

MBA 603: Markets—Structures and Dynamics
MBA 605: Organizational Structures and Strategies
Fall 2010

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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* (4th edition), John Wiley & Sons, Inc., 2007.

There will also be assigned readings for each class taken from business periodicals such as the *Wall Street Journal*.

The assigned textbook chapters are available in hard copy at the University Bookstore. The outside readings are available at Johnny Print and also can be accessed electronically through the UK Library.

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:

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.

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.

“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.

Determinants of demand, estimating demand, elasticity.

Text:

BSZ, ch. 4: “Demand.”

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: write a one-page memorandum about product demand for your Project Connect company. Due at the beginning of class on Wednesday, 8/25.

Wednesday, August 25: 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.

“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>).

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.

Horizontal boundaries of the firm.

Text:

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

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: 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, 9/1.

Wednesday, September 1: 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.

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

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, 9/3.

Friday, September 3: 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 7: 9:00 a.m.-12:00 noon

MBA 603 in-class exam.

MBA 605 Course Outline and Reading Assignments:

Wednesday, September 8: 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.

"Samsung Edges Out TV Rivals," *WSJ*, 2/17/10.

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

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

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, 9/13.

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

Monday, September 13: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Competitive markets.

Text:

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

BSZ, ch. 6, "Market Structure."

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 15: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

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

Monopoly, pricing with market power.

Text:

BSZ, ch. 6, "Market Structure."

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

Outside readings:

"How a Fight Over a Board Game Monopolized an Economist's Life," *WSJ*, 10/20/09.

"Seeking Fame in Apple's Sea of Apps," *WSJ*, 7/15/09.

"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. Finally, visit your local cable monopoly and check out its bundling strategy: <http://insightlexington.cable-offers.com/>.

Monday, September 20: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

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

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

Tuesday, September 28: 8:00 a.m.-10:00 a.m./1:00 p.m.-3:00 p.m.

Oligopoly, rivalry, strategic behavior.

Text:

BSZ, ch. 6, "Market Structure."

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.

"Techdom's Two Cold Wars," *WSJ*, 7/22/09.

Thursday, September 30:

9:00 a.m.-12:00 a.m.: MBA 605 in-class exam.

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

Friday, October 1:

Project Connect industry study presentations. Schedule TBA.