



Lecture 21

A 10-minute course summary



15.011/0111 Economic Analysis for Business Decisions
Oz Shy

Course outline



Competitive markets

Market definition
Supply and demand
Surplus as value prop
Demand estimation

(Value proposition focus)

Lectures 1-6



Strategic behavior

Market power
Pricing
Network economics
Game theory

(Value capture focus)

Lectures 7-18



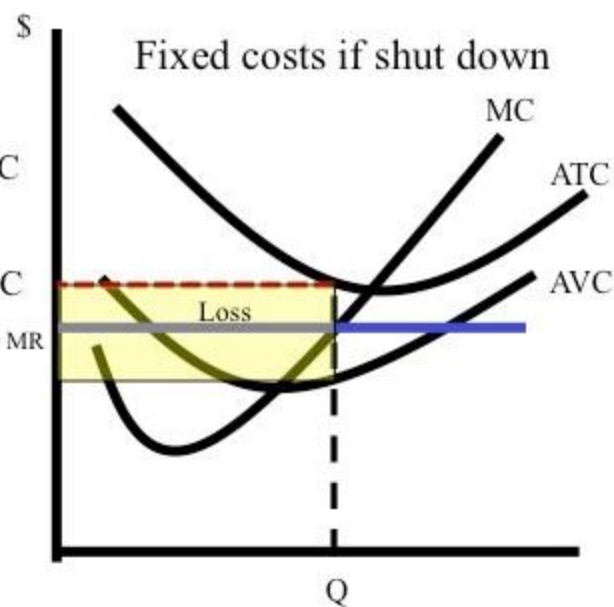
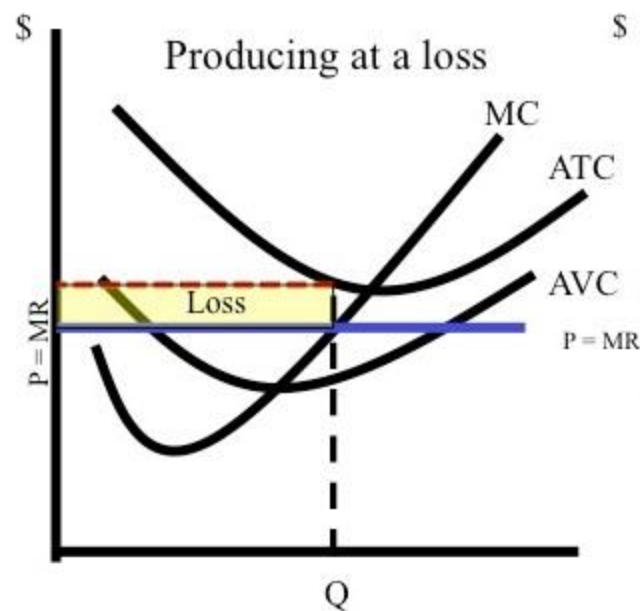
Applications

Auctions
Moral hazard
Adverse selection

Lectures 19-21

Some takeaways: Fixed and opportunity costs

You watch a boring movie.
Would you stay till the end
just because you have
already paid for the ticket?



Does buying a
house save on
rent?

Some takeaways: Thinking on the margin

Bigger Burgers

Consumers are increasingly demanding more options for portions, from snack size to super size.

McDonald's

Cheeseburger

Double Cheeseburger

Quarter Pounder
w/Cheese

Double Quarter Pounder
w/Cheese



300 calories

440

520

750

Burger King

Whopper Jr.

