

Eco380: Managerial Economics I Competitive Strategy

SE 3131, Wednesday 2–4, Autumn 2005

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

Professor: Simon Board.

UTM Office: K112G.

Office Hours: Wednesday 1.00–2.00 or after class.

Email: sboard@utm.utoronto.ca.

Description

This course intends to develop a flexible business strategy toolkit, placing equal emphasis on understanding the underlying economic models and applying them to real-world problems. At the end of the course, students should be able to recognise and categorise major strategic problems, understand what elements of the environment are pivotal and suggest how the participants may want to change the game.

Prerequisites and Exclusions

Prerequisites:

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

Prerequisites are strictly checked and enforced and must be completed before taking a course. By taking this course you acknowledge that you will be removed from the course at anytime if you do not meet all requirements set by the Department of Economics. For further information you can consult the Undergraduate Academic Handbook which is found in the Economics Department Office, Kaneff Center Room 121. It can also be found in the 2005-2006 Courses Calendar which is available from the Registrars Office.

Exclusions: ECO310Y5 and MGT492H5S

Grading

There will be two midterms and a final. Details:

- Midterm 1. 12th Oct 2005 (week 5). Covers weeks 1–4. Duration 1 hour.
- Midterm 2. 16th Nov 2005 (week 10). Covers weeks 1–9, emphasising weeks 5–9. Duration 1 hour.
- Final. Date TBA. Covers the entire course. Duration 2 hours.

The grade is given by

$$25\% \times \max\{\text{midterm 1, final}\} + 25\% \times \max\{\text{midterm 2, final}\} + 50\% \times \text{final}$$

Midterms are optional: no makeup midterms will be offered. Exams will be open book and open notes. 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.

There will be 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. I will put the problem sets by the website on the following dates.

- Homework 1. 28th Sep 2005 (week 3). Covers weeks 1–4.
- Homework 2. 2nd Nov 2005 (week 8). Mainly weeks 5–9.
- Homework 3. 23rd Nov 2005 (week 11). Mainly weeks 10–13.

Academic Integrity

Students should note that copying, plagiarising, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the assignment, test or examination to dismissal from the university as outlined in the academic handbook. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

Students agree that by taking this course all required papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted papers will be included as source documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site.

Topics

The main textbook for this course:

- McAfee (2002), *Competitive Solutions*.

I will often refer to:

- Cabral (2000), *Introduction to Industrial Organisation*.
- Brandenburger and Nalebuff (2000), *Co-Opetition*.

Other interesting books:

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

Week 1: Introduction and Industry Analysis

McAfee ch. 1 and 2.

BN ch. 1 and 2.

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

Milgrom and Roberts. Modern manufacturing p. 2–6, 106–113.

Week 2: Sources of Competitive Advantage

McAfee ch. 3 and 4.

BN ch. 5.

Cabral. Market structure ch. 9. Differentiation ch. 12.

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

Week 3: Organisational Scope

McAfee. Organizational scope ch. 7.

Milgrom and Roberts. Examples ch. 1. Transactions costs p. 28–35 and 307–313. Influence costs p. 192–194.

Week 4: 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 5: Dynamic Pricing

Midterm 1

McAfee p. 278–288.

BN. Durability p. 180–182.

Cabral. Durability p. 179–180.

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

Week 6: 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 7: Vertical Relations

McAfee. Holdup p. 289–294.

Cabral ch. 11.

Tirole p. 169–186.

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: Cooperation and Reputation

McAfee ch. 6.

Cabral ch. 8.

Kreps ch. 23.2

Week 10: The Product Life Cycle

Midterm 2

McAfee ch. 5.

Week 11: Signaling

McAfee ch. 13

BN p. 198–211.

Week 12: Incentives

McAfee. Incentives ch. 8.

Milgrom and Roberts. Incentives ch. 6 and 7.

Week 13: Bargaining and Negotiation

McAfee p. 353–364, 374–376.

BN. ch. 3 and p. 215–221.