The Economics of Business Policy (EC-227)

Course Instructor: Prof. Anindya Sen

Internationally, a lot of integration is taking place between economic theory, particularly industrial organization theory, and management strategy theory. On the one hand, industrial organization theorists are trying to draw on real life management practices to develop newer and more relevant theories. On the other hand, management strategy theorists are coming to depend on industrial organization theory to provide a general framework for organizing the otherwise incoherent mass of facts available to them.

In this context, the current course seeks to provide management students with an introduction to the interface between industrial organization theory and strategic management theory.

References:

Texts:

Supplementary Readings:
John Kay - Why Firms Succeed, Oxford University Press.

Other references will be provided as and when necessary

Evaluation
Students will be graded on the basis of a mid-term examination (accounting for 50% of the total marks) and a final examination (accounting for 50% of the total marks). Exams will not, in general, be cumulative, but if sufficient material is not covered before an exam, some material from earlier part of the course might be included.

ECONOMICS OF BUSINESS POLICY

1. Costs
Opportunity Cost; The Production Possibilities Curve; Transaction Costs; Rationality; Marginal Analysis; Production Costs (Costs in the Short Run; Costs in the Long Run; The Relationship between Short Run and Long Run Cost Curves); Multi-product Firms

2. Value
(Added) value from the point of view of the firm; The concept of economic profit: EVA; Demand-supply Analysis and Value: (Added) value from the point of view of the market; Government Intervention in the Market: The Elasticity Concept

3. Uncertainty, Information and Game Theory
Uncertainty (Choice under Uncertainty; Attitudes towards Risk; Value of Information and Option Value); Information (The Principal-Agent Framework; Moral Hazard and Adverse Selection Problems); Game Theory (Normal Form Games and Extensive Form Games; Dominant Strategy Equilibrium; Iterated Elimination of Dominated Strategies; Nash Equilibria; Mixed Strategies)

4. Market Structures
Perfect Competition; Monopoly; Contestable Markets – the Impact of Potential Entry; Theories of Oligopolistic Competition

5. Collusion, Entry Barriers and Entry Strategies
Collusion (Explicit collusion and Tacit Co-operation); Entry Barriers and Limit Pricing (Absolute Cost Advantage; Product Differentiation Advantage; Economies of Scale; The Limit Pricing Model); Other Models of Entry Deterrence (Building Extra Capacity: Commitment and credibility; Plant Proliferation; Product Proliferation; Reputation; Predatory Pricing; Strategic Groups and Mobility Barriers); Entry Strategies

6. Pricing Strategies
Price Inertia: The Kinked Demand Curve Model; Cost-Plus Pricing; Price Discrimination; Tying and Bundling; Auctions; Quality and Pricing

7. Product Differentiation
Monopolistic Competition; Duopoly models; The Hotelling Model; Advertising

8. Firm as the Source of Profit
Theory of the Firm (The Concept of Proprietary Assets; A Resource-based View of the Firm); Architecture; Reputation; Knowledge; Creation of Quasi-rent; Sustenance and Appropriation of Quasi-rent; Strategic Assets

9. Multi-market Operations
Types of Multi-market Operations; Vertical Integration; Conglomerate Diversification; Internationalisation; International Production as an Alternative to International Trade; Strategic Motivations for Multi-market Operations

10. Architecture I: Internal Architecture and the Organisation Structure
Internal Architecture; Designing the Organisation Structure; Organisation Forms
Designing the Compensation System; Designing the Performance Evaluation System; External Architecture; Corporate Governance

12. Requirements for Long Term Success
The Basic Hypothesis; Why Do Successful Firms Decline? Requirement 1: Innovation; Requirement 2: Growth; Requirement 3: A Changing Product Portfolio; Requirement 4: Entrepreneurship; Requirement 5: Luck

13. Regulation and Privatization
Regulation (Price Controls; Rate of Return Regulation; Alternatives to Regulation; Environmental Regulation); Privatization (Reasons for Privatization; Techniques of Privatization; Obstacles to Privatization; Privatization in India); A Model of the Interaction between Private and Public Sector

14. The Environment of Business
Competition Law; Different Approaches: The Indian Context; Competition Law in India