Eco 610 Detailed Course Outline and Reading Assignments
(First Half of Course):

Friday, June 15
Monday, June 18
Wednesday, June 20

Topics: introduction, basics of market systems, demand and supply analysis.

Reading assignments:

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

Required outside readings:


Two countries going in different directions RE markets vs. central planning:

[http://search.proquest.com.ezproxy.uky.edu/docview/1895499247/5CF40B45C8B34BB?accountid=11836](http://search.proquest.com.ezproxy.uky.edu/docview/1895499247/5CF40B45C8B34BB?accountid=11836)

“Lawmakers Struggle to Define Gasoline Price ‘Gouging,’” WSJ, 11/9/05: how will a society allocate scarce resources, and what adjustment process will it use when the relative scarcities of different resources changes?
“Corn’s Rally Sends Ripples,” *WSJ*, 1/18/07: contemplating a career picking winners and losers in the stock market? When you play chess, do you think two moves ahead or six moves ahead?

**Additional resources:**

Milton Friedman: Story of the Pencil—how markets work to allocate resources.
http://www.youtube.com/watch?v=4ERbC7JyCFU

How long does it take to buy basic products in Venezuela? (if you want to see more amusing (to those not living in Caracas) videos, type in “price controls and shortages in Venezuela”).
https://www.youtube.com/watch?v=1CMEmKe5mS0

CNN report on London terror attack: Is there a socially desirable supply response that might result from price gouging (surge pricing) by Uber?

Supply and demand, worth watching not necessarily for the economics lesson but because it contains scenes from several of your professor’s favorite movies.
https://www.youtube.com/watch?v=RP0j3Lnlazs


CIA World Factbook: comparative economic systems—all the facts in one convenient place.

**Optional additional outside readings:**

“Tempur Sealy Appears to Stay Course after Shakeup,” *Lexington Herald-Leader*, 6/1/15: what sometimes happens when the captain charts the wrong course,
http://smileypete.com/business/lexmark%E2%80%99s-new-leader-hits-reboot-button/

“China’s Winter of Discontent,” *WSJ*, 3/14/06: centralized decision-making—who determines the internal temperature of your house or apartment?

“Crop technology helps limit corn losses during drought,” *Lexington Herald-Leader*, July 12, 2012: change in technology causes supply curve to shift to the right.
http://bigstory.ap.org/article/drought-cuts-projected-corn-harvest-12-percent
“Natural-Gas Prices Getting Hotter,” WSJ, 10/12/16: shift in supply due to a change in the price of a good that is a complement in production. Can you imagine the sorts of supply and demand exam questions I might devise based on this reading?
http://search.proquest.com.ezproxy.uky.edu/docview/1827835207/9B539FFD5880458C82Q82?accountid=11836

“IKEA’s India Bet Hits Thicket of Rules,” WSJ, 2/24/16: doing business around the world—a quick course in comparative economic systems.
http://search.proquest.com.ezproxy.uky.edu/docview/1767558436/24E6EB9FD2854E73PQ/4?accountid=11836

Read these two articles after you watch the “economic development in four minutes” video to see a major reason for the location of the U.S. on the grid.
“How the West Was Really Won,” WSJ, 5/19/12:
“Politics Plays Part in Achieving Rich-Nation Status,” WSJ, 5/16/11:
http://search.proquest.com.ezproxy.uky.edu/docview/866537076/B2B3968D26FA4C00PQ/9?accountid=11836

Friday, June 22
Monday, June 25

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

Required Outside readings:

“How the West Was Really Won,” WSJ, 5/19/12: "How the West Was Really Won," WSJ, 5/19/12:
“Politics Plays Part in Achieving Rich-Nation Status,” WSJ, 5/16/11:
http://search.proquest.com.ezproxy.uky.edu/docview/866537076/B2B3968D26FA4C00PQ/9?accountid=11836

“PepsiCo Pushes Breakfast in Bid to Heat Up Oatmeal,” WSJ, 7/28/10: imagine that you are named brand manager for this newly acquired product line and are tasked with pumping up demand for Quaker Oats.


