

Eco380: Managerial Economics I

Competitive Strategy

Monday 1-3, Spring 2005

<http://www.economics.utoronto.ca/board/teaching.html>

Professor: Simon Board.

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Office Hours: Monday 11.00–1.00 or by appointment.

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Description

This course will examine what determines the competitive advantage of a firm and develop practical tools of business strategy. It will take a practical approach, utilising game theory to build a toolkit of strategic concepts adaptable for different purposes in different situations.

Prerequisites:

- ECO200Y5 or ECO206Y5
- ECO220Y5 or ECO227Y5 or (STA250H1 and STA257H5) or (STA257H5 and STA261H5)

Exclusions:

- ECO310Y5

Grading

There will be two term tests (25% each) and one final (50%). Exams will be open book. Requests for regrades will need to be in writing within one week of the exam being returned. To ensure consistency, I will regrade the entire test, not just a single question.

I will hand out three problem sets, however these will not be collected or graded: students are responsible for their own mastery of the solutions. Collaboration on problem sets is encouraged.

Topics

The main textbooks for this course will be:

- McAfee (2002), *Competitive Solutions*.
- Brandenburger and Nalebuff (2000), *Co-Opetition*.

Other interesting books are:

- Dixit and Nalebuff (1991), *Thinking Strategically*.
- Porter (1980), *Competitive Strategy*.
- Tirole (1988), *The Theory of Industrial Organisation*.
- Cabral (2000), *Introduction to Industrial Organisation*.
- Milgrom and Roberts (1992) *Economics, Organization and Management*.
- Kreps (2004), *Microeconomics for Managers*.

Week 1: Introduction and Industry Analysis

McAfee ch. 1 and 2.

BN ch. 1 and 2.

Cabral. Measuring market power ch. 9.1.

Week 2: Bargaining and Negotiation

McAfee p. 353–364, 374–376.

BN. ch. 3 and p. 215–221.

Week 3: Sources of Competitive Advantage

McAfee ch. 3 and 4.

BN ch. 5.

Cabral. Differentiation ch. 12.

Porter (1996), “What is Strategy?”, Harvard Business Review.

Tirole. Horizontal differentiation p. 279–282. Vertical differentiation p. 296–297.

Week 4: The Product Life Cycle

Term test I.

McAfee ch. 5.

Week 5: Static Pricing

McAfee p. 260–277 and p. 295–297.

BN. Bundling p. 250–253. Complexity p. 222–227.

Cabral. Monopoly pricing ch. 5.1. Price discrimination and bundling ch. 10.

Tirole. Monopoly pricing p. 65–72. Price discrimination and bundling p. 133–148.

Week 6: Dynamic Pricing

McAfee p. 278–288.

BN. Durability p. 180–182.

Tirole. Durable goods pricing and experimentation p. 72–75, 80–87.

Week 7: Entry

Cabral. Economies of Scale ch. 14.1. Entry deterrence ch. 15.1.

Tirole. Bain's categorization p. 305–307, 314–317. Taxonomy of strategies p. 323–336.

BN. Nutrasweet and other cases p. 70–86. Judo entry tactics p. 236–247.

McAfee. Entry barriers p. 11–16. Deterring entry p. 44–45.

Week 8: Bidding for Contracts

McAfee ch. 12.

BN. When (not) to bid on contracts p. 83–91. Bringing in bidders p. 96–98. Long vs. short contracts p. 248–249. Miami Dolphins case p. 174–176.

Milgrom (1989), "Auctions and Bidding: A Primer", *Journal of Economic Perspectives*, p. 3–22.

Week 9: Vertical Relations

Term Test II

McAfee. Holdup p. 289–294.

Cabral ch. 11.

Tirole p. 169–186.

Week 10: Cooperation

McAfee ch. 6.

Cabral ch. 8.

Tirole p. 245–253.

Kreps ch. 22.

Week 11: Signaling

McAfee ch. 13

BN p. 198–211.

Week 12: Organisational Scope

McAfee. Organizational scope ch. 7.

Milgrom and Roberts. Examples ch. 1. Transactions costs p. 28–35 and 307–313. Coordination and modern manufacturing p. 106–113. Influence costs p. 192–194.

Week 13: Incentives

McAfee. Incentives ch. 8.

Milgrom and Roberts. Incentives ch. 6 and 7.