

MBA 603: Markets—Structures and Dynamics
MBA 605: Organizational Structures and Strategies
Fall 2007

Professor: Frank Scott
Office: B&E 335-M
Phone: 257-7643
e-mail: fscott@uky.edu
web page: <http://gatton.uky.edu/Faculty/scott/index.html>

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.

Grading:

Grades in the course will be determined on the basis of performance on two in-class exams (33% each) and on a team industry study (34%). The teams and industry will be as assigned for Project Connect. 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 13: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Wednesday, August 15: 10:00 a.m.-12:00 noon/3:00 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.

"Corn's Rally Sends Ripples," *WSJ*, 1/18/07.

Friday, August 17: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Monday, August 20: 10:00 a.m.-12:00 noon/3:00 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.

"U SD IT: Virginians Make a Statement with Vanity Plates," *The Washington Post*, 5/9/06.

Team assignment: write a one-page memorandum about product demand for your Project Connect company. Due at the beginning of class on Wednesday, 8/22.

Wednesday, August 22: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 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>).

Friday, August 24: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Monday, August 27: 10:00 a.m.-12:00 noon/3:00 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.

Team assignment: write a one-page memorandum describing the nature of short-run and long-run costs for your Project Connect company. Due at the beginning of class on Wednesday, 8/29.

Wednesday, August 29: 10:00 a.m.-12:00 noon/3:00 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.

“How the University of Pennsylvania Learned that Outsourcing is no Panacea,” *The Chronicle of Higher Education*, 4/7/00.

Team assignment: write a one-page memorandum describing the vertical structure of the industry for your Project Connect company. Due at the beginning of class on Friday, 8/31.

Friday, August 31: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 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 Workers Are Assigned to Teams, and Morale Takes a Hit,” *WSJ*, 5/20/98.

Tuesday, September 4: 1:00 p.m.-4:00 p.m.

MBA 603 in-class exam.

MBA 605 Course Outline and Reading Assignments:

Wednesday, September 5: 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: write a two-page memo in which you describe the characteristics of your company's industry and explain which particular category of market structure it exemplifies. Specify the dimensions of the product market and geographic market. Due at the beginning of class on Monday, 9/10.

Friday, September 7: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Monday, September 10: 10:00 a.m.-12:00 noon/3:00 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.

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

Friday, September 14: 10:00 a.m.-12:00 noon/3:00 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.

"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.delta.com/home/index.jsp>, and analyze pricing for air travel and vacation packages.

Monday, September 17: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Wednesday, September 19: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Friday, September 21: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 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.

Wednesday, September 26:

8:00 a.m.-11:00 a.m.: MBA 605 in-class exam.

1:00 p.m.-5:00 p.m.: Industry study consultations.

Friday, September 28:

Project Connect industry study presentations. Schedule TBA.