



Course Information	
Course Title : ECON304 – Economics of Business Strategy	Semester : Winter 2019
Class Hours: Monday through Friday, 160 minutes each day	
Discussion Section: 3 hours each week	Field Trip: According to professors' teaching plan
Prerequisites	
ECON101: Principles of Microeconomics. Knowledge of ECON301: Intermediate Microeconomics is <i>not</i> necessary, but beyond that the only prerequisite for this course is your willingness to think hard, like an economist. There is not a lot of mathematics, even though intermediate supply-demand analysis is rigorously applied. Rather, the emphasis of the course is to learn to use basic price theory to understand the nature of strategic problems in business.	
Textbooks and Reference	
David Besanko, David Dranove, Mark Shanley, and Scott Schaefer. <i>The Economics of Strategy</i> , 7 th Ed., Wiley (July 17, 2017). The 6 th edition of this textbook is also acceptable for this course. ISBN-13: 978-119042310	
Course Outcomes	
<p>After successful completion of the requirements for this course, students should be able to:</p> <ul style="list-style-type: none"> •improve their ability to think strategically in interactive settings; •learn about elementary game theory – both non-cooperative and cooperative games, such as the prisoner’s dilemma, tragedy of the commons, tit-for-tat strategy etc.; •learn the horizontal and vertical boundaries of the firm; •understand a firm’s competitive advantage and its sustainability in the long run. •understand scope of the firm – in which business opportunities and stages of production should firms be involved and which should they leave to other firms? •understand how a firm negotiates the pressures that growth places on a successful strategy. 	
Course Description	



東吳大學
SOOCHOW UNIVERSITY

Business is a high-stake game where the difference between a right and wrong strategy could cost lots of money. In economics, a game is a strategic situation in which one firm's best course of action depends on what the other firm wants to choose to do. Game theory is a form of strategic analysis that can be applied to many business environments.

This course examines the causes and consequences of industry structure and firm profitability, principally in the context of strategic decisions made by firms. This course combines elements of price theory and industrial organization concepts.

Any student with an interest in applied microeconomics will benefit from this course. The course is taught at the basic level. Students should be comfortable with basic calculus and elementary game theory taught in ECON101: Principles of Microeconomics. The fundamental question of strategy is both simple and difficult: "How can a firm earn profits?" Learning how to answer this question using the tools of microeconomics is the primary goal of this course.

The concepts, skills, and analytical tools that you will learn in this course depend on economic principles relating to firm's underlying organizational objectives. The concepts and tools to be discussed in this course can be used formulate strategy with any objective in mind.



Weekly Schedule (Jan. 7 – 28, 2019)

Week	Day	Topic
1	1	<p>Chapter 1: Introduction to Strategy</p> <ul style="list-style-type: none"> •Why Study Strategy? •Framework for Strategy: Boundaries of the Firm; Market and Competitive Analysis; Internal Organization •Costs: Cost Functions; Importance of the Time Period; Sunk vs. Avoidable Costs •Economic Costs and Profitability: Economic Profit vs. Accounting Profit •Demand and Revenue •Total Revenue and Marginal Revenue Functions •Theory of the Firm: Pricing and Revenue Functions •Perfect Competition <p>*Additional reading: M. Porter, “What is Strategy?” <i>Harvard Business Review</i>, Vol. 74, Nov/Dec 1996, pp.39 – 73.</p>
	2	<p>Chapter 1: Introduction to Strategy</p> <ul style="list-style-type: none"> •Game Theory: Games in Matrix Form and the Concept of Nash Equilibrium; Game Trees and Sub-game Perfection <p>* <i>Case Study:</i> Doing Business in Historical Perspectives</p> <p>Chapter 2: The Horizontal Boundaries of the Firm</p> <ul style="list-style-type: none"> •Definition of Economies of Scale & Definition of Economies of Scope •Special Sources of Economies of Scale and Scope •Sources of Diseconomies of Scale •Why Do Firms Diversify? •Managerial Reasons for Diversification <p>*In-class Quiz #1</p>
	3	<p>Chapter 2: The Horizontal Boundaries of the Firm</p> <ul style="list-style-type: none"> •Market for Corporate Control and Recent Changes in Corporate Governance •Performance of Diversified Firms <p>Chapter 3: The Vertical Boundaries of the Firm</p> <ul style="list-style-type: none"> •Make vs. Buy •Reasons to “Buy” •Reasons to “Make” •The Make-or-Buy Decision Tree <p>*Additional reading: D. Michael, “Boeing and Airbus Duke it out to Win Lucrative Iberia Deal,” <i>Wall Street Journal</i>, March 10, 2003. Video: Boeing 787, <i>USA Today</i></p>
	4	<p>Chapter 4: Integration and Its Alternatives</p> <ul style="list-style-type: none"> •What Does it Mean to Be “Integrated”? •Governance •Making the Interaction Decision: Technical Efficiency vs.



