**Economics of Strategic Behavior**

**EMBA Friday/Saturday Format**

**Spring 2016**

BRUCE GREENWALD

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TA:

**REQUIRED COURSE MATERIAL**

**Textbooks**

Competition Demystified (CD) by Bruce Greenwald and Judd Kahn. The specific topics and cases are listed below, with assignment questions for the case discussions attached to this syllabus.

**REQUIRED PREREQUISITES AND CONNECTION TO THE CORE**

Prerequisite: Capital Markets

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

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| **Core Course** | **Connection with Core** |
| Corporate Finance | 1. Cost of Capital 2. Valuation 3. Financing Options 4. Time value of money 5. Opportunity cost (of capital) 6. The Capital Asset Pricing Model (CAPM) 7. Firm Valuation Model |
| Managerial Economics | 1. Barriers to entry 2. Moats 3. Maximization and thinking on the margin 4. Analyzing complex decision-making under uncertainty 5. Decision-based cost analysis 6. Pricing with market power 7. Market segmentation and other advanced pricing strategies 8. Understanding market competition and equilibrium thinking (in the short-run) 9. Market equilibrium thinking (in the long-run) and barriers to entry 10. Strategic interaction among firms and Nash equilibrium |
| Strategy Formulation | 1. Trade-offs, value-added, efficiencies 2. Creation of value vs. value capture 3. Competing firms 4. Co-optition and Complementors 5. Strategic interaction analysis 6. Diversification and scope 7. Ethics & IBS 8. Behavioral and evidence-based strategy 9. Management |

Students will be expected to have mastered these concepts and be able to apply them in the course.

**COURSE DESCRIPTION & OBJECTIVES**

This course is designed to reinforce and develop student abilities to apply the concepts of industry analysis and game theory that were introduced in the core course in Business Economics (B6005). The vehicle for doing this will be predominantly case analyses since the ability to use the course concepts effectively will come largely from repeated application of those concepts.

The topics covered will be (1) the dynamics of entry and the impact of global competition, (2) the strategic imperatives of competitive markets, (3) sources of competitive advantage (local and global), (4) managing competitive interactions (cooperation and preemption), (5) bargaining situations, (6) the impact of information distribution and (7) financial implications of strategic economics. The course will consist of approximately one-third lectures and two-thirds cases. The emphasis in the course is on the ability to apply a small number of principles effectively and creatively, not the mastery of detailed aspects of the theory. For this reason the case discussion classes are particularly important.

**ASSIGNMENTS**

* Prepare thoroughly for each case discussion.
* You must complete a 10 page paper at the end of the semester. It may be done individually or in groups of 4-6 people.

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| **Session** | **Date** | **Time** | **Topic** | **Assignment (\*see attached pages for case assignment questions)** |
| 1 | Fr., Jan. 8 | 12:30-3:30 | Introduction to Economics of Strategic Behavior | CD Chapters 1-4; Case Book\*; CD Chapter 5 |
| 2 | Sat., Jan. 9 | 8:30-11:30 | Wal-Mart Stores in 2003; Qualcomm | Case Book\*; CD Chapter 6; Case Book\*; CD Chapter 7 |
| 3 | Fr. Jan. 22 | 3:45-6:45 | Southwest Airlines – 1993; Harley Davidson, Inc.- 1987 | Case Book\*; |
| 4 | Sat., Jan. 23 | 3:45-6:45 | Apple Computer 2005; Matching Dell | Case Book\*; CD Chapter 8-10 |
| 5 | Sat., Feb. 6 | 8:30-11:30 | Introduction to Competitive Decision-Making; Pricing and Prisoners Dilemma | Case Book\* |
| 6 | Fr., Feb. 19 | 12:30-3:30 | Rogers Communications, Inc: The Wave; Phillip Morris – Marlboro Friday (A) | Case Book\*; CD Chapter 11 |
| 7 | Fr., Mar. 4 | 3:45-6:45 | Entry and Capacity Competition; British Satellite Broadcasting vs. Sky TV | Case Book\*; CD Chapters 12-13 |
| 8 | Sat., Mar. 5 | 3:45-6:45 | Google Inc.; Bargaining Equilibria | CD Chapters 14-15; Case Book\* |
| 9 | Fr., Mar. 18 | 12:30-3:30 | Airbus vs. Boeing (A): Turbulent Skies Airbus vs. Boeing (B): The Storm Intensifies; 2010 Potash Wars: BHP  Billeton’s takeover bid for Potash | Case Book\* |
| 10 | Sat., Mar. 19 | 12:30-3:30 | Strategic Economics & Valuation | CD Chapter 16 |
| 11 | Fr., Apr. 1 | 8:30-11:30 | Magna Case; Amazon Case | Case Book\* |
| 12 | Sat, Apr. 16 | 8:30-11:30 | Mergers & Acquisitions, Strategic Analysis in Perspective | CD Chapter 17 |

# Discussion Case Questions

# Case: Wal-Mart Stores in 2003

1. Why has Wal-Mart been so successful?
2. Is this success likely to continue?
3. How, if at all, should Wal-Mart change its strategy?

