ECO 380
MANAGERIAL ECONOMICS I: COMPETITIVE STRATEGY

University of Toronto. Department of Economics. Fall 2012

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Office: 150 St. George St., Max Gluskin House (MGH) Room 308

  Lectures: Section L0101 – Tuesday 2.10-4pm at WI 1017
       Section L5101 – Tuesday 5.10-7pm at WI 1017

  Office hours: Wednesday 12.10am-1pm or by appointment; Room MGH 308

COURSE DESPRIPTION

This course will address what determines the competitive advantage of a firm and assess existing tools of business strategy in the context of the theoretical foundations of industrial organization. The aim of the course is two-fold. First, to build a toolkit of strategic concepts adaptable for different purposes in a variety of situations. Second, to enhance the critical thinking of the student and the potential development of new business strategies.

In addition, there will at least one invited speaker to tell us about themselves and their firms.

COURSE PREREQUISITES AND EXCLUSIONS

Prerequisites: ECO200 or ECO204, or ECO206
      ECO220 or ECO227 or (STA250H and STA257H) or (STA257H and STA261H)

You must contact Robbie Innes at rinnes@chass.utoronto.ca for enrolment and prerequisite issues.

Calculus for economic analysis: You must be familiar or learn calculus in one and two variables. In particular, function of one and two variables, derivatives of function of one and two variables, concave and convex functions, unconstrained and constrained optimization of one and two variables, substitution and Lagrange method. I will make available a math review that includes all material necessary for the course.

LECTURES

There will be two hours of lectures every week.

Section L0101: Tuesdays 2.10-4pm. We will be meeting at WI 1017
Section L5101: Tuesdays 5.10-7pm. We will be meeting at WI 1017

TEXTBOOK

There is no textbook that covers all the materials for this course. Complementary readings for this course are the following two books as well as a number of research papers:

- [McAfee] McAfee (2002), Competitive Solutions
- [BN] Branderburger and Nalebuff (1998), Co-Opetition

Other books you can check at the library: [CP] Carlton and Perloff, Modern Industrial Organization and [TI] Tirole, The Theory of Industrial Organization.

GRADING AND EVALUATION

- There will be three problem sets. Problem sets due dates will be posted on them. Problem sets represent 15% of the course grade.
- There will be two term tests. Term tests represents 35% of the course grade.
- There will be one final exam, which is cumulative, representing 50% of the course grade.

Requests for re-grades will need to be in writing within one week of the term test or problem set being returned. To ensure consistency, I or the TA will re-grade the entire test or problem set, not just a single question. Students are responsible to know both the material of the problem sets, the assigned readings and the material covered during lectures.

SCHOLASTIC DISHONESTY:

According to the Faculty of Arts and Sciences policy, any act of scholastic dishonesty entails a 0 for the particular assignment and exam or the course. See the Faculty of Arts and Sciences policies for further details on scholastic dishonesty and related matters.

Collaboration on problem sets is strongly encouraged, but copying the answers from someone else is not allowed and will be considered plagiarism. You must acknowledge in the top right corner of your problem set the people with whom you collaborated / helped you. If these people are not current classmates of ECO380, you must clearly state whether they are other students from U of T or elsewhere, private tutors, or peer mentors, etc.

MISSING EXAM AND ASSIGNMENTS POLICY:

If you miss one mid-term test during the term, your term test grade will be based on the final exam of the course. If you miss a second term tests, then you will get a zero in the second test. If you miss to submit a problem set on time, then your grade will be reduced by 25%. If you miss to submit a problem set within 24 hours of the deadline, then you will receive a zero.

E-MAIL POLICY

 I will reply to email within 24 hours, except on weekends, with the following provisions:

- The question should require a one (or two) sentence response (maximum). If it takes more, office hours are the more appropriate venue

- I will never answer emails that request information that can be found on the website or the syllabus
- I will not reply to emails concerning grading. For such matters, office hours are more appropriate
- It is also (strongly) preferable that you use a utoronto email address: My spam filter is set to maximum. Moreover, university policy stipulates a preference for these email addresses.
- Always identify yourself, course and section in your email.
- Please do not send attachments of any kind.
- Please do not submit term work by email.

