

MBA 201A: Economic Analysis for Business Decisions

Course Syllabus: Fall 2017

Version: August 28, 2017

Instructor: James Sallee

Email: [REDACTED]

Office hours: [REDACTED]

Class meeting information

Time: [REDACTED] [REDACTED]

Location: [REDACTED]

GSI: [REDACTED]

Email: [REDACTED]

GSI Office hours: [REDACTED]

Section: F [REDACTED] [REDACTED]

Course description: Microeconomic analysis theorizes about how to identify the best choice out of a set of available alternatives. Such reasoning is fundamental to success in business, where intelligent use of resources and systematic reasoning about opportunities and alternatives is essential. This course presents a curated set of key topics from microeconomic theory and applies them to businesses and other organizations. These topics include decision-making under uncertainty, economic costs, pricing, and the basics of strategic interactions between competitors. The course will use readings and cases, along with class discussion, to develop practical insights into managing for competitive advantage.

Important dates:

- 8/28/2017 Assignment 1 Due
- 9/6/2017 Corporate Pricing Proposal Due
- 9/8/2017 Assignment 2 Due
- 9/13/2017 Quiz 1, in class
- 9/18/2017 Assignment 3 Due
- 9/20/2017 Midterm Exam, in class
- 9/25/2017 Corporate Pricing Outline Due
- 10/2/2017 Assignment 4 Due
- 10/4/2017 Quiz 2, in class
- 10/13/2017 Group Presentations, 10-1 (Axe) and 2-5 (Oski), Location TBD

I Course Materials

Website: Materials will be made available for the course through the University’s bCourses interface. A reading pack will be given to you on the first day in hard copy, and electronic versions are accessible through bCourses using the Study.net system. Lecture notes will be given to you at the start of class in hard copy, and posted to bCourses after each lecture. Problem sets and other supplementary materials will also be available through bCourses.

Some class periods will require you to submit an answer to a focus question prior to the start of class using the bCourses system.

Texts and reader: To be prepared for class, you must read the articles and cases listed on the syllabus for that day. In general, anything labeled a case is material that will be central to the day’s lecture. Two cases include data in an Excel file that you will need to look at. I will often post a focus question before class, and some assignments are related to case material.

The required readings for the course are the articles and cases. The syllabus also lists content from two supplementary texts, which you should read as background as you see fit. For those of you with a limited background in economics, these textbooks may be especially helpful. The first resource is a textbook—Samuelson and Marks *Managerial Economics, 8th Ed.* Earlier editions are close substitutes. Page numbers are listed for both the 8th and 7th editions in the class schedule. The second resource is a set of notes, written by Professor Ben Hermalin, entitled *Lecture Notes for 201A*. These notes cover most of the same topics we will use in this course, as they come from an earlier version of the class.

II Class Schedule

Note: this is a plan that is subject to change. We will try to keep to this schedule, but if class discussion warrants more or less time on particular topics, the schedule may shift slightly.

Part I. BASIC TOOLS

1. 8/23 Economic tools for problem solving
 - **Case:** “Something Rotten in Fenmark”
 - Excel spreadsheet for “Something Rotten in Fenmark”
 - Hermalin, pp. 1-8
 - SM 8th Ed: Chapter 1 (especially pp. 1-11), Chapter 12
 - SM 7th Ed: Chapter 1 (especially pp. 1-12), Chapter 12

2. 8/28 The value of information
 - **Case:** “Freemark Abbey Winery”
 - “Winglets’ Help Planes Lift Off, Save Fuel” *Wall Street Journal* 2/4/05
 - Hermalin, pp. 8-27

- SM 8th Ed: Chapter 13 (especially pp. 413-418)
- SM 7th Ed: Chapter 13 (especially pp. 541-547)

Part II. INTRODUCTION TO MARKETS

3. 8/30 Value creation in markets

- “An Economic Evaluation of the Moneyball Hypothesis” Jahn Hakes and Raymond Sauer, *Journal of Economic Perspectives* 2006, volume 20, number 3, pp. 173-185.
- SM 8th Ed: Chapter 5 (especially pp. 146-160), Chapter 7 (especially pp. 214-234)
- SM 7th Ed: Chapter 5 (especially pp. 190-207), Chapter 7 (especially pp. 283-306)

Note: No Class on September 4 (Labor Day)

4. 9/6 Market equilibrium in the short run

- “Plywood Becomes Hot Item in Housing Recovery” *Wall Street Journal* 3/21/13
- “Mamas Don’t Let Your Babies Grow Up to Be Appraiser” *Bloomberg Businessweek* July 17-23, 2017
- Hermalin, pp. 29-46 (Chapter 2 readings divided up over two lectures, but might make sense to read all together)
- SM 8th Ed: Chapter 6, starting at p. 182, Chapter 8 pp. 244-257
- SM 7th Ed: Chapter 6, starting at p. 237, Chapter 8 pp. 319-336

5. 9/8 Market equilibrium in the long run (Friday make up)

