001, Boeing or Airbus?

[http://www.nytimes.com/2014/08/10/business/oversize-expectations-for-the-airbus-a380.html?ref=business&\\_r=0](http://www.nytimes.com/2014/08/10/business/oversize-expectations-for-the-airbus-a380.html?ref=business&_r=0)



## **Additional Resources That You May Find Interesting and/or Amusing**

“The New ABC’s of Business,” *Wall Street Journal*, 4/12/14, p. C1: sound career advice.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1515188682/76B916F544974819PQ/97?accountid=11836>

“The ‘Six Sigma’ Factor for Home Depot,” *Wall Street Journal*, 1/4/07, p. C3: sometimes it is not good to force a round peg into a square hole.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399088442/2E7AF2C3ECB54C2BPQ/84?accountid=11836>

“Why This Plane Seat is the Most Profitable,” *Wall Street Journal*, 3/5/14, p. B1: how would you go about determining the profit-maximizing number of seats in coach class to convert into stretched legroom seats?  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1504103142/933DCE1C7CD24CF1PQ/73?accountid=11836>

“Two-Track Future Imperils Global Growth,” *Wall Street Journal*, 1/22/14, p. A6: more, if you want it, on income inequality and economic growth.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1490891919/60D9791993FB46EPPQ/20?accountid=11836>