

MBA 603 Detailed Course Outline and Reading Assignments:

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

Wednesday, August 24: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 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 26: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

Monday, August 29: 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, 8/31.

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.)

Tuesday, August 30: 8:00 a.m.-10:00 a.m./1:00 p.m.-3:00 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:

"Holiday Hiring Call: People vs. Robots," *WSJ*, 12/20/10.

"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/visit/online/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.

Wednesday, August 31: 10:00 a.m.-12:00 noon/3:00 p.m.-5:00 p.m.

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

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

“Going to the Well: A Powerful Idea,” *Lexington Herald-Leader*, 7/4/11.

Team assignment: Due at the beginning of class on Wednesday, 9/7.

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.

Friday, September 2: 8:00 a.m.-12:00 noon/1:00 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 Wednesday, 9/7.

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.