

Microeconomics

Module 2, 2017-2018

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TAs: TBA

Course description

This microeconomics course uses economic theory to address a range of market strategy and, more generally, business strategy questions. How do markets work? How do firms compete in the markets? How do governments regulate the firms? How to create incentives within firms? Should the incentives be formal or informal? How do firms choose their size and scope? These (and other) questions will be answered with the use of formal microeconomic machinery, in particular, game-theoretical approach to strategic behavior.

The students will learn both through interactive lectures (app. 50% of the time) and through real-life examples (case studies or news items, the remaining 50%). The regular classes will be supplemented by seminars on solving the basic problems in microeconomics. The course involves a substantial amount of reading, most importantly the textbooks and the case studies assigned three times during the course. The key points and tools of the analysis for each covered topic will be first introduced in the lecture and then discussed in a case study or addressed in a quiz.

The problems presented in the case or news discussion may not have a single 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.

A student who successfully completed the course will be able to apply the learned analytical and game-theoretical tools and methods to the analysis of practical business problems.

Course requirements, grading, and attendance policies

Course prerequisites: Math Refresher.

Grading Policies: The grade is made up of four components:

- In-class Quizzes (20%): 15-minute open-book test covering previous class's material. There will be 3 quizzes, and the 2 best ones will be counted in.
- Cases and Class Participation (15%): There will be three case studies offered to student during the course. All students will be split in teams for case preparation. It is essential to prepare for each case and answer the assigned questions in writing. Each team should sign up for leading one in-class case presentation, and be active during the presentation of the other teams. Full grade for this part includes written answers to cases and active participation in in-class discussion of both own-team and other teams' cases.
- Midterm Exam (30%): The midterm will be a written take-home exam – answering a set of questions regarding a case study.
- In-class final Exam (35%): The final exam will be a comprehensive written in-class exam, covering the material of the entire course.

Attendance policy: There are no formal attendance requirements. However, students who do not have a well-documented reason not show up for (or do not hand in) quizzes/cases and case discussions/mid-term exam/final exam will lose respective percentages of the final grade.

Course contents

Class	Topic	Reading (see course materials for details)
#1,	Market equilibrium in perfectly competitive markets. Demand and supply in short- and long-run. Effect of shifts in demand and supply. Government intervention into the market. Distribution of tax incidence.	BDSS: Introduction. Primer PR Ch. 2, 9
#2,	Monopoly. Price discrimination. Tax incidence in monopoly. Natural monopoly. Regulation of monopoly.	BDSS: Primer, 6 PR Ch. 10 V Ch.25 Quiz 1
#3-4,	Basics of game theory. Imperfect competition. Bertrand and Cournot competition. Static and dynamic oligopoly analysis.	BDSS: 6-10 PR Ch. 12, 13 Quiz 2
#4-5,	Commitment. Coordination. Collusion. Industry analysis. Entry and exit.	BDSS: 6-10 PR Ch. 12, 13 Case "Cola Wars." Simulation "Universal"
Take-home midterm examination		
#5-6,	Incentives. Adverse selection, moral hazard, and incentive contracts.	BDSS: 14 Case "Incentives in HMC"
#6,	Alternative ways to provide incentives: career concerns, delegation of authority, hierarchical structure, intrinsic motivation	BDSS: 15 Quiz 3
#7,	Firm's size and scope. Boundaries of the firm. Vertical integration.	BDSS: 3-4 Case "Disney and Pixar"
In-class final examination		

Course materials

Textbooks:

1. The Economics of Strategy, 3rd Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer (BDSS).
2. Microeconomics by Daniel Pindyck and Robert Rubinfeld (PR). (Russian translation of the 3rd edition is published by Delo in 2000, available at NES Library)
3. Intermediate Microeconomics: A Modern Approach, by Hal R. Varian (V) 8th edition, (we will use chapter 25 on monopolistic price discrimination; otherwise it is an optional reading). Earlier editions would work as well (Russian translation of the 3rd edition is published by Unity in 1997)

Cases/discussion articles:

1. Yoffie, David. "Cola Wars Continue: Coke and Pepsi in the 21st Century." HBS Case 9-702-442.
2. Hall, Brian, and Jonathan Lim. "Incentive Pay for Portfolio Managers at Harvard Management Company." HBS Case 9-902-130.
3. Collis, David, Juan Alcacer, and Mary Furey. "The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire?" HBS Case 9-709-462
4. Megan Way; Lidija Polutnik. "Apple Watch (A): The Launch", HBS Case BAB344-PDF-ENG
5. Sodhi, M. & Tang, C.S. (2017). "Supply Chains Built for Speed and Customization." MIT Sloan Management Review, 58(4), (available here <http://sloanreview.mit.edu/article/supply-chains-built-for-speed-and-customization/>)

Simulation:

John T. Gourville, Tom Nagle, John Hogan. Pricing Simulation: Universal Rental Car V2. Harvard Business Publishing 7005-HTM-ENG

Academic integrity policy

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