**Additional resources:**

Simple and straightforward explanation of own-price elasticity: [https://www.youtube.com/watch?v=4oj_lnj6pXA](https://www.youtube.com/watch?v=4oj_lnj6pXA)

**Optional additional outside readings:**


“Economy’s Future Plays Out in Rust Belt,” WSJ, 4/6/18: using the concept of income elasticity, can you explain why Elkhart, IN has such a boom or bust economy? [https://search-proquest-com.ezproxy.uky.edu/docview/2022065136/D2753C5DA5746A0PQ/3?accountid=11836](https://search-proquest-com.ezproxy.uky.edu/docview/2022065136/D2753C5DA5746A0PQ/3?accountid=11836)

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**Wednesday, June 27**

**Friday, June 29**

**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

Required Outside readings:

“Amazon Robots Get Ready for Christmas,” WSJ, 11/20/14: could you head up a project to determine the cost-minimizing mix of robots vs. workers in the peak and off-peak seasons?

“Subaru’s Got a Big Problem: It’s Selling Too Many Cars,” WSJ, 8/21/13: short-run law of diminishing returns can bite when plant size is too small.
http://search.proquest.com.ezproxy.uky.edu/docview/1426497632/D37A78AD1E014597PQ/73?accountid=11836

“Small Talk,” WSJ 5/30/06: thinking about buying an existing business so you can be your own boss? Here are some things to consider.

“Accounting’s 21st Century Problem,” WSJ, 3/22/16: it was also a problem during the 20th century.
http://search.proquest.com.ezproxy.uky.edu/docview/1774739976/CC673B578D9941CEPQ/69?accountid=11836

Additional resources:

Khan academy: see the example on accounting profit vs. economic profit,

Production functions and the 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

Optional additional outside readings:

“Economic Profit vs. Accounting Profit,” WSJ, 6/2/03: an esoteric discussion of the concept of profit as treated in ACC 201 vs. ACC 202. If you understand this article, Warren Buffett as an investment analyst.

“The Market’s Tough Love Delivers,” *WSJ*, 5/22/17: you issue pieces of paper giving a claim to future profits; you can use that capital to do anything and don’t even have to pay it back; but if you want more . . .

http://search.proquest.com.ezproxy.uky.edu/docview/1900666215/C1DD15FA68BF4EB2PQ/41?accountid=11836

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

See the robots in action at: http://www.youtube.com/watch?v=6KRjuuEVEZs

“Frito-Lay Aims to Cut Gas Bill’s Bite,” *WSJ*, 6/5/06: deciding whether it is economical to substitute capital for energy in making potato chips.


“GM Wrestles with Excess Capacity,” *WSJ*, 10/10/17: contrast where on its LRAC a typical GM plant is operating with Subaru’s Indiana plant.

https://search-proquest-com.ezproxy.uky.edu/docview/1948904242/7FB00A1F77964D91PQ/56?accountid=11836

Individual assignment (for your personal edification): take virtual plant tours of Toyota’s Georgetown manufacturing facility (http://www.toyotageorgetown.com/tourvid.asp) and Reid Dairy’s processing facility (https://www.youtube.com/watch?v=mTtbXot3lik). 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=lxkxl8dSXb4 1936 Chevrolets: http://www.youtube.com/watch?v=VvAH-Yskyio&feature=related

Monday, July 2

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

**Required Outside readings:**


“Meet the World’s Largest Cargo Ships,” *WSJ*, 1/8/13: How do you think the widening of the Panama Canal is going to affect the supply chains of companies in the eastern U.S?
AE3E923680778EB/71?accountid=11836

http://www.nytimes.com/2000/06/18/us/camilla-journal-new-role-for-the-gator-chicken-
farmer-s-friend.html?pagewanted=all&src=pm

**Additional resources:**


Specialization of capital and economies of scale,
http://www.youtube.com/watch?v=SXEoDq7JAM1, or drive out Richmond Road and watch the production process in person while enjoying a cup of coffee.

One approach to growing and selling vegetables like carrots:
https://www.youtube.com/watch?v=bKCs23drsRs
Electronics design company’s discussion of economies of scale:

Major consumer goods producers and the scope of their product lines:
http://www.convergencealimentaire.info/map.jpg

Optional additional outside readings:

“Kraft Picks Leaders for Split,” WSJ, 12/6/11: economies of scope or diseconomies of scope, and implications for mergers and divestitures.

“Boeing Struggles to Find Buyers for Early Version Dreamliners,” WSJ, 8/29/14: would you as an airline passenger like to be part of the learning process that Boeing workers go through?