		Agency Efficiency •Alternatives to Vertical Integration
	5	<p>Chapter 5: Competitors and Competition</p> <ul style="list-style-type: none"> •Competitor Identification and Market Definition •Measuring Market Structure •Market Structure and Competition: Perfect Competition; Monopoly; Monopolistic Competition •Oligopoly: Cournot Quantity Competition vs. Bertrand Price Competition •Evidence on Market Structure and Performance <p>*In-class Quiz #2</p> <p>*Additional Reading: “Building Brands in Africa: Pyramid Scheme,” <i>The Economist</i>, October 26, 2013. B. Chen, “Xiaomi Tops Chinese Smartphone Market,” <i>New York Times</i>, August 4, 2014.</p>
2	1	<p>Chapter 6: Entry and Exit</p> <ul style="list-style-type: none"> •Some Facts about Entry and Exit •Entry and exit Decisions: Basic Concepts: Barriers to Entry and Bain’s Typology of Entry Conditions •Entry-Deterring Strategies: Limit Pricing; Predatory Pricing •Evidence on Entry Deterring Behavior •Entering a New Market <p>*In-class Quiz #3</p>
	2	<p>Chapter 7: Dynamics: Competing Across Time</p> <ul style="list-style-type: none"> •Micro dynamics: The Strategic Benefits of Commitment; Informational Benefits of Flexibility; Framework for Analyzing Commitments •Impediments to Coordination •Asymmetries among Firms and the Sustainability of Cooperative Prices •Where Does Market Structure Come From? •Sutton’s Endogenous Sunk Costs
	3	MID-TERM EXAM DAY
	4	<p>Chapter 8: Industry Analysis</p> <ul style="list-style-type: none"> •Performing a Five-Forces Analysis: Internal Rivalry; Entry; Substitutes and Complements; Supplier Power and Buyer Power; Strategies for Coping with the Five Forces •Cooperation and the Value Net •Applying the Five Forces: Some Industry Analyses <ul style="list-style-type: none"> - Chicago Hospital Markets Then and Now - Commercial Airframe Manufacturing - Professional Sports - Professional Search Firms <p>*Additional Reading: S. Clifford, “Where Wal-Mart Failed, Aldi Succeeds,” <i>New York Times</i>, March 29, 2011. J. Letzing, “Amazon Adds that Robotic Touch,” <i>Wall Street Journal</i>, March 19, 2012.</p>



	5	<p>Chapter 9: Strategic Positioning for Competitive Advantage</p> <ul style="list-style-type: none"> •Competitive Advantage and Value Creation: Conceptual Foundations <ul style="list-style-type: none"> - Competitive Advantage Defined - Maximum Willingness-to-Pay and Consumer Surplus - Value Creation and the Value Chain •Strategic Positioning: Cost Advantage and Benefit Advantage •Diagnosing Cost and Benefit Drivers •Strategic Positioning: Broad Coverage vs. Focus Strategies <p>*In-class Quiz #4</p> <p>*Additional Reading: P. Thiel, “Competition is for Losers,” Wall Street Journal, September 12, 2014.</p>
3	1	<p>Chapter 10: Information and Value Creation</p> <ul style="list-style-type: none"> •The “Shopping Problem” •Report Cards <ul style="list-style-type: none"> - Multitasking: Teaching to the Test - Risk Adjustment - Presenting Report Card Results - Gaming Report Cards <p>Chapter 11: Sustaining Competitive Advantage</p> <ul style="list-style-type: none"> •Market Structure and Threats to Sustainability •Resource-Based Theory of the Firm •Impediments to Imitation •Early-Mover Advantages
	2	<p>Chapter 11: Sustaining Competitive Advantage</p> <ul style="list-style-type: none"> •Imperfect Imitability and Industry Equilibrium •Creating Advantage and Creative Destruction •Evolutionary Economics and Dynamic Capabilities <p>Chapter 12: Performance Measurements and Incentives</p> <ul style="list-style-type: none"> •Principal-Agent Problems •Performance-Based Incentives: Problems with Performance-Based Incentives •Implicit Incentive Contracts •Efficiency Wage and the Threat of Termination <p>*In-class Quiz #5</p>
	3	<p>Chapter 13: Strategy and Structure</p> <ul style="list-style-type: none"> •Introduction to Structure •Types of Organizational Structures •Strategy-Environment Coherence •Structure Follows Strategy <p>*Additional Reading: S. Hansen, “How Zara Grew Into the World’s Largest Fashion Retailer,” <i>New York Times</i>, November 9, 2012. J. Stewart, “How, and Why, Apple Overlook Microsoft,”</p>



