

MBA 603 Detailed Course Outline and Reading Assignments:

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

Wednesday, August 1: 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.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398959819?accountid=11836>

“Lawmakers struggle to define gasoline price ‘gouging,’” *WSJ*, 11/9/05.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398991187?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399108953?accountid=11836>

“Corn’s Rally Sends Ripples,” *WSJ*, 1/18/07.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398983538?accountid=11836>

Additional resources:

Milton Friedman: Story of the Pencil—how markets work to allocate resources,

<http://www.youtube.com/watch?v=4ERbC7JyCfU>

Investopedia: Basics of supply and demand,

<http://www.investopedia.com/university/economics/economics3.asp#axzz2114HK4Fc>

Youtube: Supply and demand, a thug story,
http://www.youtube.com/watch?v=7MY7E_VhKMM
Khan academy: assorted video tutorials on principles of microeconomics,
<http://www.khanacademy.org/#microeconomics>
Youtube: economic development in four minutes,
<http://www.youtube.com/watch?v=jbkSRLYSojo>
CIA World Factbook, comparative economic systems
<https://www.cia.gov/library/publications/the-world-factbook/>

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

Monday, August 6: 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.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/732571063?accountid=11836>

"Thrill parks try to boost attendance: Some lower their fees to attract crowds,"

Lexington Herald-Leader, 5/27/06. <http://bit.ly/odthLq>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399119361?accountid=11836>

Additional resources:

Investopedia: Elasticity,

<http://www.investopedia.com/university/economics/economics4.asp#axzz2114HK4Fc>

Khan academy:

<http://www.khanacademy.org/#microeconomics>

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

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 8: 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:

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/818622450?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399105360?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399047133?accountid=11836>

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

<http://online.wsj.com/article/SB123116077359153453.html>

Additional resources:

Khan academy: see especially the example on accounting profit vs. economic profit, <http://www.khanacademy.org/#microeconomics>

YouTube: production functions and law of diminishing returns,

<http://www.youtube.com/watch?v=FBkFTZikIdU>

Numerical example of short-run costs: <http://tutor2u.net/economics/revision-notes/a2-micro-supply-shortrun-costs.html>

Major consumer goods producers and the scope of their product lines:

<http://www.convergencealimentaire.info/map.jpg>

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/company/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. Connect theoretical concepts 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? How specialized are the human or physical capital inputs used in this particular production process? How much of the investment in plant and equipment is fixed and irreversible? Contrast the Toyota plant with auto manufacturing in an earlier era: Ford Model T’s: <http://www.youtube.com/watch?v=IXkxl8dSXb4>
1936 Chevrolets: <http://www.youtube.com/watch?v=VvAH-Yskyio&feature=related>,

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

Monday, August 13: 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. Also check out various YouTube videos on hog production.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398373847?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399128309?accountid=11836>

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

<http://bit.ly/nHKQQA>

Additional resources:

YouTube: Economies of scale, <http://www.youtube.com/watch?v=68-vmWJQqlo&feature=related>

YouTube: Specialization of capital and economies of scale,

<http://www.youtube.com/watch?v=SXEsDq7JAMI>

More on pork production:

http://www.soc.duke.edu/NC_GlobalEconomy/hog/value.shtml

Electronics design company’s discussion of economies of scale:

<http://airborn.com.au/method/volume.html>

Team assignment: Due at the beginning of class on Friday, August 17.

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

Friday, August 17: 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.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398953831?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398673631?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399140920?accountid=11836>

Additional resources:

Wikipedia (!!!): http://en.wikipedia.org/wiki/Vertical_integration

The Economist: <http://www.economist.com/node/13396061>

Value chain charts from Google (fascinating array of businesses!):

<http://www.google.com/search?q=vertical+integration&hl=en&prmd=imvnsb&tbm=isch&tbo=u&source=univ&sa=X&ei=TLMSUNuzG4rX0QHfkIH0CA&sqi=2&ved=0CGkQsAQ&biw=1680&bih=907>

Team assignment: Due at the beginning of class on Wednesday, 8/22.

Meet with your Project Connect team to discuss the vertical structure of production in your industry. Who are your upstream suppliers, i.e. what inputs are used in your production process and how are they acquired? 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.