“Sharp’s New Plant Reinvents Japan Manufacturing Model,” WSJ, 11/30/09: there is a clear upside, but can you see a downside for suppliers who locate on site? Keep this in mind when we discuss asset specificity in the next section.

Friday, July 6

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
Required Outside readings:

“Made to Measure: Invisible Supplier Has Penney’s Shirts All Buttoned Up,” WSJ, 9/11/03: who is “outsourcing” to whom? 

“Plane Makers Want a Bigger Part of Parts,” WSJ, 9/8/17: value chain, make or buy, supplier power, supply chain management—this article has it all. https://search-proquest-com.ezproxy.uky.edu/docview/1936420682/3B95B99B20C4FF6PQ/60?accountid=11836

“Companies More Prone to Go ‘Vertical,’” WSJ, 11/30/09: fads and trends vs. fundamental economic reasons whether to make or to buy. 

Additional resources:


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

Should GM make or buy diesel engines for its pickup trucks? 

Value chain charts from Google: 
https://www.google.com/search?q=value+chain+diagrams&tbm=isch&tbo=u&source=un iv&sa=X&ved=0ahUKEwiH8NHrJrrJiUAhUIyoMKKhdTQAQ6sAQJQ&biw=1920&bih =974#imgrc=E2Vo5VVzQ6psWM:

Vertical integration charts from Google: 
http://www.google.com/search?q=vertical+integration&hl=en&prmd=imvnsb&tbn=isch 
&tbo=u&source =univ&sa=X&ei=TLMSUNuzG4rX0QHfkIHwCA&sqi=2&ved=0CGkQsAQ&biw=1680 
&bih=907

Optional additional outside readings:

“Can Retailers Halt ‘Showrooming’?” WSJ, 4/11/12: vertical integration strategy and competing retailing venues. 

and since we are so interested in Tempur Sealy’s fortunes, “Pillow Fight Inflicts Hard Blows,” WSJ, 1/31/17, 
http://search.proquest.com.ezproxy.uky.edu/docview/1862838009/150F15740FE74D80P Q/61?accountid=11836

“Burger King Franchisees Can’t Have It Their Way,” WSJ, 1/21/10: franchising as an intermediate vertical strategy between arms’ length spot market transactions and complete vertical integration.


http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399142145/13873AA0B0474F2D72F/49?accountid=11836


“Retailers are Bottling their Own Milk, Raising Pressure on Dairy Companies,” *WSJ*, 10/13/17: keep this example of vertical integration in mind when we introduce Porter’s five forces model in the second half of the course.

https://search-proquest-com.ezproxy.uky.edu/docview/1950589711/1659926687534188PQ/58?accountid=11836

Alternative Resources for the Textbook Readings:

**Textbook assignment**: BSZ, ch. 3, “Markets, Organizations, and the Role of Knowledge.”

Investopedia:
Basics of supply and demand,
http://www.investopedia.com/university/economics/economics3.asp#axzz21l4HK4Fc

Khan Academy:


**Textbook assignment**: BSZ, ch. 4: “Demand.”

Khan Academy:

Investopedia:

**Textbook assignment**: BSZ, ch. 5: “Production and cost.”

Inflate your mind:
Total and per unit costs,
http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=113&Itemid=144

Short-run and long-run cost relationships,
http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=114&Itemid=145,
http://www.inflateyourmind.com/index.php?option=com_content&view=article&id=115&Itemid=146, and

Khan Academy:

**Textbook assignment:** BDSS, ch. 2: “The Horizontal Boundaries of the Firm: Economies of Scale”

The only decent alternative to the text that I have found is
BizEd on economics of scale (click on the power point slide presentation):
http://www.bized.co.uk/educators/16-19/economics/firms/lesson/scale.htm
and this power-point presentation: https://www.slideshare.net/EricaLukas/the-horizontal-boundaries-of-the-firm

**Textbook assignment:** BDSS, ch. 3: “The Vertical Boundaries of the Firm.”

Two power-point presentations based on the above textbook reading are:
http://www.slideshare.net/Annie05/the-vertical-boundaries-of-the-firm-presentation-684027, and
https://www.slideshare.net/EricaLukas/the-vertical-boundaries-of-the-firm?next_slideshow=1