SYLLABUS

A. COURSE OVERVIEW

The course applies microeconomics—primarily industrial organization—to analyze decisions managers face in business environments. It focuses on strategic decisions that drive profitability. Class time will be devoted to case discussions and lectures.

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. It considers strategic decisions of first-order importance. 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), entry and exit, strategic investments, network effects, and multisided platforms (MSPs).

The class is interactive. Roughly one hour of every class is lecture; the remaining two hours are case discussion.

Prerequisite: microeconomics coursework—equivalent to Introductory Microeconomics at Booth—is recommended in advance of this class. A relatively recent and rigorous undergraduate economics degree should suffice. If in doubt, make sure the concepts in Microeconomics by Goolsbee, Levitt, and Syverson are familiar to you and that you can follow Introduction to Industrial Organization by Cabral (below).

B. TEACHING ASSISTANTS AND OFFICE HOURS

Jordan Bell-Masterson (jbellmas@chicagobooth.edu) and Kavya Garikipati (kavyag@uchicago.edu) are the teaching assistants for the course.

Please direct administrative questions (e.g. scheduling, problems with the website, etc.) to them.

Feel free to e-mail me if you have any questions, comments or concerns. I will not hold regular office hours, but will be available to meet by appointment.

C. READINGS AND WEBSITE

- Required: cases, news articles, and academic research distributed via course website.

You are responsible for all assigned readings as well as everything brought up in class. Because much of the class is structured around case discussions, many of the most important ideas will be raised by your peers.
Cabral’s *Introduction to Industrial Organization* covers most of the core microeconomics, strategy and industrial organization that we will use in the course. A portion of this material should be review, so you should view this book as a reference.

I use slides for many components of my lectures, but I will also use an interactive “chalk-and-talk” style as well. I will distribute my lecture notes, though they may be sparser than the content I discuss in class. You are therefore encouraged to take notes. Even if you never reference them again, it will improve your information retention.

I will use the course website to distribute information and materials relevant to the class. Some links to the readings posted online may redirect you to library resources (e.g., JSTOR). In order to access these you have to have permissions set up properly. You should have no trouble accessing them from an on-campus machine. For off-campus access, please follow the instructions posted at [http://answers.uchicago.edu/page.php?id=16101](http://answers.uchicago.edu/page.php?id=16101).

D. ATTENDANCE AND PARTICIPATION

Discussion and debate are key components of the course. They facilitate learning the material, they make class engaging and most importantly, they are ideal practice for presenting and defending your ideas in front of a large group. I personally found this last element to be the most valuable part of the MBA classes I took in grad school.

The value of discussion hinges on the quality of your and your classmates’ contribution. 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 discussion but still enable you to come to class, simply place your name card face down on your desk and I will not call on you.

Before each class, read and understand the case(s) and readings listed in the syllabus. I will post a guide to each week’s readings and cases on Chalk a week before each class. In most weeks, you will be responsible for turning in a memorandum of brief answers to questions on this guide.

If on some occasion you need to attend a section other than the one in which you are formally enrolled, consult the teaching assistant before the earlier of the two sections. If you expect to attend a different section regularly, make the switch formally through the usual administrative channels.

E. COURSE REQUIREMENTS AND GRADING

Grading will be based on class participation and case/reading memoranda (40%), an in-class midterm (25%), and an in-class final (35%).

Class Participation and Memoranda

You need to participate to benefit from this course.

I will post study questions for each case that serve as a guide to preparation. Come to class prepared to give concise, persuasive answers backed up with evidence. 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. As an additional incentive for you to prepare adequately, starting in the second week, I will require a written response, *not to exceed one page*, to some of those study questions. The week’s reading guide states what questions require a response. These written responses, i.e. case memoranda, will be due at
the beginning of class during the week that we are discussing the case. \textit{If the response is not on time, your grade for this memorandum is zero.}

In addition to the case memoranda, come to class prepared to discuss your analyses as well as the case and articles more generally. I will occasionally cold call. To ensure fairness, I will choose the schedule of cold calls for the entire course by randomly selecting names off of the registration list after the second class. \textit{If your name is called but your name card is down or you are absent that day, I will move to the next person and your grade will be zero for that question.} Note that if you are called early on in the semester, this is not a guarantee that you will not be called on later in the semester.

When you prepare for classroom discussion, do not 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, do not share your notes on the cases with another student who may take the course at some later time.

\textbf{Midterm}

The midterm will be given during the sixth week of class. It is a 1.5-hour exam consisting of short and medium length questions as well as an in-class analysis of a case distributed a week in advance. You can take notes on the case as well as prepare additional notes with tables, calculations, etc. of up to one single-sided page (8 1/2 by 11). No group collaboration or use of outside information is allowed in preparing for the exam. Barring notably exceptional circumstances, you will \textit{not} be allowed to take the midterm outside of normal class hours.

\textbf{Final}

The final will be given in the scheduled exam period. It will have a similar structure to the midterm, but will be longer (3 hours). Barring notably exceptional circumstances, you will \textit{not} be allowed to take the final outside of normal class hours.

\textbf{F. HONOR CODE}

Students enrolled in this class are expected to adhere to the terms of the Booth School of Business honor code. By way of reminder, 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, however, freely discuss a case with other students in the class who have not yet discussed the case in class (for example, with other students in the same section).
- Students may not discuss the midterm or final with anyone.

\textbf{G. Class Schedule and Readings}

Note: Readings subject to minor changes.

(See next page.)
# Part I. Industry and firm-level drivers of profitability

<table>
<thead>
<tr>
<th>Session</th>
<th>Week of</th>
<th>Case(s):</th>
<th>Add’l Reading:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>4/30</td>
<td>Industry Analysis</td>
<td>Cola Wars Continue “Note on the Structural Analysis of Industries” Cabral: Ch. 5 (pp 69-75), 6 (pp 85-91), 7, 14</td>
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<tr>
<td>3</td>
<td>4/10</td>
<td>Competitive Advantage (I): the Positioning Decision</td>
<td>Husky Injection Molding Systems Airborne Express “Creating Competitive Advantage” and Cabral: Ch. 12</td>
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<tr>
<td>4</td>
<td>4/17</td>
<td>Competitive Advantage (II): Complementarities and Persistence</td>
<td>Enterprise Rent-a-Car (articles posted online) Kodak and the Digital Revolution</td>
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# Part II. Strategic interaction

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<thead>
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<th>Session</th>
<th>Week of</th>
<th>Case(s):</th>
<th>Add’l Reading:</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>5/1</td>
<td>Midterm Exam and Introduction to Strategic Interaction</td>
<td>Nothing due (The Tuna Game is the in-class exercise).</td>
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<tr>
<td>7</td>
<td>5/8</td>
<td>Dynamic Pricing</td>
<td>Game theory exercises: CVS/Walgreens and Momotaro/Arami sushi The US Airline Industry in 1995 American Airlines (3 articles) Cabral: Ch. 8</td>
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<tr>
<td>8</td>
<td>5/15</td>
<td>Entry and Entry Deterrence</td>
<td>Intel Kickbacks (4 articles) Dogfight over Europe: Ryanair Cabral: Ch. 15 (pp 259-277)</td>
</tr>
<tr>
<td>9</td>
<td>5/22</td>
<td>Network Effects and Platforms</td>
<td>Power Play (A): Nintendo in 8-bit Video Games Linkedin in 2012 Cabral: Ch. 17</td>
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<td></td>
<td></td>
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<td>Final Exam 6/5-6/10</td>
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