

SYLLABUS

Updated December 25th 2023

A. COURSE OVERVIEW

The course applies microeconomics—mainly the economics of industrial organization—to analyze decisions managers face in business environments. It focuses on strategic decisions that drive profits.

The first half of the course takes a price theory approach to managerial decision-making. The actions of rivals are mostly assumed fixed, so we can isolate key tradeoffs that they face. The second half takes a game theory approach, in which managers' actions directly affect their rivals' payoffs, and vice versa.

Topics include pricing, positioning, patterns and determinants of cross-industry and within-industry profitability, entry and exit, vertical integration and boundaries of the firm (i.e. the “make or buy” decision), commitment, cooperation, deterrence, network effects, and multisided platforms.

The course is designed for students who are comfortable with microeconomics at the level of 33001.

B. TEACHING ASSISTANTS AND OFFICE HOURS

There will be one teaching assistant for each section of the class:

- Franco Calle francocalle@chicagobooth.edu, afternoon session, M 1:30-4:30pm at Harper.
- Tyler Jacobson tjacobson@chicagobooth.edu, evening session M 6-9pm at Gleacher.

Please direct administrative questions (e.g., scheduling) to your section's teaching assistant or my faculty assistant John Melling John.Melling@chicagobooth.edu.

Feel free to e-mail me if you have quick questions about the material. For longer questions, I will hold regular office hours that can be booked via my webpage – www.milena-almagro.com. I sit in office HC501. You can also email your section's teaching assistant if you have any questions about the material or comments about the class.

C. COURSE MATERIALS

- Academic articles, news articles, and case studies on the course's Canvas website.
- Lecture slides on the course's Canvas website.
- Optional books:
 - Cabral, Luís. *Introduction to Industrial Organization*, MIT Press, 2nd edition, 2017.
 - Besanko, D., Dranove D., Shanley, M., Schaefer S., *Economics of Strategy*, Wiley, 7th edition.

The textbooks cover most of the core economics that we will use in the course. They are optional, though I strongly encourage them unless you are very strong in economics—in particular, the economics of industrial organization.

You are responsible for all assigned readings and everything brought up in class, both in lectures and cases. You are not required to go over optional materials before class, although we may discuss these during class.

I use slides for many components of my lectures, but I will also use an interactive “chalk-and-talk” style as well. If you miss class, then consult a peer who can fill you in on the material. If you have remaining questions, the TAs and I are of course here to help. I will typically distribute a version of my slides prior to each class, but these are redacted in the sense that omit answers to posed questions as well as many key ideas. Thus, you are encouraged to take notes. I will provide complete lists of terms you should be familiar with ahead of both the midterm and final exams.

D. COURSE REQUIREMENTS AND GRADING

Grading will be based on: participation (30%), memoranda (5%), midterm (25%), and final (40%). I reserve the right to modify these by +/- 3% based on the progress of the course.

Class Participation

You need to participate to benefit from and pass this course.

Class participation is essential to get the maximum benefit from the course. Your participation grade will be based on attendance and on the quality (not quantity!) of your contributions to class discussions.

I will assign study questions for each case which should serve as a guide to preparation. You should come to class prepared to give concise, persuasive answers backed up with evidence from the case. You are allowed and encouraged but not required to meet outside of class in groups of up to three to discuss and analyze the cases.

To incentivize a high-quality discussion, classroom participation, including responses to “cold calls,” will represent a meaningful portion of your grade. If on some occasion circumstances preclude you from preparing for or participate in discussion (but still enable you to come to class), let me know ahead of time and I will do my best to remember not to call on you.

Before we discuss a case in class, you should neither read outside analyses of the case (e.g., news reports about the companies involved) nor discuss the case with students who have previously studied it (either in a previous year or in a different course or section). Similarly, you should not share your notes on the cases with another student who may take the course at some later time.

Memoranda

Each week, one or more case questions will be indicated as the topic of a memorandum. Memos will be given grades to provide you with feedback. These memos are intended as a tool to help you prepare for class discussion and practice your reasoning.

You should prepare 2 pages of analysis and recommendations based on the indicated question(s), written as if for a major decision maker in the case. You may attach additional pages for graphs and numerical calculations to support your arguments. Please use standard font sizes and spacing.

You should analyze in small groups of 2-4 students from your section. Regardless of whether you work in a group or not, everyone should submit their own response on Canvas. Memoranda will be graded on a scale of 1-5, with 5 indicating outstanding work, 3 satisfactory work, and 1 poor work.

