

MBA 603: Markets—Structures and Dynamics
MBA 605: Organizational Structures and Strategies
Fall 2006

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Course Description:

In these courses we will apply economic theory to managerial decision making and analysis. We will employ many of the traditional tools of microeconomics and see how they can be used to evaluate practical business problems. We will pay particular attention to the strategy of firms in the marketplace. MBA 603 and 605 are core courses in the MBA program and are intended to help you understand basic economic concepts that underlie the business process modules and advanced learning bundles later in the program.

Reading Assignments:

Assigned readings will come from two different managerial economics textbooks:

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

Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy* (3rd edition), John Wiley & Sons, Inc., 2004.

There will also be assigned readings for each class taken from business periodicals such as the *Wall Street Journal*. The entire set of readings can be purchased in electronic form in course packets available from XanEdu-ProQuest Learning and from Primis Online. Instructions on how to do this are attached.

Grading:

Grades in the course will be determined on the basis of performance on individual in-class quizzes (50%) and on group assignments (50%). You will be assigned (randomly) to a different team for each group assignment. The timing of quizzes and group assignments is indicated on the course outline below. The overall grading distribution will comply with the official program standards established by the MBA Policy Committee.

Office Hours:

My office is 335-M in the Gatton B&E Building. I will be around and available most of the time during the weeks when our courses are offered. I am also easily reachable by telephone and e-mail.

MBA 603 Course Outline and Reading Assignments:

Monday, August 14: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Basics of market systems, demand and supply analysis.

Text:

BSZ, ch. 3, "Markets, Organizations, and the Role of Knowledge."

Outside readings:

"China's Winter of Discontent," *WSJ*, 3/14/06.

"Lawmakers struggle to define gasoline price 'gouging,'" *WSJ*, 11/9/05.

"Tenants in Mumbai will endure a lot for an \$8.50 flat," *WSJ*, 6/5/06.

Team assignment #1: read "Un-Natural Situation," (*WSJ* 6/15/06) and evaluate short and long term effects of recent sharp changes in natural gas prices on related markets. Due at the beginning of class on Wednesday, 8/16.

- 15-minute **Quiz** at start of class on Wednesday, 8/16.

Wednesday, August 16: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Determinants of demand, estimating demand, elasticity.

Text:

BSZ, ch. 4: "Demand."

Outside readings:

"Thrill parks try to boost attendance: Some lower their fees to attract crowds," *Lexington Herald-Leader*, 5/27/06.

Team assignment #2: read "U SD IT: Virginians Make a Statement with Vanity Plates," (*The Washington Post* 5/9/06) and put together a proposal for how you would conduct a demand study for vanity plates for the Kentucky Division of Motor Vehicles. Due at the beginning of class on Friday, 8/18.

Friday, August 18: 8:00 a.m.-10:00 a.m./1:00 p.m.-3:00 p.m.

Production, economic costs, economic profit.

Text:

BSZ, ch. 5: "Production and cost."

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 manufacturing facility (<http://www.toyotageorgetown.com/vtour/vtour.asp>) and Purity Dairy's dairy processing facility (<http://www.puritydairies.com/tour/index.html>).

- 30 minute **Quiz** at the beginning of class on Monday, 8/21.

Monday, August 21: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Horizontal boundaries of the firm.

Text:

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

Outside readings:

"A Tale of Two Auto Plants," *WSJ*, 5/24/06.

"Power Pork: Corporations Begin to Turn Hog Business into an Assembly Line," *WSJ*, 3/28/94.

Wednesday, August 23: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Vertical boundaries of the firm.

Text:

BDSS, ch. 3: "The Vertical Boundaries of the Firm."

Outside readings:

"Made to Measure: Invisible Supplier Has Penney's Shirts All Buttoned Up," *WSJ*, 9/11/03.

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

Team Assignment #3: The University uses many inputs in its production of teaching, research, and service. It in-sources (makes) many of these inputs, and out-sources (buys) many others. The Executive Vice President for Finance and Administration commissions your group to evaluate various activities/inputs in UK's educational production process for in-sourcing or out-sourcing. Your report should explain the economic rationale for each recommendation that you make. Due at the beginning of class on Friday, 8/25.

