

**Department of Economics
University of Toronto at Mississauga**

ECO380H5: Managerial Economics I: Competitive Strategy
CC 2150, Thursday 9:00-11:00am
Fall 2017

Professor: Xianwen Shi
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Course Webpage: <http://portal.utoronto.ca> (Blackboard)

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Course Description

Why are some industries more profitable than others? Why are some firms profitable while others are not? How can firms create, capture and maintain their profits in the face of competition? This course will use a series of real world examples, together with theoretical insights from game theory, to answer these questions. The first part of the class will be devoted to the building blocks of strategy, including industry analysis, positioning, and sustainability of competitive advantage. Next we will use game theoretical tools to analyze strategic interaction among firms, such as strategic pricing, entry, and competitive bidding. The final weeks of the class will cover economies of scale and scope and technological competition. At the end of the course, students should be able to identify and categorize major strategic problems in business environment, and suggest and evaluate candidate strategies.

Prerequisites and Exclusions

Prerequisites:

ECO200Y5 or ECO204Y5 or ECO206Y5
ECO220Y5 or ECO227Y5 or (STA250H1 and STA257H5) or (STA257H5 and STA261H5)

Exclusions: ECO310Y5 and MGT310Y1

Prerequisites are strictly checked and enforced and must be completed before taking a course. By taking this course you acknowledge that you will be removed from the course at any time if you do not meet all requirements set by the Department of Economics. For further information can be found in the 2017-2018 Courses Calendar which is available from the Registrar's Office.

Grading

There will be three problem sets, one midterm and one final.

- Problem sets.
 - Problem set 1. Due October 7 (week 5). Covers weeks 1-4.
 - Problem set 2. Due November 18 (week 10). Covers weeks 5-9.
 - Problem set 3. Will not be collected or graded. Covers weeks 10-12.
- Midterm (in class). October 26 (week 7). Covers weeks 1-6. Duration 90 minutes, close book.
- Final. Date TBA. Covers the entire course. Duration 2 hours, close book.

The grade is given by

Problem Sets	30%
Midterm	30%
Final	40%

In order to help you determine whether you have met the prerequisite to take the course, I will post a Background Quiz in blackboard. Materials covered in the background quiz will be repeatedly drawn in class and in tests. This quiz will not be collected or graded: students are responsible for their own mastery of the solutions.

There will be three problem sets. The first two will be collected and graded by myself.

- Each problem set accounts for 15%, and is due at the midnight (11:59pm) of the due date.
- There will be three possible grades for each timely submitted assignment: “V+” (15%), “V” (10%), and “V-” (2%). Late submission is not acceptable. Late submission or missed submission will get the default grade of 0.
- You can work alone or join a study group for the problem sets. There is no penalty for group work. Each study group can have up to four group members, and each group needs to turn in only one solution for each problem set. Please submit solutions via link (<https://submit.utm.utoronto.ca/utorsubmit/>), and pdf format is preferred (although docx file is acceptable too). If it is a group work, please list your group members in the first page of the solution.
- If you work alone, the grade on your submitted assignment will be your grade. If you work as a group, your grade is the grade on the assignment submitted by your group, with the following exception. If your group has 3-4 members (including you) and all your group members (excluding you) write to me that you do not sufficiently contribute to the group work, you will get the grade of “V-” (2%), regardless of your group grade.
- It is every student’s responsibility to ensure that their online submission is submitted successfully by the due date. Accommodations will not be made for unsuccessful submissions due to, but not limited to, i) the system timing out ii) submitting the incorrect document(s) iii) poor internet connection/no internet connection etc.