Whopper

Double Whopper

Triple Whopper



300 calories

650

900

1160

Wendy's

Jr. Cheeseburger

1/4 lb. Single w/ Cheese

1/2 lb. Double w/ Cheese

3/4 lb. Triple w/ Cheese



290 calories

580

820

1090

Source: the companies

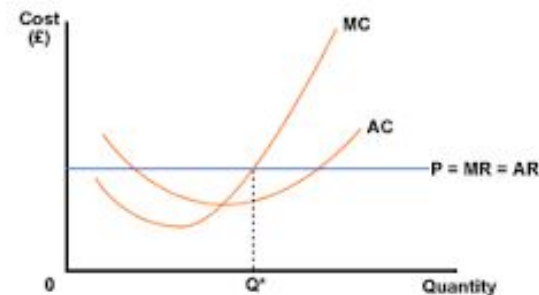
Rani Molla/The Wall Street Journal

Decision Making at the Margin

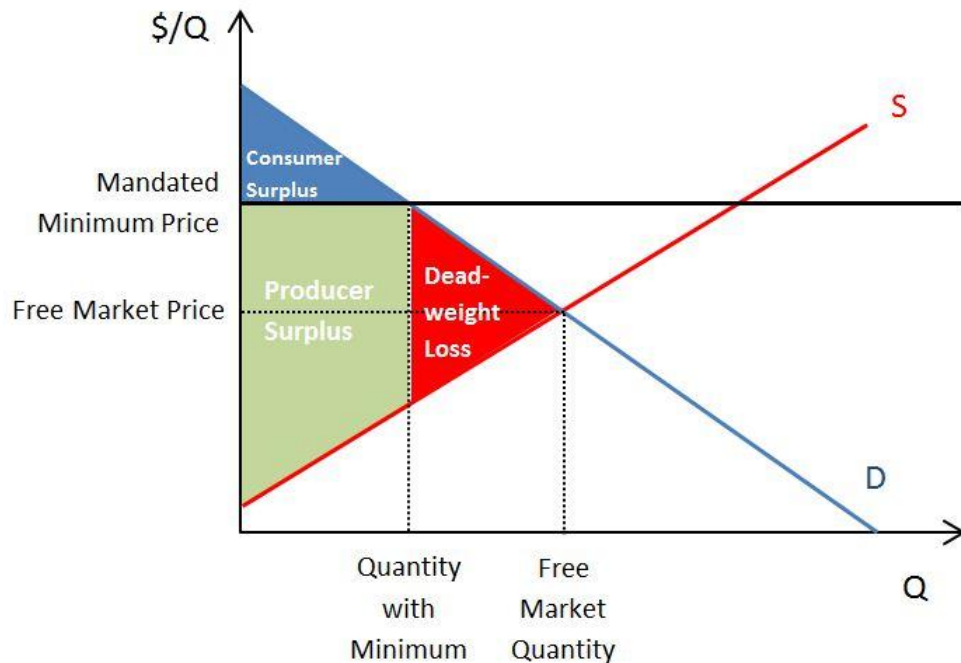
Options	Benefit	Opportunity Cost
1st hour of extra practice	70% freethrow accuracy	One hour of sleep
2nd hour of extra practice	80% freethrow accuracy	Two hours of sleep
3rd hour of extra practice	85% freethrow accuracy	Three hours of sleep

Rationality?

