

# Microeconomics II

## Module 2, 2017-2018

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### Course description

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The course serves as a continuation to Microeconomics-1 and further develops the dual nature of the course, addressing a range of business strategy questions and developing microeconomic tools as a means to solve them. The course is based on four blocks.

1. **Establishing and Sustaining Competitive Advantage.** How do firms establish competitive advantage? How do internal firm's choices and external landscape reinforces it? Are there permanent sources of profitability or do imitation, substitution, holdup and slack eventually destroy profits? How to harness the power of creative destruction?
2. **Models of Asymmetric information and Mechanism Design.** When do markets fully disclose information regarding quality and vice versa – when do markets cease to exist completely. What is the winner's curse? How to sell spectrum for billions of dollars?
3. **Organizational Structure and Culture.** Does the strategy follows structure or does the structure follows strategy? Are traditional models of organizational design getting obsolete? How does the organizational structure of a firm producing video games is different from the one of real estate firm?
4. **Individual Decision-Making.** How do individuals make decisions under risk and uncertainty. When people express preferences for flexibility and when for commitment? What is behavioral economics and can probability be subjective? How does Uber misuse insights from behavioral economics?

### Course requirements, grading, and attendance policies

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Grading policies: The grade is made up of four components

**Cases and Class Participation (20%):** There will be four case studies during the course, which we will discuss in class after the relevant topic is covered. All students will be split in teams for case preparation. It is essential to prepare for each case and answer the assigned questions. Each team should sign up for leading one in-class presentation, and be active during presentations of other teams. Full grade for this part includes written answers to cases and in-class discussions.

**Final Exam (80%):** A comprehensive exam

## Course Schedule

Week	Topic	Reading (relevant chapters)
1	What is strategy, benefit position, cost position? Should firms choose broad or narrow focus? How to find best mix of attributes? Blue Ocean strategies.	BDSS: 9
2	Persistence of profitability. Immobility of resources. Impediments to imitation. Early-movers advantages. Innovation and creative destruction.	Case: "Tesla Motors" BDSS: 11
3-4	Asymmetric information, signaling and screening. Disclosure of private certifiable information. Unraveling of markets. Credit rationing and corporate finance applications. Auctions, Winners' Curse. Mechanism Design and its applications.	Case: "Microsoft' Search" BD: 2,3,5 BDSS: 10
5	Organizational Structure. U-forms, M-forms, matrix structures and networks. Power and Culture.	Cases: "Corporate Solutions at LaSalle", "Opening the Valve" BDSS: 13-14
6-7	Risk and Uncertainty. Expected Utility. Preferences for flexibility and commitment. Subjective probability. Behavioral Economics. Open Questions.	PR: 5 Simulation: "Everest"

### Description of course methodology

The students will learn both through interactive lectures (approximately 65% of the time) and through real-life examples.

The course involves a substantial amount of reading, most importantly the textbooks, articles and the case studies assigned each week. The problems presented in the case or news discussion may not have one correct answer. However, there will generally be a set of insights and solutions which are better than others. The most important benefit of discussing the case studies is to work out the trade-offs that the real-life managers face in their strategic decision making.

## Course materials

### Required textbooks and materials

The Economics of Strategy, 6th Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer (BDSS)

Microeconomics. Daniel Pindyck and Robert Rubinfeld (PR).

Contract Theory by Patrick Bolton and Dewatripont, Mathias.

### Cases:

Eric Van Den Steen. "Tesla Motors"

Jan W. Rivkin, Eric Van Den Steen. "Microsoft' Search."

Ranjay Gulati; Lucia Marshall. "CORPORATE SOLUTIONS AT JONES LANG LASALLE (2001)."

Ethan S. Bernstein; Francesca Gino; Bradley R. Staats. "OPENING THE VALVE: FROM SOFTWARE TO HARDWARE (A)"

## Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.