

MBA 605 Detailed Course Outline and Reading Assignments:

Wednesday, September 4: 10:15 a.m.-12:15 p.m.

Topics: Geographic and product market definition, market structure.

Reading assignments:

Text:

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

Competitor identification and market definition

Basics of competitor identification

Putting competitor identification into practice

Empirical approaches to competitor identification

Geographic competitor identification

Measuring market structure

Market structure and competition

Perfect competition

Monopoly

Monopolistic competition

Oligopoly (skim technical parts)

Required outside readings:

"Greece is the Word," *WSJ*, 7/30/04.

http://www.sailingissues.com/online.wsj.com/article_email/0,,SB109112801159177914-INje4Nplad3oZunaoKgbauBm4,00.html

"Winds of Change for Boeing, Airbus," *WSJ*, 3/16/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399095358?accountid=11836>

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

<http://bit.ly/poGliZ>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/220157523?accountid=11836>

Additional Resources:

Summary diagram of different types of market structure:

http://www.bized.co.uk/educators/16-19/economics/firms/presentation/structure_map.htm

Optional additional outside readings:

“Extinction of the Predator—The Global Car Industry,” *The Economist*, 9/10/05: read this article and the next three and see if you are ready to advise a major auto parts supplier on the future of automobile manufacturing in India and China.

“Ford Bets \$5 Billion on Made in China,” *Wall Street Journal*, 4/20/12, p. B1: entry decisions and market structure in the global market for automobiles.
<http://search.proquest.com/docview/1002796117/138B061A8893AB9C9B6/75?accountid=11836>

“Honda Takes on Camry,” *Wall Street Journal*, 8/23/12, p. B8: defining the product market, what cars compete in the midsize sedan market?
<http://search.proquest.com/docview/1034643753/138BEC54C2255614960/82?accountid=11836>

“Chinese Dilemma: 170 Auto Makers,” *WSJ*, 4/10/13, p. B10: current market structure in the Chinese automobile market.
<http://search.proquest.com/docview/1324932853/13FC446E2464EF90B07/105?accountid=11836>

“China Isn’t Golden for Whirlpool,” *WSJ*, 4/28/11, p. B6: market structure in appliance manufacturing.
<http://search.proquest.com/docview/863746367/13FC44BB89AC1166B8/100?accountid=11836>

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

Meet with your Project Connect team to discuss the characteristics of the industry in which your company competes. Define and describe the product market. Define and describe the geographic market. Who are the other competitors in the market and what are their market shares? Summarize your group discussions in a two-page business memorandum.

Friday, September 6: 10:15 a.m.-12:15 p.m.

Monday, September 9: 10:15 a.m.-12:15 p.m.

Topics: perfectly competitive markets.

Reading assignments:

Text:

BDSS, ch. 6: “Competitors and Competition.”

Perfect competition

BSZ, Ch. 6: “Market Structure.”

Markets
Competitive Markets

Required Outside readings:

“Alligator Farming Shows There’s a Lot to be Said for Cows,” *WSJ*, 8/2/89.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398158016?accountid=11836>

“Economic Woes Take a Bite out of Alligator Ranching,” *WSJ*, 11/12/97.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398605851?accountid=11836>

“A Run on Alligators Sends Designers Scrambling,” *WSJ*, 3/18/06.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399057549?accountid=11836>

Additional resources:

Shutting down in the short run when price drops below min AVC:
<http://abcnews.go.com/WNT/video/wasting-strawberry-fields-10220551>

Billy Ray Valentine learns about commodity markets:
<http://www.youtube.com/watch?v=7EjdC0pjo1A>

Khan academy on marginal cost and marginal revenue, marginal revenue below average total cost, long term supply and economic profit, and perfect competition:
<http://www.khanacademy.org/finance-economics/microeconomics/v/perfect-competition>

One of dozens of alligator farming videos on YouTube:
<http://www.youtube.com/watch?v=k3Ei3JK8v8M> . Also try watching “Swamp People” on the History Channel to get a better feel for the culture.

Optional additional outside readings:

“As Sales Vanish, Skins Stay on Alligators,” *New York Times*, 11/30/09: more on alligators. <http://www.lexisnexis.com/hottopics/lnacademic/?verb=sr&csi=6742>

“Shell Shock: Chinese Demand Reshapes U.S. Pecan Business,” *WSJ*, 4/18/11: another perfectly competitive market example.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/862237747?accountid=11836>

“South Sings the Catfish Blues,” *Wall Street Journal*, 4/14/11, p. A3: yet another example of a perfectly competitive market based on an agricultural commodity in

the southeastern U.S.