The midterm is not optional. Students cannot petition to re-write the midterm once the test has begun. If you have to miss the midterm for reasons beyond your control, you must email me before the midterm explaining why you will miss the test, and submit a request with appropriate supporting documents, e.g., the Verification of Illness or Injury form (www.illnessverification.utoronto.ca) filled out by your physician, via the online Special Consideration Request form @ <https://utmapp.utm.utoronto.ca/SpecialRequest> within 24 hours. If I deem your explanation appropriate, the full percentage weight of the missed midterm may be allocated to the final exam, that is, your final exam will account for 70% of the final grade. If you fail to notify me before the midterm or if you fail to provide appropriate supporting documents, you will get the default score of zero for your midterm.

The midterm and final will be graded by TA. A written request for a re-grade of the midterm must be submitted within two weeks after the date of the return of the midterm. If your request is granted, I may regrade the whole midterm rather than the requested parts.

Textbooks and References

Required Text: D. Besanko, D. Dranove, M. Shanley, and S. Schaefer, *Economics of Strategy*, Wiley, 7th edition, 2016. (BDSS)

Note: The older editions (4th or higher) are fine too. But you are responsible to match the labeling of chapters and end-of-chapter problems with the new edition.

Other useful but not required books:

- P. McAfee, *Competitive Solutions*, Princeton University Press, 2002. (PM)
- Brandenberger, and B. Nalebuff, *Co-Opetition*, Currency & Doubleday, 1996. (BN)
- Church and Ware, [*Industrial Organization: A Strategic Approach*](#), 2000, Online. (CW)

Weekly readings include assigned journal articles and business reports. Read them before class in order to be ready for class discussion. All subscription required contents (such as articles from WSJ and NYTimes), if the posted direct links do not work, are available online via [university library](#).

Course Schedule

Week 1, September 7

Economics and Strategy

Reading: BDSS, Introduction, Economics Primer
Michael Porter, "[What is Strategy](#)," *Harvard Business Review* 74(6), 1996.
"[Welcome to Planet Apple](#)," *Business Week*, July 9, 2007, Issue 4042, p88-92.
"[Steve Jobs of Apple Dies at 56](#)," *The New York Times*, October 5, 2011.
(optional) PM, Chapter 1, BN, Chapter 1

Week 2, September 14

Industry Analysis

Reading: BDSS, Chapter 5, 8
"[The Justice Department wants to stop the US Airways-American merger. Here's why.](#)" *Washington Post*, August 13, 2013.
"[Justice Dept. Clears Merger of 2 Airlines](#)," *The New York Times*, November 12, 2013.
"[Hiroshi Yamauchi, Who Steered Nintendo to Dominance, Dies at 85](#)," *The New York Times*, September 19, 2013.
(optional) PM, Chapter 2, BN, Chapter 2, 3

Week 3, September 21

Strategic Positioning

Reading: BDSS, Chapter 9

“[Southwest Airlines: The Hottest Thing in the Sky](#),” *Fortune*, Mar 8, 2004.
“[Low-Cost Airlines: Turbulent Skies](#),” *The Economist*, July 8, 2004.
“[Twitter CEO Dick Costolo Struggles to Define Vision](#),” *The Wall Street Journal*,
November 6, 2014.
(optional) PM, Chapter 3, 4

Week 4, September 28

Sustaining Competitive Advantage

Reading: BDSS, Chapter 11
“[Southwest Airlines, Once a Brassy Upstart, Is Showing Its Age](#),” *The Wall Street Journal*,
April 1, 2014.
“[The Bulldozer of Bentonville Slows](#),” *The Economist*, February 17, 2007.
“[Wall Street Analysts Predict the Slow Demise of Walmart and Target](#),” *The Huffington
Post*, July 30, 2014.
“[Has Apple Peaked?](#)” *CNN Money*, July 10, 2015.
(optional) PM, Chapter 11

Week 5, October 5

Problem set 1 due October 7 (<https://submit.utm.utoronto.ca/utorsubmit/>)

