

Microeconomics-2

Module 2, 2018-2019

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Course description

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. **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?
2. **Models of Asymmetric information, 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? What are the ways adverse selection problems can be mitigated?
3. **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?
4. **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?

Course requirements, grading, and attendance policies

Grading policies: The grade is made up of four components

Cases and Class Participation (30%): There will be three case studies during the course, which we will discuss in class after the relevant topic is covered. All students should present write-ups to questions posted beforehand. 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 (70%): A comprehensive exam

Course Schedule

Week	Topic	Reading (relevant chapters)
1-2	Risk and Uncertainty. Expected Utility. Degrees of risk aversion. Stochastic dominance in payoffs. Subjective probability. Asymmetric information. Unraveling of markets. Bayes-Nash equilibria. Signaling	PR 5 MSW 6,13 (will be posted)
3-4	Screening. Disclosure of private certifiable information. Credit rationing and corporate finance applications. Auctions, Winners' Curse. Mechanism Design and its applications. (time permitting). Behavioral Economics. Team decision-making and groupthink. (time permitting)	BD: 2,3,5 Lecture notes Simulation: "Everest"
5	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 Case: "Tesla"
6	Persistence of profitability. Immobility of resources. Impediments to imitation. Early-movers advantages. Innovation and creative destruction.	BDSS 10 Case: "Microsoft Search"
7	Organizational Structure. U-forms, M-forms, matrix structures and networks. Power and Culture. Models of authority in organization.	Cases: "Opening the Valve" BDSS: 13-14

Description of course methodology

The first half of the course is more math oriented and requires systematic and deep reading. The second half are topics in managerial economics and economics of organizations. 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.

Other chapters to be posted

Cases:

Eric Van Den Steen. "Tesla Motors"

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

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

Simulation:

Michael A. Roberto; Amy C. Edmondson, LEADERSHIP AND TEAM SIMULATION: EVEREST V2

Academic integrity policy

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