

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

Monday, July 8: 9:00-11:30 a.m.

Topics and reading assignments: vertical boundaries of the firm. [see detailed course outline for first half of the course for Wednesday, July 3.]

Wednesday, July 10: 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:

“‘Green Gold’ Rush Eludes Greeks,” *WSJ*, 12/19/17: unbranded olive oil vs. branded olive oil—which market structure model is appropriate for analyzing each?

<https://search-proquest-com.ezproxy.uky.edu/docview/1978204751/5057514BD29A4D70PQ/18?accountid=11836>

“Restaurants Burned by Oversupply, Rivals,” *WSJ*, 10/17/16: what type of market structure and expected long-run profitability in the restaurant industry?

<http://search.proquest.com.ezproxy.uky.edu/docview/1829442259/72E60390CBF94A2EPQ/64?accountid=11836>

“Boeing, Airbus Confront Crowded Skies,” *WSJ*, 7/17/17: can the tight duopoly market for large passenger jet airplanes last forever?

<https://search-proquest-com.ezproxy.uky.edu/docview/1919400529/1A3F32BEECF54CB3PQ/57?accountid=11836>

“Harry’s Cuts into Gillette’s Razor Turf,” *WSJ*, 11/11/16: what happens to the pricing power of a dominant firm when some upstart comes along?

<http://search.proquest.com.ezproxy.uky.edu/docview/1837880191/E66C037C10B4D00P/Q/1?accountid=11836>

Additional Resources:

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

http://www.youtube.com/watch?v=mYF2_FBCvXw

and the original March/April 1979 *Harvard Business Review* article on how competitive forces shape strategy, which summarizes a lot of what we cover in this course:

<https://hbr.org/1979/03/how-competitive-forces-shape-strategy>

Summary diagram of different types of market structure:

<https://murphonomics.wikispaces.com/file/view/structuremap.gif/289935065/structuremap.gif>

Optional additional outside readings:

“A Hunger for Lithium Juices Deals,” *WSJ*, 5/18/18: Lithium, cobalt, China, Chile, could someone “corner” the global market for one of these commodities?

<https://search-proquest-com.ezproxy.uky.edu/docview/2040562504/4CF4B216947B4F9BPQ/2?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>

“The tri-county pizza war,” *Lexington Herald-Leader*, 11/10/05: two firms, slightly differentiated product, but what about barriers to entry?

<http://bit.ly/poGliZ>

“Show Stopper: How Plastic Popped the Cork Monopoly,” *WSJ*, 5/1/10: you’ve got a good thing going, and then some innovator comes along and disrupts it.

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

Team assignment in preparation for first meeting with Project Connect Partner: 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?

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

Monday, July 15: 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: your professor's all-time favorite *Wall Street Journal* article!!

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

"Electric-Car Metals Let Down Investors," *WSJ*, 2/19/19: what paradigm or model would you use to analyze a commodity market like cobalt or lithium?

<https://search-proquest-com.ezproxy.uky.edu/docview/2183042543/fulltext/B2CCEF0846B24379PQ/76?accountid=11836>

or natural gas? "Long a Promise, Gas Goes Global," *WSJ*, 6/7/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1906346922/FFFDCE8C1817464DPQ/1?accountid=11836>

"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>

"As Tobacco Sales Dry Up, Kentucky Farmers Look to the State's 'Original Crop'—Hemp," *Los Angeles Times*, 2/12/19: if asked to analyze the hemp market and how it can be expected to evolve over time, what approach would you use?

<https://search-proquest-com.ezproxy.uky.edu/docview/2178498475/93EE81DA0646462BPQ/4?accountid=11836>

Additional resources:

Current alligator skin prices: https://www.houmatimes.com/news/no-price-for-gators-low-engagement-predicted-for-alligator-season/article_c04a278c-7ee3-11e7-8d7b-3b9e1878bcc7.html

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

<http://abcnews.go.com/WN/strawberry-farmers-destroy-crops/story?id=10219820>

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:

“Economic Woes Take a Bite out of Alligator Ranching,” *WSJ*, 11/12/97: read this and see whether what you were predicting in 1989 actually happened.

<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: does the perfectly competitive market model work?

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

“As Sales Vanish, Skins Stay on Alligators,” *New York Times*, 11/30/09: the value chain and downstream vertical integration.

<https://search-proquest-com.ezproxy.uky.edu/docview/1029867245/fulltextPDF/AF17499FB5C34CCEPO/3?accountid=11836>

“A Crocodile’s Bumpy Road from Farm to Handbag,” *Business Week*, 10/24/13: is raising crocodiles more challenging than raising alligators?

<http://web.a.ebscohost.com.ezproxy.uky.edu/ehost/detail/detail?vid=3&sid=20311820-4d1c-48ae-9a89-6e5fd8d9fdbe%40sessionmgr4006&bdata=JnNpdGU9ZWhvc3QtG12ZSZzY29wZT1zaXRI#AN=96331675&db=bth>

“South Sings the Catfish Blues,” *Wall Street Journal*, 4/14/11: 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 17: 9:00-11:30 a.m.

Friday, July 19: 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: monopoly pricing when the spotlight of public attention is on you.