- “US Newspapers’ Problems Come From Their Former Monopoly, Not the Duopoly of Facebook and Google” *Forbes* 7/10/17
- “A Future with Fewer Reservations” *Wall Street Journal* 5/23/09
- SM 8th Ed: Chapter 8, pp. 257-261
- SM 7th Ed: Chapter 8, pp. 336-340

6. 9/11 Economic costs

- **Case:** “John Deere Component Works (A)”
- “Farms in Downtown Tokyo?!”
- (Samuelson & Marks Ch. 6 to p.199)
- Hermalin, pp. 46-50
- SM 8th Ed: Chapter 6, pp. 175-182

- SM 7th Ed: Chapter 6, pp. 226-237

Part III. STRATEGIC PRICING

7. 9/13 Introduction to demand and monopoly pricing

- “The Crazy Math Behind Drug Prices” *Bloomberg Businessweek* 6/29/2017
- “Changing the Formula: Seeking Perfect Prices, CEO Tears Up the Rules” *Wall Street Journal* 3/27/07
- Hermalin, pp. 51-78 (Some of Chapter 3 deals with material we covered earlier, but logical to read this whole chapter together)
- SM 8th Ed: Chapter 2, Chapter 3, pp. 59-77
- SM 7th Ed: Chapter 2, Chapter 3, pp. 91-98

8. 9/18 Price discrimination

- **Case:** “Brand X”
- Excel file for Brand X
- “Airline Fare Riddle: One Route, Two Prices” *Wall Street Journal* 1/7/15
- “Websites Vary Prices, Deals Based on Users’ Information” *Wall Street Journal* 12/24/12
- Hermalin, pp. 79-110 (Chapter 4 will be covered in this and the next lecture, but logical to read together)
- SM 8th Ed: Chapter 3, starting at p. 78 (some of this material is covered in the next lecture, but logical to read together)
- SM 7th Ed: Chapter 3, starting at p. 99 (some of this material is covered in the next lecture, but logical to read together)

9/20 MIDTERM EXAM, during class

9. 9/25 Complex pricing

- “‘Calculated Misery’: How Airlines Profit from Your Miserable Flying Experience” *VOX* 4/14/17
- Note: relevant material is in textbook readings from prior lecture.

Part IV. MARKET STRATEGY

10. 9/27 Introduction to strategic thinking

- “Hotel Money is Funding Anti-Airbnb Sting Operation” *Bloomberg Businessweek* 7/12/17

- “Google Slapped with \$2.7 Billion EU Fine Over Search Results” *Wall Street Journal* 6/27/17
 - Hermalin pp. 111-118
 - SM 8th Ed: Chapter 10
 - SM 7th Ed: Chapter 10
11. 10/2 Competition in prices versus quantities
- “Amazon and Walmart Are in an All Out Price War that is Terrifying America’s Biggest Brands” *Recode* 3/30/17
 - “The Fix Is In” from This American Life: Listen to at least 8:30-33:30
<http://www.thisamericanlife.org/radio-archives/episode/168/the-fix-is-in>
 - **Case:** “Federated Industries”
 - Hermalin pp. 118-134
 - SM 8th Ed: Chapter 9
 - SM 7th Ed: Chapter 9
12. 10/4 Vertical integration
- Samuelson & Marks Ch. 14
 - “Net Neutrality: A Fast Lane to Understanding the Trade-offs” Shane Greenstein, Martin Peitz, and Tommaso Valletti *Journal of Economic Perspectives* Spring 2016, pp. 127-150.
 - SM 8th Ed: Chapter 14 (much of this material concerns the next lecture, but logical to read together)
 - SM 7th Ed: Chapter 14 (much of this material concerns the next lecture, but logical to read together)
13. 10/9 Adverse selection; pay for performance
- **Case:** “Performance Pay at Safelite Auto Glass (A)”
 - Note: relevant material is in textbook readings from prior lecture.

10/13 PAPER PRESENTATIONS, 10-1 (Axe) and 2-5 (Oski), Location TBD

III Assignments, participation and grading

Exams: There will be one in-class midterm, and two short in-class quizzes. The quizzes will take the first fifteen minutes of a lecture period. The midterm will take the full time. Each cohort will be given distinct exams, but you are nevertheless obliged to not speak to each other about the exams until both cohorts have completed them. Exams will be closed book.

Assignments: There will be four assignments due throughout the term. These will ask you to work through some problems. These assignments must be turned in via bCourses by 8:55 am on the day that they are due. They will be graded on a “credit/no credit” scale. If you have made a good faith effort to complete the problems, you will receive credit. Feel free to work on these in groups, but everyone must submit their own answers in their own words.

Your ultimate grade on the “assignments” part of the class will also include short questions that I pose to you that must be completed on bCourses before class. Completion of these will also be based on a “credit/no credit” system.

We will also distribute practice problems, which you do not need to turn in, that focus more on the algebra tools of the class. The GSI will solve these problems in section, and we will distribute answers. You should initially attempt all of these problems on your own. If you can breeze through them on your own, then this is a good signal that you are mastering the core concepts from the class and that you will be ready for the midterm and quizzes. The absolute best way to know if you are prepared for in-class exams is to sit and do problem sets without assistance. Feel free to discuss the practice problems in groups, but if you do not attempt the problems on your own first, you may get a misleading signal about your preparedness.

