

## **MBA 603 Detailed Course Outline and Reading Assignments:**

**Wednesday, August 18:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

**Friday, August 20:** 8:00 a.m.-10:00 noon/1:00 p.m.-3:00 p.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

#### Outside readings:

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

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

"Indonesia Has Lots of Coal—And Blackouts in Capital," *WSJ*, 7/29/08.

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

**Friday, August 20:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

**Monday, August 23:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.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

Outside readings:

"PepsiCo Pushes Breakfast In Bid to Heat Up Oatmeal," *WSJ*, 7/28/10.

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

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

**Team assignment:** Due at the beginning of class on Wednesday, 8/25.

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. Summarize your group discussions in a one-page business memorandum (12 pt. font, single spaced, one-inch margins.)

**Wednesday, August 25:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.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

Outside readings:

"Frito-Lay Aims to Cut Gas Bill's Bite," *WSJ*, 6/5/06.

"Honda's Flexible Plants Provide Edge," *WSJ*, 9/23/08.

"Small Talk," *WSJ* 5/30/06.

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

**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>).

As you tour these two plants, try to understand how various different inputs are used in each production process to produce different outputs. You should attempt to connect each theoretical concept 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? Are any of the human or physical capital inputs specialized to this particular production process? How much of the investment in plant and equipment is fixed and irreversible?

Bonus brownie points with your professor: Go online and find other virtual tours of companies' production processes. Share with the rest of us.

**Friday, August 27:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

**Monday, August 30:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.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

Outside readings:

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

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

“Sharp’s New Plant Reinvents Japan Manufacturing Model,” *WSJ*, 11/30/09.

**Team assignment:** Due at the beginning of class on Wednesday, 9/1.

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? Summarize your group discussions in a one-page business memorandum.

**Wednesday, September 1:** 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.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

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.

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

**Team assignment:** Due at the beginning of class on Friday, 9/3.

Meet with your Project Connect team to discuss the vertical structure of production in your industry. Who are your upstream suppliers? 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? Summarize your group discussions in a one-page business memorandum.

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

**Topics:** principal-agent relationships.

**Reading assignments:**

Text:

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

The principal/agent framework

Using contracts to provide incentives

How employees respond to performance measures in incentive contracts (skim)

Costs of tying pay to performance

Risk aversion and risk sharing

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.

**Individual assignment:** visit several different fast-food restaurants, purchase a meal, and then observe while you consume your meal. The owner of the brand name (e.g. Wendy's) has a strong incentive to maintain system-wide quality, while each franchisee has an incentive to chisel on quality at its own location and free-ride on the company's reputation. Imagine that you have been employed by corporate headquarters to improve the ways that the franchisor monitors each individual outlet. Remember that you want to come up with cheap and easy, yet effective, monitoring mechanisms. If you want to make the shift manager nervous, bring along a pad of paper and take notes while you look around. Discuss your thoughts with your classmates.