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

“Gillette, in Change, Shaves Prices,” *WSJ*, 4/5/17: how much do you love your Fusion five-bladed razor, and has that love been diminished by the entry of Harry’s and Dollar Shave Club into the market?

<http://search.proquest.com.ezproxy.uky.edu/docview/1883999799/20A8A4C4F1674000PQ/57?accountid=11836>

“Seeking Perfect Prices, CEO Tears Up the Rules,” *WSJ*, 3/27/07: textbook example of implementing the inverse-elasticity pricing rule, with huge results.

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

Additional resources:

Which costs are relevant for short-run pricing decisions?

<http://economicsoftheoffice.com/all/?id=12>

A good example of incumbents blocking entry through regulation:

<https://ij.org/case/saint-joseph-abbey-et-al-v-castille-et-al/>

Another example, more local and involving a UKMBA alum:

<https://infoweb-newsbank-com.ezproxy.uky.edu/apps/news/document-view?p=AWNB&t=pubname%3ALHLB%21Lexington%2BHerald->

[Leader%2B%2528KY%2529/year%3A2015%212015/mody%3A0104%21January%2B04&f=advanced&action=browse&format=text&docref=news/1600A479A8C0EC20](http://www.khanacademy.org/finance-economics/microeconomics/v/monopoly-basics)

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_7BpKlLjD0

Optional additional outside readings:

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1281305292/13FC477390B2C7B84CD/34?accountid=11836>

How the railroads sorted customers in the 1800's: *“It is not because of the few thousand francs which would have to be spent to put a roof over the third-class carriage or to upholster the third-class seats that some company or other has open carriages with wooden benches ... What the company is trying to do is prevent the passengers who can pay the second-class fare from traveling third class; it hits the poor, not because it wants to hurt them, but to frighten the rich ... And it is again for the same reason that the companies, having proved almost cruel to the third-class passengers and mean to the second-class ones, become lavish in dealing with first-class customers. Having refused the poor what is necessary, they give the rich what is superfluous.”*

How airlines sort customers today: “The Basic Economy Blackout,” *WSJ*, 4/5/18:

<https://search-proquest-com.ezproxy.uky.edu/docview/2021656304/30F03182957F48BAPQ/30?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1030070943/138B00F13ED129D5D44/87?accountid=11836>

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

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

and “Secret Scores Shape Customer Service,” *WSJ*, 11/2/18: exactly how much information do firms’ have on your shopping habits?

<https://search-proquest-com.ezproxy.uky.edu/docview/2127873143/6492E9260964702PQ/4?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. <https://www.delta.com/vacations/search.action>, 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.

Monday, July 22: 1:00-3:30 p.m.

Wednesday, July 24: 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: can you see a learning-curve competitive advantage that Airbus gained by getting a jump on Boeing in this market?

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

"Airbus Jet Leaves Legacy of Flubs," *WSJ*, 2/20/19: who was right in their assessment of the superjumbo market in 2001, Boeing or Airbus?

<https://search-proquest-com.ezproxy.uky.edu/docview/2183505974/603F73604943E1PQ/63?accountid=11836>

"Cruise Lines Slash Their Prices as War Fears Rattle Travelers," *WSJ*, 1/29/03: schedules are established, capacity is committed, and then an unanticipated drop in demand occurs.

<https://search-proquest-com.ezproxy.uky.edu/docview/398887154/33DE6F31F3364532PQ/115?accountid=11836>

“Huge Cruise Ships Prepare for Launch but Face Uncertain Waters,” *WSJ*, 12/04/09: how cruise lines have to make capacity commitments before they know the exact state of demand. Do you see the connection with the above reading on price wars?

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

“Upstart’s Tactics Allow it to Fly in Friendly Skies of a Big Rival,” *WSJ*, 6/23/99: some pretty shrewd strategists at Frontier.

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

Optional additional outside readings:

“Bigger Proves Far From Better for Canadian Jet Maker,” *WSJ*, 1/9/15: maybe Bombardier needs to hire someone who understands backward induction.

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

“Diamond Miners Band Together,” *WSJ*, 11/17/09: 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,” *WSJ*, 8/20/12: the incentive to collude, and problems faced by cartels in maintaining “discipline”.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1034189193/138BEC89E30386A57F9/99?accountid=11836>

“Apple and Google Expand Battle to Global Map Apps,” *WSJ*, 6/5/12: more duopoly battles.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1018464605/138B05C17DF25B9A74A/2?accountid=11836>

“Amazon Looks to Spread Fire TV,” *WSJ*, 1/5/17: can anyone tell me what the post-TWC-Comcast world of video entertainment is going to look like?

<http://search.proquest.com.ezproxy.uky.edu/docview/1855271091/3B0AF9687AF41DFPQ/60?accountid=11836>

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/1490891919/60D9791993FB46EEPQ/20?accountid=11836>

“To Set Prices, Stores Turn to Algorithms,” *Wall Street Journal*, 5/9/17, p. A1: what happens when my artificial intelligence-based pricing algorithm starts to collude with your AI-based algorithm? Do we send the computer code to jail?
<http://search.proquest.com.ezproxy.uky.edu/docview/1896220340/1E5D6D9F91C54E42PQ/5?accountid=11836>