		<i>New York Times</i> , January 29, 2015.
	4	Chapter 14: Environment, Power, and Culture <ul style="list-style-type: none">•Social Context of Firm Behavior•Internal Context•Power•Culture•External Context, Institutions, and Strategies <p>*Additional Reading: A. Satariano and P. Burrows, “Apple’s Supply Chain Secret? Howard Lasers,” <i>Bloomberg Businessweek</i>, November 3, 2013.</p> <p>*In-class Quiz #6</p>
	5	Discussion and Final Review
	Jan. 27 or 28	FINAL EXAM DAY
Note : <ol style="list-style-type: none">1. The course schedule is subject to change (please follow the announcements in class). If time permits, we will also cover miscellaneous topics based on students’ interests.2. The instructor will offer 3 hours of discussion or help session each week and students are encouraged to seek extra help by making arrangements with the instructor or the teaching assistant.		



Grading	
Quizzes	10%
Assignments	10%
Case Study	10%
Midterm exam	30%
Final exam	30%
Attendance and Participation	10%

Students are required to attend all classes and actively participate in class discussions. Students should treat class obligations with serious and sincere attitude. Your attendance and participation grade (10% of the total course grade) will be based on the instructor's assessment of how well you contribute to class discussion relative your classmates; students are expected and encouraged to contribute to class discussion.

In- class Quizzes (10%): There will be six in-class quizzes in total over the session, which account for 10% of the total course grade. The in-class quiz wants to test how well students review the class materials after the class. It mainly consists of multiple-choice and short-answer questions from the previous classes.

Short Assignments (10%): There will be three or four short assignments consisting of computational and analytical questions. Students are encouraged to work together with classmates, but they have to turn in their own work. Copying one of your classmates' work is a violation of the university's Honor Code.

***Late Submission:** Short assignments submitted after the due date will **not be accepted** for grading unless official permission for the last submission has been granted from the instructor.

Case Study (10%): Students will be assigned to a small group and each of these group will make an in-class presentation of a case related to the application of benefit-cost analysis (BCA) in a discussion session. Details of the topic to be examined and expectations of the presentation (e.g., duration and format) will be provided in class.

Examination: There will be one in-class mid-term examination and an in-class final examination, each of which accounts for 30% of the total course grade. The mid-term examination will be administered during the middle of the second week, and the final examination at the end of the course. Details of exam contents and format, etc. will be announced in class well before the examination date.

***Deferred Examinations:** If students are unable to attend a scheduled exam (e.g. due to illness or other unavoidable circumstances which can be proved – e.g. medical certificate), they may be eligible to take a deferred examination at a later time.

Upon successful completion of this course, students will receive a final grade. A final grade is a numerical value that demonstrates a degree of understanding of the course materials. A final grade will be determined as follows:

Grade	Percentage
A	80-100



B	70-79
C	60-69
D	50-59
E	0-49

Academic Integrity
Soochow University defines academic misconduct as any act by a student that misrepresents the student's own academic work or that compromises the academic work of another. Scholastic misconduct includes (but is not limited to) cheating on assignments or examinations; plagiarizing, i.e. misrepresenting as one's own work any work done by another; submitting the same paper, or substantially similar papers, to meet the requirements of more than one course without the approval and consent of the instructors concerned; sabotaging another's work. Within these general definitions, however, instructors determine what constitutes academic misconduct in the courses they teach. Students found guilty of academic misconduct in any portion of the academic work face penalties ranging from lowering of their course grade to awarding a grade of F for the entire course.

Disability accommodation
Any student who needs special accommodation due to the impact of a disability should contact the instructor and/or the university within the first week of the class.