

## SYLLABUS

Updated December 16<sup>th</sup> 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](mailto:francocalle@chicagobooth.edu), afternoon session, M 1:30-4:30pm at Harper.
- Tyler Jacobson [tjacobson@chicagobooth.edu](mailto: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](mailto: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](http://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, 2<sup>nd</sup> edition, 2017.
  - Besanko, D., Dranove D., Shanley, M., Schaefer S., *Economics of Strategy*, Wiley, 7<sup>th</sup> 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. (Even if you never reference them again, it may improve your information retention.) In lieu of distributing the “unredacted” slides, 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 greater detail two weeks before it takes place.

### **Final**

The final will be given in the usual exam period on week 8 – 03/04/2024 – 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 8<sup>th</sup> 2024 – Introduction to Competitive Strategy

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Moneyball</li></ul>
<b>Readings: Articles and movie</b>
<ul style="list-style-type: none"><li>▪ Hakes and Sauer (2006): “An Economic Evaluation of the Moneyball Hypothesis”</li><li>▪ Read “The Trading Desk” and/or watch the film “Money Ball”!</li></ul>
<b>Optional Readings</b>
<ul style="list-style-type: none"><li>▪ <b>Cabral:</b> Ch. 1, 2.1-2.2, 3.1-3.2</li><li>▪ <b>Besanko:</b> Introduction and Economics Primer, pp. 1-28.</li></ul>

#### Week 2, January 22<sup>nd</sup> 2024 – Industry Analysis

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Cola Wars</li></ul>
<b>Optional Readings</b>
<ul style="list-style-type: none"><li>▪ Porter: “Note on the Structural Analysis of Industries”</li></ul>
<b>Readings: Articles</b>
<ul style="list-style-type: none"><li>• Cabral: Ch. 4, 10</li><li>• Besanko: Ch. 2 pp. 55-68</li></ul>

#### Week 3, January 29<sup>th</sup> 2024 – Competitive Advantage

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

#### Take-home Midterm covering Weeks 1-3

Between Weeks 3 and 4, January 29<sup>th</sup> – February 5<sup>th</sup> 2024

## II. Strategic Interactions

### Week 4, February 5<sup>th</sup> 2024 – Introduction to Strategic Interaction and Dynamic Pricing

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Tuna game (posted online)</li><li>▪ The US Airline Industry in 1995</li><li>▪ American Airlines</li></ul>
<b>Optional Readings</b>
<ul style="list-style-type: none"><li>▪ Cabral: Ch. 7, 9</li><li>▪ Besanko: Example 2.1</li></ul>

### Week 5, February 12<sup>th</sup> 2024 – Entry and Entry Deterrence

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

### Week 6, February 19<sup>th</sup> 2024 – Network Effect I: Adoption

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

### Week 7, February 26<sup>th</sup> 2024 – Network Effects II: Platform Competition

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

### Week 8, March 4<sup>th</sup> 2024 – In-person final exam