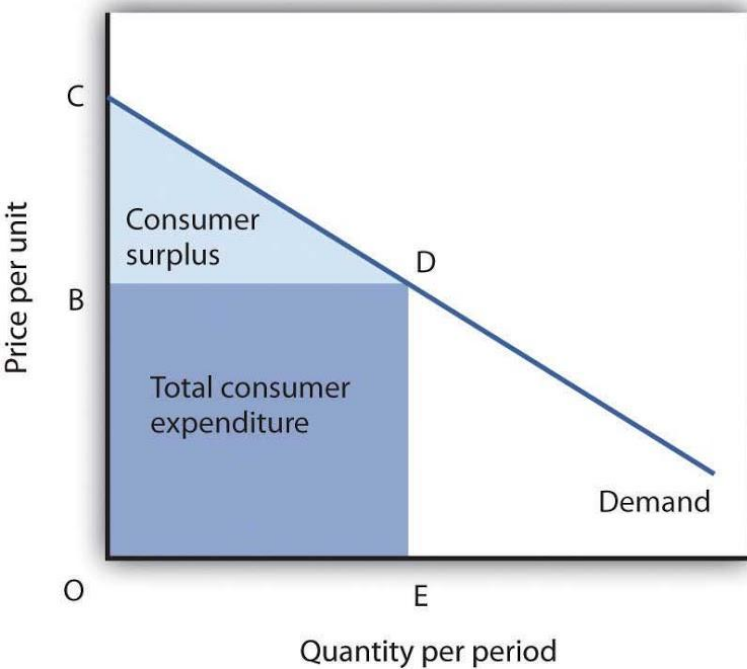
$$MB = MC$$



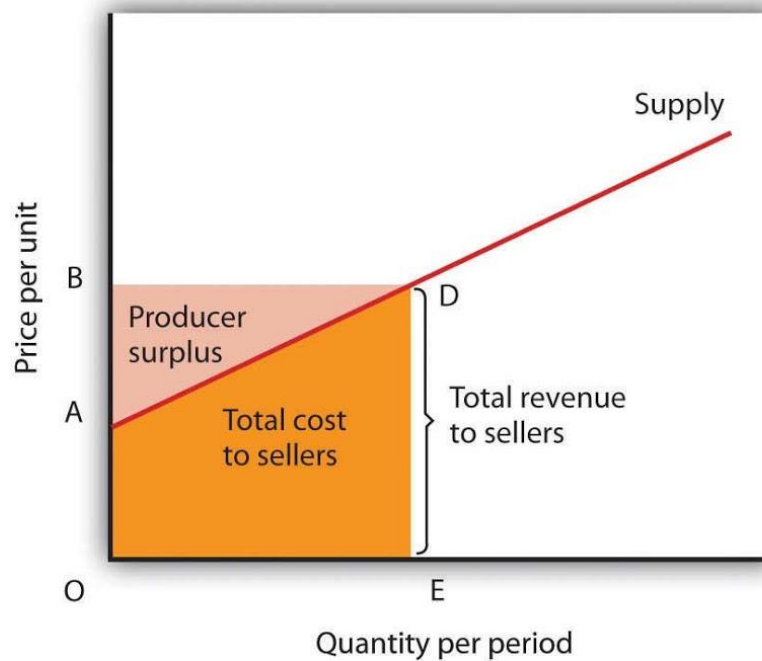
Some takeaways: Creating value: Gains from trade



Panel (a)