Class participation: Class participation enriches the learning experience. Participating (and being prepared to participate) is essential to your own learning process. When you share insights, ask questions, and engage in respectful debate, this also helps others learn. Because people respond to incentives, class participation will figure in your course grade. Earning a good grade on participation requires **preparedness** and **productive contribution**. Quality trumps quantity, but a quantity of zero participation for the class is a problem. Questions are participation. There is absolutely such a thing as too much participation; dominating the conversation is generally a negative. Part of participation is being respectful to others. Some ways to recognize good contributions:

- Relevance: is your comment on point? Is it clearly related to the case at hand?
- Progress: are your comments moving the class forward? We don’t have time to fully adjudicate every interesting point, so sometimes we need to move forward.
- Facts: are you pointing to facts from the case, lecture or your experience?
- Course concepts: are you using core concepts from the course to make your point?

I will **cold call** during the class. You won’t be marked down for not having brilliant insights when cold called, so long as you are prepared (i.e., have read the material and are following the class conversation). If you, for whatever reason, are unprepared to discuss the day’s material, tell me ahead of time to prevent me from cold calling you. You can tell me this once during the term without consequence to your grade, but I’ll make note if you are unprepared on multiple occasions.

If you find yourself struggling to participate in class discussions for any reason, talk to me in my office hours, after class, or via email. Do not wait until the just before the midterm, or worse, until the end of the term.

Part of class participation is being present and respecting course rules. Attendance is mandatory. Please be prompt. We will follow the Haas convention of no electronics during class. Otherwise, please apply common sense in not doing things that will distract others.

Course grade: Your grade will be based on the following components with these weights:

- Class participation 12.5%
- Assignments 12.5%
- Quizzes 7.5% each (15% total)
- Midterm 30%
- Corporate Pricing project 30%

As per Haas policy, this course will be curved so that the median grade is a 3.45 on a 4 point scale. The curve will be set for each cohort separately.

IV Corporate pricing project

Each team (your assigned study group) is to analyze the pricing policies of a specific firm. Write up your analysis in a short memo. A proposal (1 page maximum), an outline (2 page maximum) and a final deliverable (8 pages maximum, given some standard 12-point font, double-spaced, including tables and figures in the page limit) are due on the dates listed at the top of the syllabus. You will give a short presentation to the entire class on the last day of your class. The presentation is not graded per se, but it may influence my assessment of your work.

Your report **must** begin with an **executive summary** that articulates your **problem statement** and your **findings/conclusions** up front. Precise articulation of your findings in the executive summary is extremely important. What is most important in the project is that you have identified an interesting problem and used concepts from the class to make recommendations. Note that the recommendations may be contingent upon specific information that you identify as pivotal to the decision but which you do not currently have.

Consider including the following elements in your project. For most projects, all of these elements will be appropriate to include:

- A **qualitative** assessment of the market demand for the firm's products (e.g., elasticity of demand relative to comparable products, degree of product differentiation relative to competitors, etc.).
- A **qualitative** characterization of the firm's cost structure (e.g., high fixed cost, low marginal cost, etc.). Consider factors that might cause the firm's marginal costs to change. A quantitative analysis is not required.
- A description of the firm's **current pricing strategy**. This means a qualitative assessment of the firm's approach to pricing rather than a quantitative overview of its actual current prices.
- An assessment of the usage of (or potential for) **advanced pricing methods** by this firm (e.g., price discrimination, versioning, etc.).
- Address any special considerations that impact the firm's pricing strategy (e.g., reputation concerns, learning by doing, etc.), as relevant.
- Include **recommendations** about the firm's pricing strategy. Should they stay the course or should they adopt a different strategy? If they should change, how?

How to pick a good company: your project will be more successful if the company has these characteristics:

1. You can readily obtain information about the prices of its products.
2. The firm has the ability to charge different prices to different consumers, or to use some other advanced pricing strategies. There are many examples of this: bulk discounts, infrequent sales, discounts for advanced purchases, student discounts, etc.
3. The firm does not sell a commodity good directly into a perfectly competitive market. That is, a firm may face competition, but other companies do not sell a perfectly identical good (like crude oil, or wheat). This need not be very restrictive. For example, even two firms that sell identical goods in different locations have differentiation.

Most firms sell many products. You are not compelled to describe all products, but should instead focus on a subset of products that keep the analysis tractable, but allow you to articulate the strategic concerns listed above. Examples of prior projects include: Southwest Airlines, Zip Car, Netflix, TiVo, San Francisco Giants, Starbucks, Pebble Beach (greens fees), Clif Bar, match.com, Steelcase, Lennar, etc.

Flexibility: I recommend considering a pricing problem, but if you have some alternative and compelling question about a business that you would like to explore, let me know. I am open to any project that applies material from the course that leads you to an insightful discussion of a business decision.