Strategic Commitment

Reading: BDSS, Chapter 7
(optional) PM, Chapter 13, BN, Chapter 7

Reading Week, October 12

Week 6, October 19

Entry and Exit

Reading: BDSS, Chapter 6
“[Nutrasweet’s Bitter Fight](#),” *The New York Times*, November 19, 1999.
“[BellSouth Drops Bid for Lin, Clearing the Way for McCaw](#),” *The Los Angeles Times*,
December 12, 1989.
“[Mike’s Bluff](#),” www.Gainesville.com, February 3, 2008.
“[Target to Exit Canada after Failed Expansion](#),” *Wall Street Journal*, January 15, 2015.
(optional) PM, Chapter 13, BN, Chapter 4

Week 7, October 26

In Class Midterm

Week 8, November 2

Dynamics of Pricing Rivalry

Reading: BDSS, Chapter 5, 7
Rafi Mohammed, “[Falling Oil Prices Don’t Make OPEC Irrelevant](#),” *Harvard Business*

Review, December 11, 2014.
(optional) PM, Chapter 6, Chapter 11, BN, Chapter 2, Chapter 5, pp. 131-138

Week 9, November 9

Competitive Bidding

Reading: Easley and Kleinberg, "[Auctions](#)," Ch9, *Networks, Crowds, and Markets*, 2010
(optional) PM, Chapter 12, BN, Chapter 4, pp. 81-98

Week 10, November 16

Problem set 2 due November 18 (<https://submit.utm.utoronto.ca/utorsubmit/>)

Firm Boundaries

Reading: BDSS, Chapter 1-4
(optional) PM, Chapter 7

Week 11, November 23

R&D Competition and Network Effects

Reading: BDSS, Chapter 11
Besen and Farrell, "[Choosing How to Compete: Strategies and Tactics in Standardization](#)," *Journal of Economic Perspectives*, 1994, 117-131.
Shapiro and Varian, "[The Art of Standards Wars](#)," *California Management Review*, Winter 1999, 41(2), 8-32.
Anderson, "[The Long Tail](#)," *The Wired Magazine*, October 1, 2004.
Frank, "[Winners Take All, but Can't We Still Dream?](#)" *The New York Times*, 22/02/2014.
(optional) PM, Chapter 4, 5

Week 12, November 30

Two-Sided Markets

Reading: Rysman (2009): "[The Economics of Two-Sided Markets](#)," *Journal of Economic Perspectives* 23(3), 125-143.
Eisenmann, Parker and Van Alstyne (2006): "[Strategies for Two-Sided Markets](#)," *Harvard Business Review*, October 2006.

Informing Your Professor and Submitting Appropriate Documentation:

The following steps must be completed in order to be considered for academic accommodation for any missed quiz/test.

1. Students must inform their professor in writing (e-mail is acceptable) within 24 hours of a test date of any circumstances that prevent them from writing a test.
2. Students must complete an online Special Consideration Request @ <https://utmapp.utm.utoronto.ca/SpecialRequest>. Students who miss a test due to circumstances beyond their control (e.g. illness or an accident) can request that the Department grant them special consideration. You must inform your instructor within 24 hours and you have 48 hours from the date of the missed test to submit your online request (late requests will NOT be considered without a “letter of explanation” as to why the request is late). Note: The system only supports Microsoft Internet Explorer and Firefox for the time being.
3. Original supporting documentation (e.g. Verification of Student Illness or Injury form, accident report, etc) must be submitted to the dropbox located outside Room 3274, Innovation Complex Building. Supporting documentation is required within one (1) week of submitting your online request. Please Note: (i) If you missed your test for a reason connected to your registered disability, please be advised that the department will accept documentation supplied by the UTM AccessAbility Resource Centre; (ii) ROSI declarations are not accepted as supporting documentation; (iii) If your reason for absence is due to a last minute flight due to a family emergency (illness/death etc.) you must provide your flight itinerary including the date the flight was purchased as well as boarding passes in addition to proof of death/illness/accident.
4. **Verification of Student Illness or Injury forms:** Documentation must show that the physician was consulted within one day of the test date. A statement merely confirming a report of illness made by the student is not acceptable (such as, “This patient tells me that he was feeling ill on that day.”). Verification of Student Illness or Injury forms can be found on the Office of the Registrar’s webpage (www.illnessverification.utoronto.ca).
5. **Extenuating Circumstances:** Students must notify the professor within 24 hours and you have 48 hours from the date of the missed test to submit your online request to the Special Consideration Request at <https://utmapp.utm.utoronto.ca/SpecialRequest>. If support has been obtained from someone other than a practitioner listed on the U of T Verification of Student Illness or Injury form then a [Verification of Extenuating Circumstances form](#) is acceptable. Other documentation can include, but is not limited to: letter of support from AccessAbility, automobile collision or police reports, death certificate, and supporting documentation from employers, lawyers and other related personnel.
6. **Declaration of Absence:** Absence must be declared on the day of or day after your absence on ACORN in order to be considered for an academic accommodation for any course work such as missed tests, late assignments, and final exams. Absences include those due to illness, death in the family, religious accommodation or other circumstances beyond your control.