Midterm

The midterm will be given as a take-home exam in between weeks 3 and 4. It will consist of short answer questions and essay questions. I will discuss the format of the exam in more detail during weeks 2 and 3.

Final

The final will be given in the usual exam period on week 8 – March 4th 2024 – and will take place during our usual class hours and room. It is a closed-book exam, and will consist of short answer questions, essay questions, and model-based game theory questions. I will discuss what to expect for the model-based game theory questions a few weeks before the exam.

Students who anticipate they will not be able to take the final exam during exam period should contact me as soon as possible.

E. POLICIES

- You are welcome to attend a section other than your assigned one on an occasional basis. If doing so, please email your TA and the TA of the section you will be attending instead. If you expect to be attending an alternate section regularly, you should change your registration through official channels.
- Please turn in your memos through canvas on time. If you have a technical issue uploading your memos, please reach out immediately to your TA.
- You do not need to notify us if you are going to miss class, except when the reason is something exceptional—e.g., a medical or family emergency.

- The information contained in the documents on the course site is confidential, privileged, and only for the use of the intended recipient and may not be used, published, or redistributed without the prior written consent of Milena Almagro.

F. HONOR CODE

Students enrolled in this class are expected to adhere to the terms of Booth's honor code. In this particular class, it involves, among other things:

- Students may not discuss a case or receive notes on a case that has not yet been discussed in class with students who have taken the class previously (either in another section or in a prior year).
- Students may neither solicit nor receive materials from students who took the course previously. This includes exams, cases, and all other course materials.
- Students may not share materials with students outside of class. This includes exams, cases, and all other course materials.
- For group memos, my expectation is that groups will hold a group meeting to analyze the case and perform an initial write-up. Further iteration on the memo by email is fine. If your group is unable to hold a group meeting some week then it is fine for some or all group members to submit individual work instead of group work. Putting your name on group work that you were not present for is a violation of the honor code.

G. Class Schedule and Readings

I. Industry and Firm-level Drivers of Profitability

Week 1, January 8th 2024 – Introduction to Competitive Strategy

Cases
<ul style="list-style-type: none">▪ Moneyball
Readings: Articles and movie
<ul style="list-style-type: none">▪ Hakes and Sauer (2006): “An Economic Evaluation of the Moneyball Hypothesis”▪ Read “The Trading Desk” and/or watch the film “Money Ball”!
Optional Readings
<ul style="list-style-type: none">▪ Cabral: Ch. 1, 2.1-2.2, 3.1-3.3▪ Besanko: Introduction and Economics Primer, pp. 1-28

Week 2, January 22nd 2024 – Industry Analysis

Cases
<ul style="list-style-type: none">▪ Cola Wars
Readings: Articles
<ul style="list-style-type: none">▪ Porter: “Note on the Structural Analysis of Industries”
Optional Readings
<ul style="list-style-type: none">• Cabral: 4.1-4.3, 10.1-10.3• Besanko: Ch. 8, Ch. 2 pp. 55-74

Week 3, January 29th 2024 – Competitive Advantage

Cases
<ul style="list-style-type: none">▪ Airborne Express▪ Enterprise Rent-a-Car
Readings: Articles
<ul style="list-style-type: none">▪ Ghemawat and Rivkin: “Creating Competitive Advantage”
Optional Readings
<ul style="list-style-type: none">• Cabral: 3.5, Ch. 14• Besanko: Ch. 9

Take-home Midterm covering Weeks 1-3

Between Weeks 3 and 4, January 29th – February 5th 2024

II. Strategic Interactions

Week 4, February 5th 2024 – Introduction to Strategic Interaction and Dynamic Pricing

Cases
<ul style="list-style-type: none">▪ Tuna game (posted online)▪ The US Airline Industry in 1995▪ American Airlines
Optional Readings
<ul style="list-style-type: none">▪ Cabral: Ch. 7.1-7.3▪ Besanko: Ch. 7 pp. 214-229

Week 5, February 12th 2024 – Entry and Entry Deterrence

Cases
<ul style="list-style-type: none">▪ Intel▪ Ryanair
Optional Readings
<ul style="list-style-type: none">▪ Cabral: Ch. 12

Week 6, February 19th 2024 – Network Effect I: Adoption

Cases
<ul style="list-style-type: none">▪ Nintendo▪ LinkedIn
Optional Readings
<ul style="list-style-type: none">▪ Cabral: Ch. 16

Week 7, February 26th 2024 – Network Effects II: Platform Competition

Cases
<ul style="list-style-type: none">▪ Dropbox▪ Uber vs. Lyft

Week 8, March 4th 2024 – In-person final exam