<http://search.proquest.com/docview/861779538/138B048F2B2375A167A/10?accountid=11836>

Wednesday, September 11: 10:15 a.m.-12:15 p.m.

Friday, September 13: 10:15 a.m.-12:15 p.m.

Topics: monopoly, pricing with market power.

Reading assignments:

Text:

BSZ, ch. 6: “Market Structure.”

Barriers to Entry

Incumbent Reactions

Incumbent Advantages

Monopoly

BSZ, ch. 7: “Pricing with Market Power.”

Pricing objective

Benchmark case: single price per unit

Profit maximization

Potential for higher profits

Homogeneous consumer demands

Block pricing

Two-part tariffs

Price discrimination—heterogeneous consumer demands

Exploiting information about individual demands

Using information about the distribution of demands

Bundling

Other concerns

Multiperiod considerations

Strategic interaction

Required Outside readings:

“How a Fight Over a Board Game Monopolized an Economist’s Life,” *WSJ*, 10/20/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399064057?accountid=11836>

“Seeking Fame in Apple’s Sea of Apps,” *WSJ*, 7/15/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399087647?accountid=11836>

“Seeking Perfect Prices, CEO Tears Up the Rules,” *WSJ*, 3/27/07.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399036795?accountid=11836>

Additional resources:

A good example of incumbents blocking entry through regulation:
<http://ij.org/louisiana-caskets-release-3-20-13>

Khan academy on monopoly: <http://www.khanacademy.org/finance-economics/microeconomics/v/monopoly-basics> (five video clips).

Microsoft monopoly: <http://www.youtube.com/watch?v=dLKVeFau6vo>

Price discrimination: http://www.youtube.com/watch?v=N_7BpKILjD0

Optional additional outside readings:

“The Transportation Trustbuster,” *WSJ*, 1/26/13, p. A13: how technological change can radically alter a previously blockaded market.
<http://search.proquest.com/docview/1281305292/13FC477390B2C7B84CD/34?accountid=11836>

“More Law Schools Hagggle on Scholarships,” *Wall Street Journal*, 7/30/12, p. B4: first degree price discrimination as practiced by law schools.
<http://search.proquest.com/docview/1030070943/138B00F13ED129D5D44/87?accountid=11836>

“Inside the Phone-Plan Pricing Puzzle,” *WSJ*, 8/1/13, p. B4: sorting customers into different willingness-to-pay categories as practiced by cell-phone providers.
<http://search.proquest.com/docview/1416012158/13FC4793A95703AF36B/87?accountid=11836>

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://midwest-offer.aiprx.timewarnercable.com/west/tv_internet_phone.php?aitrk=twcmw&cid=ppc:aim:00000220&oo=1&qso=1&teng=go&geng=s01-d&aeng=qsooo_adgs01-d-j&keng=time%20warner&meng=p&peng=1t1 Then think of other creative pricing strategies that you have encountered whereby firms with market power sort customers according to their willingness to pay and then extract as much money from each one as possible.

Monday, September 16: 10:15 a.m.-12:15 p.m.

Tuesday, September 17: 10:15 a.m.-12:15 p.m.

Topics: oligopoly, rivalry, strategic behavior.

Reading assignments:

Text:

BSZ, ch. 6: "Market Structure."

Monopolistic Competition

Oligopoly

 Nash Equilibrium

 Cooperation and the Prisoners' Dilemma

BSZ, ch. 9: "Economics of strategy: game theory."

Game theory

Simultaneous-move, nonrepeated interaction

 Analyzing the payoffs

 Dominant payoffs

 Nash equilibrium revisited

 Competition versus coordination

 Mixed strategies

 Managerial implications

Sequential interactions

 First-mover advantage

 Strategic moves

 Managerial implications

Repeated strategic interaction

Required Outside readings:

"Haven't Shareholders Had Enough Chicken?" *WSJ*, 4/4/01.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398780117?accountid=11836>

"Cruise Lines Slash Their Prices as War Fears Rattle Travelers," *WSJ*, 1/29/03.

