

## SYLLABUS

Preliminary – Subject to changes

Updated December 21<sup>st</sup> 2024

### 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:

- Anushka Bansal [anushkabansal@uchicago.edu](mailto:anushkabansal@uchicago.edu), 1:30-4:30pm, Gleacher center, 204
- Steve Browne [sbrowne1@chicagobooth.edu](mailto:sbrowne1@chicagobooth.edu), 6-9pm, Gleacher center, 204

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). Unless otherwise stated, office hours will take place over zoom. If office hours are in person, 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:
  - Besanko, D., Dranove D., Shanley, M., Schaefer S., *Economics of Strategy*, Wiley, 7<sup>th</sup> edition.
  - Cabral, Luís. *Introduction to Industrial Organization*, MIT Press, 2<sup>nd</sup> edition, 2017.

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, in 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. 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 (35%), midterm (25%), and final (40%). I reserve the right to modify these by +/- 5% based on the progress of the course.

#### Class Participation

Participation in this course is mandatory. You need to participate to pass this course. Moreover, a necessary condition for getting an A or an A- is to have an excellent participation score. **Participation means being an active member of the class discussion.** Being in class taking notes or paying attention without contributing to the discussion does not count toward participation.

Moreover, 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. Class participation is recorded by the TAs in every section for which they follow these [guidelines](#). If you are unsure about your participation grade, please email the TAs.

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 are optional but those who submit 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 1-3, with 3 indicating outstanding work, 2 satisfactory work, and 1 poor work.

### **Midterm**

The midterm will be an in-person closed-book handwritten exam on week 4 – February 6<sup>th</sup> 2025. It will consist of short answer questions and essay questions. It is a closed-book handwritten exam, and will consist of short answer questions and a case question. 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 10 – March 13<sup>th</sup> 2025 – and will take place during our usual class hours and room. It is a closed-book handwritten 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 need to notify your TA if you are going to miss class. Attendance is part of your participation grade.
- 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 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 9<sup>th</sup> 2025 – 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, 3.1-3.3</li><li>▪ <b>Besanko:</b> Introduction and Economics Primer, pp. 1-28</li></ul>

#### Week 2, January 16<sup>th</sup> 2025 – Industry Analysis

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

#### Week 3, January 23<sup>rd</sup> 2025 – Competitive Advantage

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Aldi</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: 3.5, Ch. 14</li><li>• Besanko: Ch. 9</li></ul>

#### Week 4, January 30<sup>th</sup> 2025: In-person Midterm covering Weeks 1-3

## II. Strategic Interactions

### Week 5, February 6<sup>th</sup> 2025 – Introduction to Strategic Interaction and Dynamic Pricing

<b>Readings:</b>
<ul style="list-style-type: none"><li>▪ Tuna Game instructions</li></ul>
<b>Cases</b>
<ul style="list-style-type: none"><li>▪ The US Airline Industry in 1995</li><li>▪ American Airlines</li></ul>
<b>Podcasts</b>
<ul style="list-style-type: none"><li>▪ Planet Money: <a href="#">“How flying got so bad (or did it?)”</a></li></ul>
<b>Optional Readings</b>
<ul style="list-style-type: none"><li>▪ Cabral: Ch. 7.1 and 7.3</li><li>▪ Besanko: Introduction and Economics Primer, pp. 29-33, Ch. 7 pp. 214-229</li></ul>

### Week 6, February 13<sup>th</sup> 2025 – Entry and Entry Deterrence

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Ryanair</li></ul>
<b>Optional Readings</b>
<ul style="list-style-type: none"><li>▪ Cabral: Ch. 7.2 and Ch. 12</li><li>▪ Besanko: Ch. 6</li></ul>

### Week 7, February 20<sup>th</sup> 2025 – Network Effect I: Adoption

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Dropbox</li><li>▪ LinkedIn</li></ul>

### Week 8, February 27<sup>th</sup> 2025 – Network Effects II: Platform Competition

<b>Cases</b>
<ul style="list-style-type: none"><li>▪ Uber vs. Lyft</li></ul>
<b>Invited guest lecture</b>
<ul style="list-style-type: none"><li>▪ Simon Gleyze, Senior Applied Scientist at Uber</li></ul>

**Week 9, March 6<sup>th</sup> 2025 – Network Effects II: Creating and Capturing Value**

<b><i>Cases</i></b>
▪ Nintendo
<b><i>Optional Readings</i></b>
▪ Cabral: Ch. 16

**Week 10, March 13<sup>th</sup> 2025 – In-person final exam**