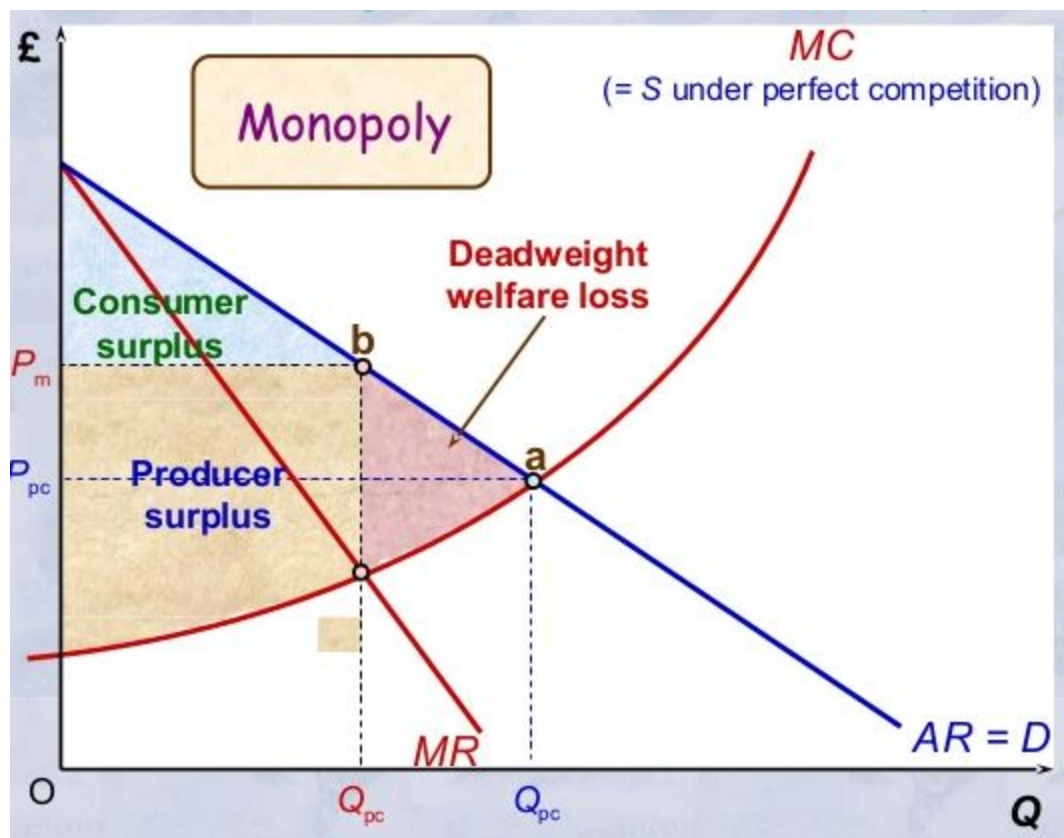
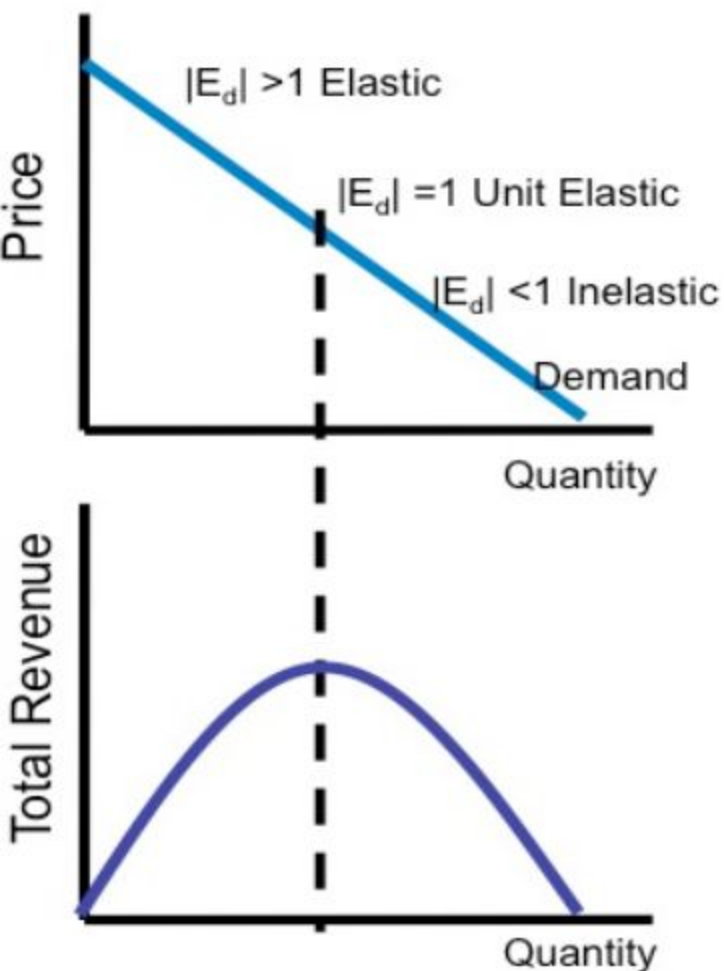
Panel (b)