- 30 minute **Quiz** at the beginning of class on Friday, 8/25.

Friday, August 25: 8:00 a.m.-10:00 a.m./1:00 p.m.-3:00 p.m.

Principal-agent relationships.

Text:

BDSS, ch. 14: "Agency and Performance Measurement."

Outside readings:

"Big Mac's Makeover," *The Economist*, 10/16/04.

"Levi's Factory Are Assigned to Teams, and Morale Takes a Hit," *WSJ*, 5/20/98.

MBA 605 Course Outline and Reading Assignments:

Wednesday, September 6: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Markets and market structure.

Text:

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

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.

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

Team assignment #1: find an example of each type of market structure. Describe the characteristics of your choice and explain why it exemplifies the particular category of market structure. Specify the dimensions of the product market and geographic market. Due at the beginning of class on Friday, 9/8.

- 15-minute **Quiz** at start of class on Friday, 9/8.

Friday, September 8: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Competitive markets.

Text:

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

Outside readings:

"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.

Team Assignment #2: Choose an industry for an in-depth study. Your analysis should be conducted along the lines of the outline in Ch. 10 of BDSS, "Industry Analysis." More explicit instructions are contained in the detailed course outline. The written report is due Friday, September 15, at which point your group will be asked to make an oral presentation of your analysis.

Monday, September 11: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Monopoly, pricing with market power.

Text:

BSZ, ch. 7, "Pricing with Market Power."

Outside readings:

"Business Fares Increase Even as Leisure Travel Keeps Getting Cheaper," *WSJ*, 11/3/97.

"Colleges Manipulate Financial-Aid Offers, Shortchanging Many," *WSJ*, 4/1/96.

"Car Hagglers May Still Drive Best Car Deals," *WSJ*, 10/12/94.

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.

- 30 minute **Quiz** at the beginning of class on Wednesday, 9/13.

Wednesday, September 13: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Thursday, September 14: 8:00 a.m.-10:00 a.m./1:00 p.m.-3:00 p.m.

Oligopoly, rivalry, strategic behavior.

Text:

BSZ, ch. 9, "Economics of Strategy: Game Theory."

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.

"Dell Price Cuts Put a Squeeze on Rival H-P," *WSJ*, 8/21/03.

- 30 minute **Quiz** at the beginning of class on Friday, 9/15.

Friday, September 15: 8:00 a.m.-12:00 noon/1:00 p.m.-5:00 p.m.

Industry analysis.

Text:

BDSS, ch. 10, "Industry Analysis."

Outside readings:

"Oh, Sweet Revenge," *Newsweek*, 9/29/03.

Team Assignment #2 (continued): Written industry reports are due. During the second part of class your group will be given the opportunity to make an oral presentation of your analysis.

Instructions for purchasing Xanadu course packet:

Listed below are the details regarding your adopted CoursePack.

Name: Frank Scott
Address: University of Kentucky
Department of Economics
Lexington, KY 40506-0034
Phone Number: 859-257-7643

CoursePack Title: A BXS CoursePack for MBA 603/605
CoursePack ID: 254969
Page Count: 315

CoursePack ISBN: 0470071400

Online-only Price: \$49.95

Course Info: University of Kentucky
Course Name/number: MBA 603/605
Term: fall 2006
Class Begin Date: 08/01/2006
Class End Date: 12/15/2006
Expected Enrollment: 55
Delivery Format: Digital access with desktop printing
Purchase Method: eCommerce

If you have questions or need assistance, please contact your Wiley representative, e-mail WileyDE@napubco.com, or call XanEdu Customer Service at 1.800.218.5971.