In the event of a missed exam, please refer to the [Deferred Exam](#) instructions. Proper documentation will be required. Consult the Office of the Registrar should your absence be lengthy or affect multiple courses.

Please note that the written explanation and documentation that you submit represents an appeal from you, requesting the opportunity to account for that portion of your grade in some other manner. If an appeal is not received, or if the appeal is deemed unacceptable, you will receive a grade of zero for the item you missed. If the appeal is granted – that is, your reason for missing the item is considered acceptable by the professor – then a mechanism for accounting for the grade value of the missed item will be used.

It is your responsibility to ensure your email account is working and able to receive emails. Claims that a Departmental decision was not received will NOT be considered as a reason for further consideration.

Holidays and pre-purchased plane tickets, family plans, your friend’s wedding, lack of preparation, or too many other tests/assignments are not acceptable excuses for missing a quiz, a test, an item of term work, or an extension.

Note Concerning Turnitin

Normally, students will be required to submit written assignments to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their assignments to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site (www.turnitin.com). If you have an objection to the use of Turnitin for the submission of your work, please make an appointment to speak personally with the Course Instructor to discuss alternative arrangements. A guide for students is available from the University of Toronto’s Office of Teaching Advancement, at:

<http://sites.utoronto.ca/academicintegrity/TurnitinGuideForStudents.pdf>. This information will also be made available on the course Blackboard site.

Equity Statement and Academic Rights:

The University of Toronto is committed to equity and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect. As a course instructor, I will neither condone nor tolerate behaviour that undermines the dignity or self-esteem of any individual in this course and wish to be alerted to any attempt to create an intimidating or hostile environment. It is our collective responsibility to create a space that is inclusive and welcomes discussion. Discrimination, harassment and hate speech will not be tolerated. If you have any questions, comments, or concerns you may contact the UTM Equity and Diversity officer at edo.utm@utoronto.ca or the University of Toronto Mississauga Students' Union Vice President Equity at vpequity@utmsu.ca.

Academic Rights

You, as a student at UTM, have the right to:

- Receive a syllabus by the first day of class.
- Rely upon a syllabus once a course is started. An instructor may only change marks' assignments by following the University Assessment and Grading Practices Policy provision 1.3.
- Refuse to use turnitin.com (you must be offered an alternative form of submission).
- Have access to your instructor for consultation during a course or follow up with the department chair if the instructor is unavailable.
- Ask the person who marked your term work for a re-evaluation if you feel it was not fairly graded. You have up to two weeks from the date of return of the item to inquire about the mark. If you are not satisfied with a re-evaluation, you may appeal to the instructor in charge of the course if the instructor did not mark the work. If your work is remarked, you must accept the resulting mark. You may only appeal a mark beyond the instructor if the term work was worth at least 20% of the course mark.
- Receive at least one significant mark (15% for H courses, 25% for Y courses) before the last day you can drop a course for H courses, and the last day of classes in the first week of January for Y courses taught in the Fall/Winter terms.
- Submit handwritten essays so long as they are neatly written.
- Have no assignment worth 100% of your final grade.
- Not have a term test worth 25% or more in the last two weeks of class.
- Retain intellectual property rights to your research.
- Receive all your assignments once graded.
- View your final exams. To see a final exam, you must submit an online Exam Reproduction Request within 6 months of the exam. There is a small non-refundable fee.
- Privacy of your final grades.
- Arrange for representation from Downtown Legal Services (DLS), a representative from the UTM Students' Union (UTMSU), and/or other forms of support if you are charged with an academic offence.

Academic Integrity/Honesty or Academic Offenses:

It is your responsibility as a student at the University of Toronto to familiarize yourself with, and adhere to, both the Code of Student Conduct and the Code of Behaviour on Academic Matters. This means, first and foremost, that you should read them carefully.

- The [Code of Student Conduct](#) is available from the U of T Mississauga website (Registrar > Academic Calendar > Codes and Policies) or in your print version of the Academic Calendar.
- The [Code of Behaviour on Academic Matters](#) is available from the U of T Mississauga website (Registrar > Academic Calendar > Codes and Policies) or in your print version of the Academic Calendar.

Another helpful document that you should read is [How Not to Plagiarize](#), by M. Proctor.

Accessibility:

U of T Mississauga and the AccessAbility Resource Centre are committed to the full participation of students with disabilities in all aspects of campus life. The AccessAbility Resource Centre provides academic accommodations and services to students who have a physical, sensory, or learning disability, mental health condition, acquired brain injury, or chronic health condition, be it visible or hidden. Students who have temporary disabilities (e.g., broken dominant arm) are also eligible to receive services. All interested students must have an intake interview with an advisor to discuss their individual needs. Students who require accommodation are advised to visit the AccessAbility Resource Centre as early as possible to have their needs assessed, as it may take some time to process the application.

For more information please contact the centre at:

Room 2047, South Bldg.
Tel/TTY: 905-569-4699
E-mail: access.utm@utoronto.ca
Web: www.utm.utoronto.ca/access

Policy on Religious Observances:

As noted in the the [Policy on Scheduling of Classes and Examinations and Other Accommodations for Religious Observances](#), the following provisions are included:

“It is the policy of the University of Toronto to arrange reasonable accommodation of the needs of students who observe religious holy days other than those already accommodated by ordinary scheduling and statutory holidays.

Students have a responsibility to alert members of the teaching staff in a timely fashion to upcoming religious observances and anticipated absences. Instructors will make every reasonable effort to avoid scheduling tests, examinations or other compulsory activities at these times. If compulsory activities are unavoidable, every reasonable opportunity should be given to these students to make up work that they miss, particularly in courses involving laboratory work. When the scheduling of tests or examinations cannot be avoided, students should be informed of the procedure to be followed to arrange to write at an alternate time.

It is most important that no student be seriously disadvantaged because of her or his religious observances. However, in the scheduling of academic and other activities, it is also important to ensure that the accommodation of one group does not seriously disadvantage other groups within the University community.”

With respect to minimum advance notice, the Policy provides that "Students have a responsibility to alert members of the teaching staff in a timely fashion to upcoming religious observances and anticipated absences." Since students would normally be aware of upcoming religious observances as well as examination schedules in advance, a minimum of three weeks advance notice will be considered sufficient.

More information and some dates of potential relevance for the U of T community are available at www.vicereprovtstudents.utoronto.ca/publicationsandpolicies/guidelines/religiousobservances.htm.

As with any academic accommodation request, students must submit an on-line Special Consideration Request @ <https://utmapp.utm.utoronto.ca/SpecialRequest>