Some takeaways: Capturing value

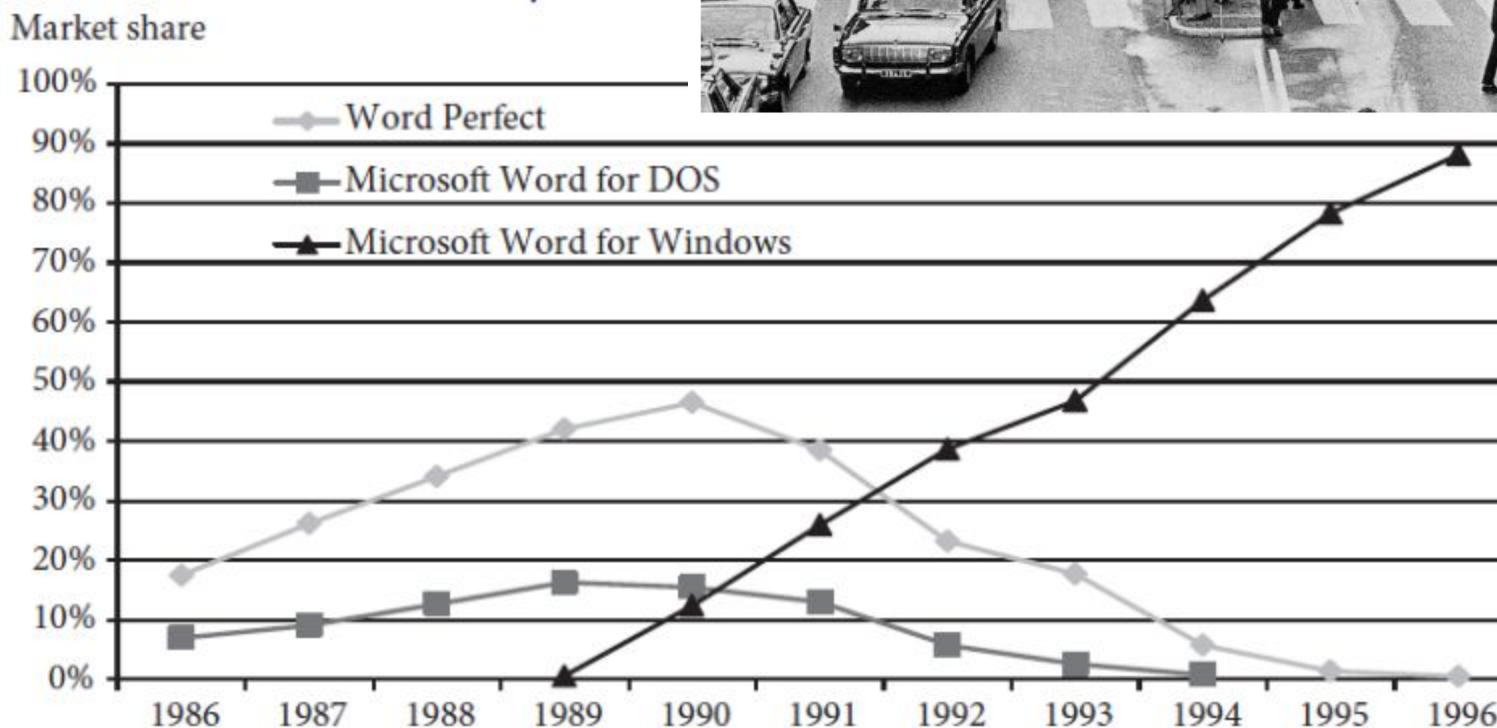


$$\text{Markup} = \frac{P - MC}{P}$$



Some takeaways: Network externalities and standards

Sweden switches to driving on the right-hand-side



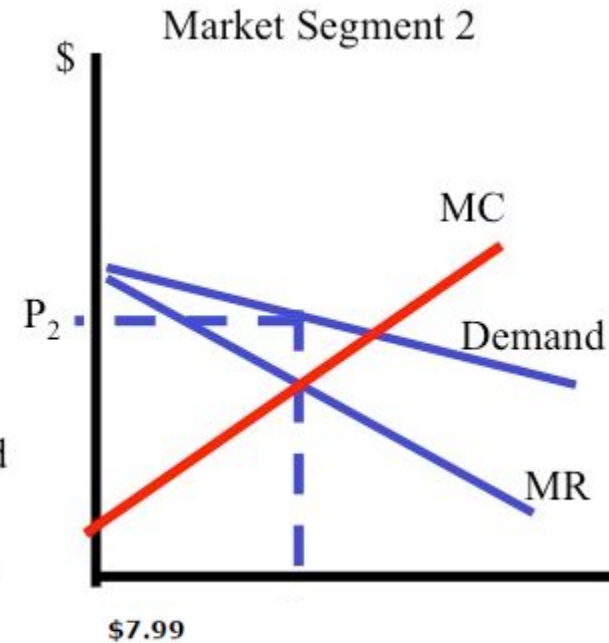
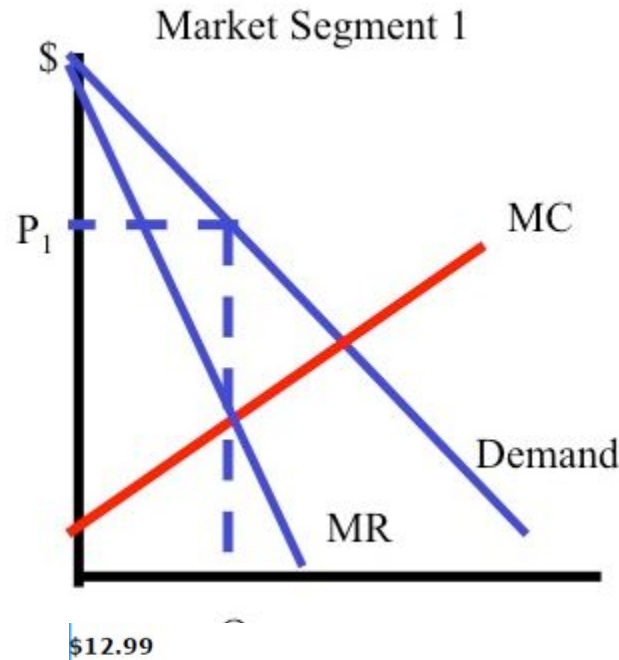
Sales of word processors