# Case: Qualcomm

1. What, if any, competitive advantages does Qualcomm enjoy?
2. How far are these advantages sustainable into the future?
3. As head of Qualcomm what would be your strategic priorities? In R&D? In marketing? In production? In the regulatory arena?

# Case: Southwest Airlines – 1993

1. What are the key elements underlying Southwest’s success?
2. How are these related to growth strategy?
3. Which of the three expansion alternatives – Phoenix-Detroit; Dayton or Baltimore would you recommend?

# Case: Harley-Davidson - 1987

1. How would you describe Harley – Davidson’s competition position at YE 1986?
2. What competitive advantages, if any does it enjoy?
3. What steps would you recommend Harley-Davidson take to secure its future?

# Case: Apple Computer 2005

1. What is Apple’s competitive situation in computers? What strategies are appropriate? What is Apple’s likely future profitability in computers?
2. What competitive advantages does Apple’s ipod enjoy? What should Apple do to enhance those advantages? What is Apple’s future ipod profitability look like?
3. What about itunes?

# Case: Matching Dell

* 1. How does Dell’s approach in the personal computer industry differ from its main competitors?
  2. What accounts for the difference in performance between Dell and its major competitors?
  3. How far is Dell’s position likely to be sustainable in the future?

# Case: Rogers Communications, Inc: The Wave

1. How should Rogers approach the Internet market? As an ISP? As an access provider, like its Wave offering?
2. What are the critical elements in the competitive environment it is likely to face?
3. What kind of pricing policy should Rogers pursue?

# Case: Phillip Morris: Marlboro Friday (A)

1. How would you describe Marlboro’s competitive position in early 1993?
2. What is Marlboro’s marketing strategy at that time?
3. How does this compare to RJ Reynolds’?
4. What accounts for Philip Morris’ dramatic shift in strategy in April 1993? What are its goals?
5. How should RJ Reynolds respond?
6. What kind of industry future does Philip Morris anticipate?

**Case: Google**

1. What are the sources of Google's competitive advantages?
2. How do these apply to the various new initiatives discussed in the case?
3. How are they likely to affect Microsoft?
4. How is Microsoft likely to react?
5. How is this outcome likely to affect Google's long run profitability?

**Cases: Airbus vs. Boeing (A): Turbulent Skies and Airbus vs. Boeing (B): The Storm Intensifies**

1. What competitive advantages, if any, does Boeing enjoy in the aircraft industry? What offsetting advantages does Airbus enjoy?
2. What is Airbus’ entry strategy? How has Boeing responded? Are there alternative strategies you would recommend?
3. How is the current competitive process likely to evolve?
4. Is there an alternative evolution that you would like to see? As Boeing? As Airbus? As the US and European governments? As the airlines?

# Case: 2010 Potash Wars: BHP Billeton’s takeover bid for Potash Corp. of Saskewatch

1. Why has the price of Potash been so volatile?
2. How does the Canpotex cartel work, given that the cartel only controls a subset of the market capacity? What is the position of the Potash corporation in the cartel?
3. Describe BHP’s strategic position in the potash market, before its takeover attempt. Is it weak? Strong? Why?
4. Describe how a take‐over of PCS allows BHP to improve or exploit its pre‐takeover strategic position. What would be other alternatives? In what ways is a takeover better or worse than these alternatives from BHP’s perspective?\*
5. Describe whether and how BHP’s strategy will increase value creation in the potash industry. Describe whether and how it allows BHP to capture value in this industry.\*

**Case: Magna**

1. Is Magna a good investment in March, 2009 at $20/share?
2. What problem do you foresee in such an investment?

# Case: Amazon

(1) What is your valuation of Amazon’s assets as of December 31, 2006?

(2) What is the value of Amazon’s earnings?

(3) What would you pay for Amazon stock?

**\*THE FOLLOWING ARE THE HBS CASE NUMBERS FOR THE CASEBOOK FOR ECONOMICS OF STRATEGIC BEHAVIOR**

**Walmart Stores in 2003 9-704-430**

**Qualcomm Inc. 2004 9-705-401**

**Southwest Air Lines 9-694-023**

**Harley-Davidson-1987 9-292-082**

**Apple Computer, 2005 9-705-469**

**Matching Dell 9-799-158**

**Rogers Communications, Inc: The Wave 9-597-050**

**Philip Morris: Marlboro Friday (A) 9-596-001**

**British Satellite Broadcasting versus Sky Television 9-794-031**

**Google, Inc. (plus supplement attached) 9-806-105**

**Boeing versus Airbus (A) 9-386-193**

**Bering versus Airbus (B) 9-388-145**

**Potash Corporation of Saskatchewan Yale 11-031**

**Amazon 10K Value Line**

**METHOD OF EVALUATION**

Course Participation: 20%

3 Write-ups: 25%

Final Paper: 55%

**CLASSROOM NORMS AND EXPECTATIONS**

***Class Participation:***   
Preparation, Discussion, Organization