<http://online.wsj.com/article/SB1043780266145632024.html>

"Upstart's Tactics Allow it to Fly in Friendly Skies of a Big Rival," *WSJ*, 6/23/99.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398729938?accountid=11836>

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

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399099640?accountid=11836>

Additional resources:

Khan academy on oligopoly, collusion, game theory, Nash equilibrium, and cartel theory (six video clips): <http://www.khanacademy.org/finance-economics/microeconomics/v/oligopolies-and-monopolistic-competition>

Prisoner's dilemma game: <http://www.youtube.com/watch?v=zpahL4fu5R8>

The dating game: <http://www.youtube.com/watch?v=TDtwsShOTjw>

Solving simple sequential move games:

<http://www.youtube.com/watch?v=1fIM78Gs0Ak>

From his own mouth, Michael Porter's five forces model:

http://www.youtube.com/watch?v=mYF2_FBCvXw

Optional additional outside readings:

"Diamond Miners Band Together," *WSJ*, 11/17/09, p. B1: why engagement rings are so expensive.

<http://search.proquest.com/docview/399135128/13FC48BFB046D468D8/49?accountid=11836>

"Cartel Pushes up Price of Rubber," *Wall Street Journal*, 8/20/12, p. C4: the incentive to collude, and problems faced by cartels in maintaining "discipline".

<http://search.proquest.com/docview/1034189193/138BEC89E30386A57F9/99?accountid=11836>

"Potash Cartel Breaks Apart," *WSJ*, 7/31/13, p. B1: what the heck is potash and are corn prices headed downward?

<http://search.proquest.com/docview/1415576175/13FC48F423965C114E3/79?accountid=11836> and

<http://search.proquest.com/docview/1415577714/13FC48F423965C114E3/81?accountid=11836>

"Apple-Amazon War Heats Up," *Wall Street Journal*, 7/26/12, B3: head-to-head competition by duopolists.

<http://search.proquest.com/docview/1027821635/138B0140DCF121A6495/84?accountid=11836>

"Apple and Google Expand Battle to Global Map Apps," *Wall Street Journal*, 6/5/12, p. A1: more duopoly battles.

<http://search.proquest.com/docview/1018464605/138B05C17DF25B9A74A/2?accountid=11836>

“Huge Cruise Ships Prepare for Launch but Face Uncertain Waters,” *Wall Street Journal*, 12/04/09, B1: how cruise lines have to make capacity commitments before they know the exact state of demand.

<http://search.proquest.com/docview/399127167/138B03F609C59AFF144/53?accountid=11836>

Industry Study Team assignment: Due Friday, 9/20.

The previous team assignments have been preparing you to do an in-depth study of the industry in which your Project Connect firm competes. Your assignment is to research your industry so that you become something of an expert. Sources that you might use for your research include library and internet resources, as well as discussions with persons knowledgeable about the industry.

Your research should follow the outline of an industry study discussed in Chapter 10 of *Economics of Strategy* by Besanko, Dranove, Shanley, and Schaefer. In other words, you should do a five-forces analysis of your industry. The types of questions you should consider in analyzing your industry are outlined in Appendix 10.1 of the book. Also take a look at the Motley Fool's discussion of the five forces of competition: http://infoweb.newsbank.com/iw-search/we/InfoWeb?p_product=AWNB&p_theme=aggregated5&p_action=doc&p_docid=13950628C4B5B428&d_place=LHLB&f_issue=2011-08-23&f_publisher=

You should convey your research findings in a business-style report. You should write an eight-to-ten page report (12 pt. font, double-spaced, one-inch margins) that could be submitted to the top executives of the company. Make sure that you appropriately cite all of the outside references that you use, because the company will not want to make important decisions based on unreliable sources or flimsy evidence and research. Be careful and efficient in your writing. Two of my favorite essays on business writing are "It Is Recommended That You Write Clearly," by Gary Blake, *WSJ*, 4/3/95: <http://search.proquest.com/docview/398553202/138B0356EB05274B4F0/42?accountid=11836> and "How to Write Good," by Michael O'Donoghue, originally published in *The National Lampoon*, http://workableweb.com/pages/tips/how_to_write_good.htm. A concise list of do's and don'ts is contained at <http://www.plainlanguage.gov/examples/humor/writegood.cfm>.

Attach as an appendix to your report a hard copy of each of the sources that you use! If you cite a book or long article, only include the title page and the pages you refer to in your report. For short articles from periodicals, newspapers, and internet sources, include the entire piece. Then in your memo you can use very brief citations to your sources, e.g. see Appendix A-1.

The written report is due Friday, September 20, at which point your group will be asked to make an oral presentation of your analysis. I have attached to the course website (see MBA 603/605 fall 2009 link) several industry studies conducted by individual students in the TEI Piraeus-UK MBA program in prior years that I think are pretty good. My hope is that a team of four or five students who have six weeks to work on a report can do even better.