Some takeaways: Capturing (even more) value: Price discrimination and market segmentation

WRONG!



"On the Internet, nobody knows you're a dog."



Some takeaways: Capturing (even more) value: Strategic pricing

Fios Triple Play
2-Year Agreement





50/50 Mbps Internet Custom TV Home Phone

Starting at

\$79⁹⁹
MO.

for 2 yrs. plus taxes, equip. charges, FDV & other fees with 2-yr. agmt.

[Offer & Pricing Details](#)



FedEx Ship Track

FedEx Portfolio of US Shipping Services

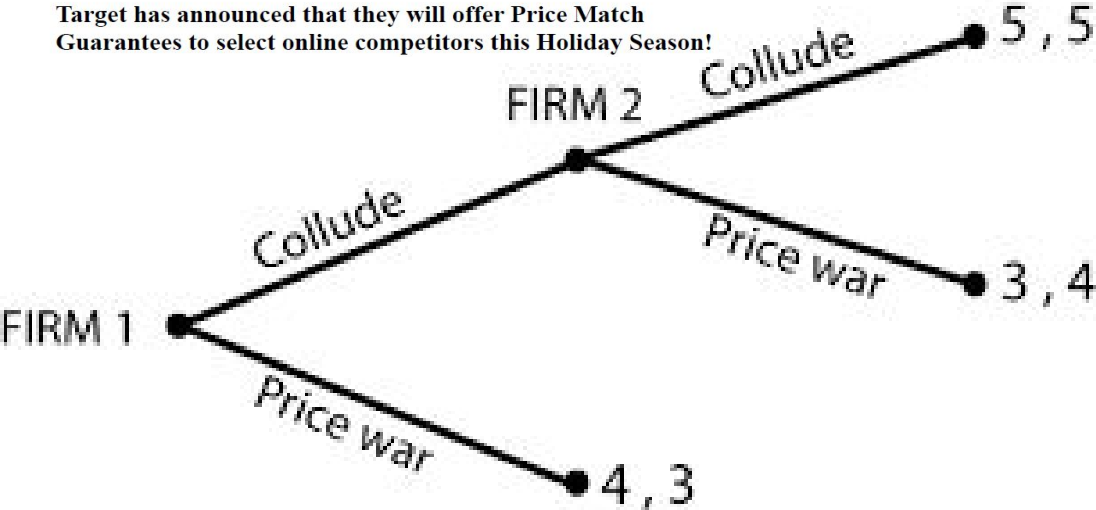
- U.S. Shipping Services Home
- Package/Envelope within the U.S.
 - Delivery today
 - Delivery first thing tomorrow
 - Delivery tomorrow
 - 2 or 3 day shipping

Consumer type	High speed (HS)	Low speed (LS)
Business	\$2,000	\$500
Households	\$300	\$200