Optional additional outside readings on various topics:

“Tempur-Pedic stock up after report, analysis,” *Lexington Herald-Leader*, July 26, 2012, p. B5: various economic issues that confront a CEO when formulating strategies for a company. http://infoweb.newsbank.com/iw-search/we/InfoWeb?p_product=AWNB&p_theme=aggregated5&p_action=doc&p_docid=14046F45F75377A8&d_place=LHLB&f_issue=2012-07-26&f_publisher=

“Prices Low, Oil-Service Firms Can’t Dig It,” *Wall Street Journal*, 7/20/09: does the market supply curve slope upward to the right? <http://search.proquest.com/docview/399120534/fulltext/13873851A1117392CE1/65?accountid=11836>

“Crop technology helps limit corn losses during drought,” *Lexington Herald-Leader*, July 12, 2012, p. A7: change in technology causes supply curve to shift to the right. http://infoweb.newsbank.com/iw-search/we/InfoWeb?p_product=AWNB&p_theme=aggregated5&p_action=doc&p_docid=13FFD00326DE1E78&d_place=LHLB&f_issue=2012-07-12&f_publisher=

“Indian Fiber Weaves a Crisis,” *Wall Street Journal*, 6/23/12, p. A7: government protection of one industry creates big problems for a downstream sector. <http://search.proquest.com/docview/1021786897/138738DE50B197BAE7A/25?accountid=11836>

“How the West Was Really Won,” *Wall Street Journal*, 5/19/12, p. A15; <http://search.proquest.com/docview/1014209562/138739061E73E5C67FF/48?accountid=11836> and “Politics Plays Part in Achieving Rich-Nation Status,” *Wall Street Journal*, 5/16/11, p. A2: <http://search.proquest.com/docview/1014209562/138739061E73E5C67FF/48?accountid=11836>, read these two articles after you watch the “economic development in four minutes” YouTube video to see a major reason for the location of the U.S. on the grid.

“India Has 1.2 Billion People, But Not Enough Drink Coke,” *Wall Street Journal*, 6/27/12, p. B1: ascertaining consumer tastes and other determinants of demand in foreign markets. <http://search.proquest.com/docview/1022247231/1387395E1291FB8BA98/79?accountid=11836>

“Economic Profit vs. Accounting Profit,” *Wall Street Journal*, 6/2/03, A17: an esoteric discussion of the concept of profit as treated in ACC 201 vs. ACC 202. If you understand this article you are ready to go to work for Warren Buffett. <http://search.proquest.com/docview/398903478/138739DD9F16BF6DFC8/40?accountid=11836>

“Amazon Adds That Robotic Touch,” *Wall Street Journal*, 3/20/12, p. B1: tradeoff between capital and labor in the production process.

<http://search.proquest.com/docview/929078080/13873A065957AB4D7/74?accountid=11836> See the robots in action at: <http://money.cnn.com/2012/03/20/technology/amazon-kiva-robots/index.htm>

“Frito-Lay Aims to Cut Gas Bill’s Bite,” *Wall Street Journal*, 6/5/06, p. B2: deciding whether it is economical to substitute capital for energy in making potato chips.
<http://search.proquest.com/docview/398990274/13873A32DD169DE1D01/38?accountid=11836>

“Kraft Picks Leaders for Split,” *Wall Street Journal*, 12/6/11: economies of scope or diseconomies of scope, and implications for mergers and divestitures.
<http://search.proquest.com/docview/908477763/13873A4DA7C70384EF8/83?accountid=11836>

“Can Retailers Halt ‘Showrooming’?” *Wall Street Journal*, 4/11/12, p. B1: vertical integration strategy and competing retailing venues.
<http://search.proquest.com/docview/993081211/13873A78AD0545FDF99/74?accountid=11836>

“Burger King Franchisees Can’t Have It Their Way,” *Wall Street Journal*, 1/21/10, p. B1: franchising as an intermediate vertical strategy between arms’ length spot market transactions and complete vertical integration.
<http://search.proquest.com/docview/399142145/13873AA0B0474F2D72F/49?accountid=11836>

“Jet Blues: Boeing Scrambles to Repair Problems with New Plane,” *Wall Street Journal*, 12/7/07, p. A1;
<http://search.proquest.com/docview/399080708/13873AD6059625FF222/4?accountid=11836> and “Boeing Tightens Its Grip on Dreamliner Production,” *Wall Street Journal*, 7/2/09, p. B1;
<http://search.proquest.com/docview/399125788/13873AED4393B29D258/46?accountid=11836> : outsourcing, its advantages, and its disadvantages.