ONLINE ACCESS:

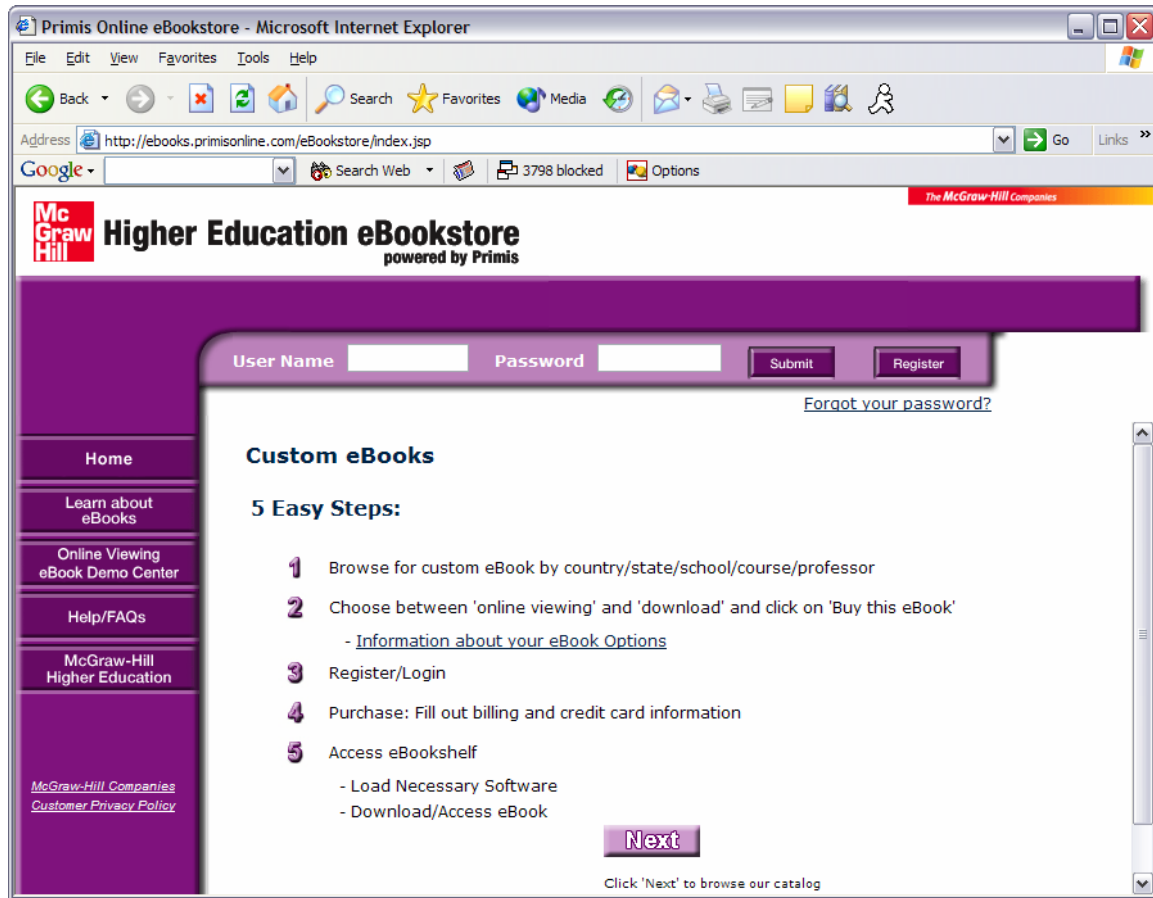
To have your students purchase the pack online, please provide them with the following information:

To purchase and access your online CoursePack, you will need to do the following:

1. Go to: <http://www.xanedu.com/login.shtml?PackId=254969>
2. If you have previously registered for another CoursePack, log in. If not, click the "Student Registration" button under the "New Users Register Here" banner. Complete the registration page, and click Continue.
3. Confirm your CoursePack selection, and click Continue.
4. Complete your billing information, confirm and click Continue.
5. After completing the purchase pages, you will be taken to your CoursePack.

Instructions for purchasing Primis course packet:

1. Open Internet Explorer and type in the web address/ULR
<http://ebooks.primisonline.com>
2. Next, click on the center icon and click on “Custom Ebooks”
3. From there, you will be taken to a “5 Easy Steps” screen.
Follow the steps to successfully purchase your ebook.



Note that the links for step 1 are USA/Kentucky/University of Kentucky/MBA 603/605.