Some takeaways: Game theory: Strategic market interaction



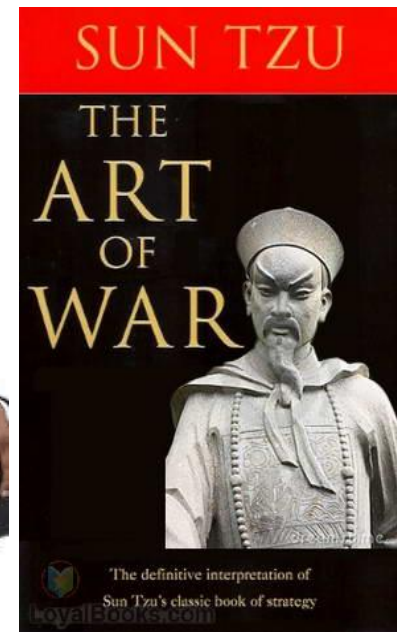
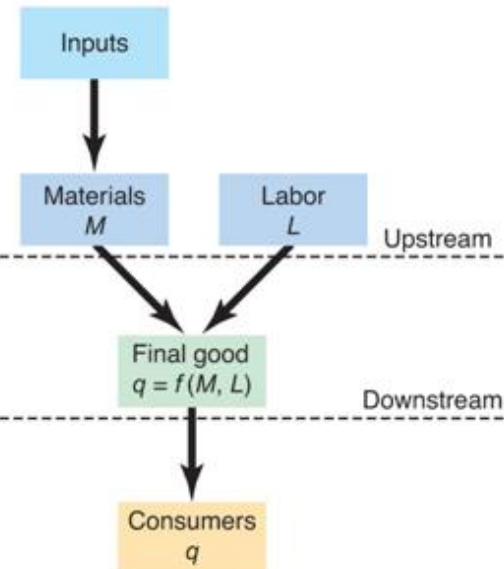
Target has announced that they will offer Price Match Guarantees to select online competitors this Holiday Season!



a_1 / a_2	FIRM 2	
	Cooperate	Defect
Cooperate	a a	c b
Defect	b c	d d

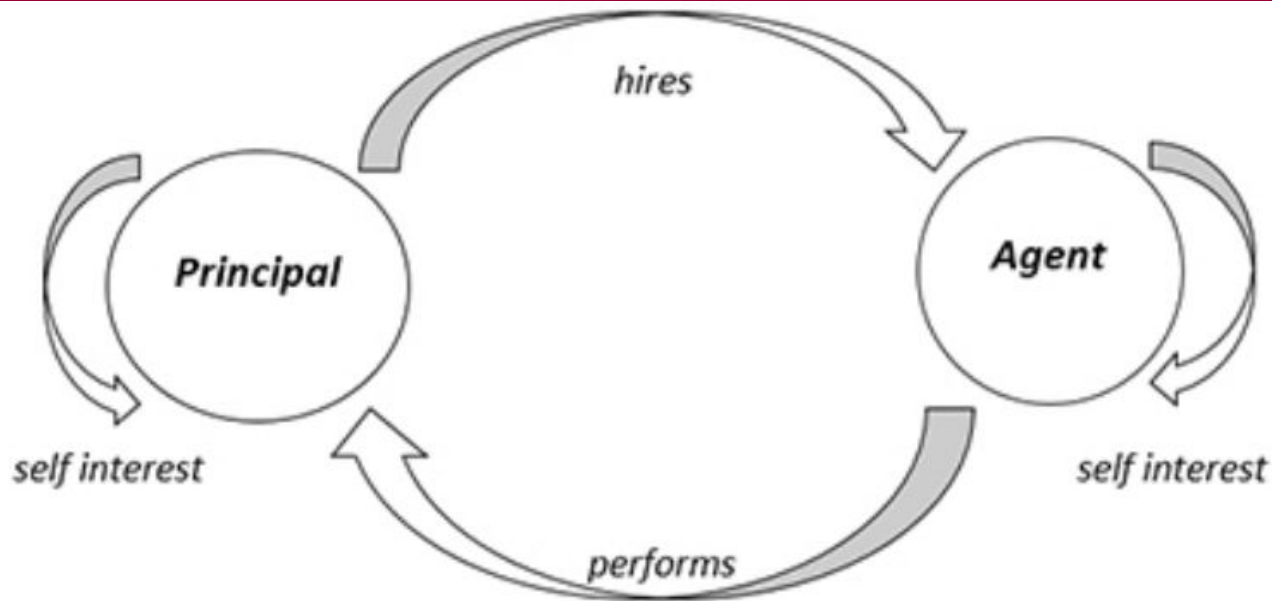


Some takeaways: Game theory: Auctions, negotiations, supply relationship



$$\pi_i = D_i + \frac{1}{2} [V - (D_i + D_j)]$$

Some takeaways: Asymmetric information



Artist Publisher Audience