I should note, however, that I encourage you to provide course feedback and comments via email, if you wish.

CONTENTS OF THE COURSE

All material for the course, including lecture slides, will be available at Blackboard.

(*) Means mandatory reading of all the paper; (**) Means mandatory reading of introduction and conclusion.

A. INTRODUCTION

1. Introduction, Industry Analysis and Competitive Advantage
BN, ch. 1 and 2, ch. 5
McAfee, ch. 1, 2, 3 and ch 4.
CP, ch. 7

B. MANAGERIAL ECONOMICS 101

2. Product Differentiation
McAfee, ch. 4 and ch. 5
TI, ch. 7.1

3. Price Discrimination
BN, Bundling p. 250-253. Complexity p. 222-227
McAfee, ch 11
CP, ch. 9 and 10
TI, ch. 3
Varian, Hall. Ch. on Price Discrimination. Intermediate Microeconomics: A Modern Approach
Varian, Hall. Ch. on Price Discrimination. Advanced Microeconomics

4. Entry and entry deterrence: General insights
BN, p. 70-86. and p. 236-247
 McAfee. Entry barriers p. 11-16. Deterring entry p. 44-45
TI, ch. 8

5. Product demand: Advertising
TI, ch. TBA

C. ENTREPRENEURS, START-UPS, AND FINANCING

6. Innovation, Patents, and the Patent System
CP, ch. 16
(*) Gans and Stern (2003). "The Product Market and the Market for Ideas: Commercialization Strategies for Technology Entrepreneurs." *Research Policy* 32, 2003.
(**)Pakes, A. and Schankerman (1986). "Estimates of the Value of Patent Rights in European Countries During the Post-1950 Period." *The Economic Journal*, Vol. 96: No. 384, pp. 1052-1076.
(**) Serrano, C. (2012), "Estimating the Gains from Trade in the Market for Innovation: Evidence from the Transfer of Patents", Working Paper, University of Toronto.
(**) Galasso, A. Schankerman, M. and Serrano C. (2012). "Trading and Enforcing Patent Rights." Working Paper, University of Toronto.

7. Entrepreneurship
(**) Holmes, Thomas (1990). "A Theory of Entrepreneurship and Its Application to the Study of Business Transfers." *Journal of Political Economy*, vol. 98, No. 2, pp. 265-294.
(*) Lazear, Edward. (2004) "Balanced Skills and Entrepreneurship." *American Economic Review*, Vol. 94, No 2, pp. 208-211
(**) Lazear, Edward. (2003) "Entrepreneurship" IZA Discussion Paper No. 760. April 2003.

8. Entrepreneurial finance: Business partnerships, angel investors, and venture capital
(*) Gans and Stern (2003). "The Product Market and the Market for Ideas: Commercialization Strategies for Technology Entrepreneurs." Research Policy 32, 2003.
Astebro, T. and Serrano, C. (2012). "Business Partnerships, Financing, and the Commercialization of Inventions." Working paper, University of Toronto.

C. THEORY OF THE FIRM, ORGANIZATION ECONOMICS

9. Vertical Integration: Hold-up Problem and the Role of Residual Control Rights
BN, p. 91-103
McAfee, ch. 7; Holdup problem, p.289-294
CP, ch. 12

10. Mergers and Market Structure: General Insights
McAfee, ch. 6
Varian, Hall. Chapter on Non-cooperative Game theory, Cournot, Bertrand, etc. Intermediate Microeconomics: A Modern Approach.

11. Franchising
(*) Caves and Murphy (1976). "Franchising: Firms, Markets, and Intangible Assets." *Southern Economic Journal*, Vol. 42, No. 4 (Apr. 1976), pp. 572-586.
(**) Mathewson and Winter (1985). "The Economics of Franchising." *Journal of Law and Economics*, Vol. 28, No. 3. (Oct 1985), pp. 503-526.
(**) Gallini and Lutz (1992). "Dual Distribution and Royalty Fees in Franchising." *Journal of Law, Economics & Organization*, Vol. 8, No. 3. (Oct, 1992), pp. 471-501.