

Economics Foundation of Strategy

Course No : 02804080

Credit : 1

Prerequisite : None

Program : Graduate

Instructor : Wu Changqi

Semester : 2015 Fall

Instructor's resume/brief introduction:

Professor Wu received his degree of Bachelor of Economics from Shandong University, China (1982). He earned his degree of Master of Business Administration with distinction (1986) and his Doctorate in Applied Economic Sciences (1990) from the Catholic University of Leuven, Belgium. Professor Wu was a recipient of the 1991 Young Economist Essay Competition Award from the European Association for Research in Industrial Economics. He specializes in industrial economics, management strategy, and international business. He has published a number of scholarly books and his research appears in leading academic journals in the fields of economics and management, including *Rand Journal of Economics*, *International Journal of Industrial Organization*, *Review of Industrial Organization*, *Journal of Management Studies* and *Journal of World Business*. Presently, he is the principle investigator of the key research project: "China's Outward Foreign Direct Investment and Cross-Border Mergers and Acquisitions" funded by the National Science Foundation of China. He is the leader of the research group on Economic, Industrial and Strategic Analysis of the National Major Science and Technology Programs, China. Professor Wu has served on the editorial boards of the *European Management Review* and *Journal of World Business*. He is the Chairman of China Chapter of Academy of International Business.



Instructor's contact information :

Rm.: 408, Guanghua Building No. 2

Tel.: (010) 6274 7146 **E-mail:** topdog@pku.edu.cn **Skype and WeChat:** topdog620

TA's contact information::

Office hour:

Program Learning Goals and Objectives

- 1 **Learning Goal 1** Graduates will be thoroughly familiar with the specialized knowledge and theories required for the completion of academic research.
 - 1.1 Objective 1 Graduates will have a deep understanding of basic knowledge and theories in their specialized area.
 - 1.2 Objective 2 Graduates will be familiar with the latest academic findings in their specialized area and will be knowledgeable about related areas.
 - 1.3 Objective 3 Graduates will be familiar with research methodologies in their specialized area, and will be able to apply them effectively.
- 2 **Learning Goal 2** Graduates will be creative scholars, who are able to write and publish high-quality graduation dissertation and research papers.
 - 2.1 Objective 1 Graduates will write and publish high-quality graduation dissertation and

research papers

2.2 Objective 2 Graduates will be critical thinkers and innovative problems solvers.

3 **Learning Goal 3** Graduates will have a broad vision of globalization and will be able to communicate and cooperate with international scholars

3.1 Objective 1 Graduates will have excellent oral and written communication skills

3.2 Objective 2 Graduates will be able to conduct efficient academic communication in at least one foreign language

4 **Learning Goal 4** Graduates will be aware of academic ethics and will have a sense of social responsibility.

4.1 Objective 1 Graduates will have a sense of social responsibility.

4.2 Objective 2 Graduates will be aware of potential ethical issues in their academic career.

4.3 Objective 3 Graduates will demonstrate concern for social issues.

Course Overview

This course discusses the topics of theory of industrial organization and game theory, theory of firm, transaction cost theory, agency theory, and economics of platform. The course emphasizes the complementarities among those theories and the potential for integrating these theories as a broad theoretical foundation of strategy. The cutting edge of theoretical development will also be discussed. The implication of these theories to empirical regularities and business practices are highlighted.

Course Objectives

After taking this course, students should be able to having a good understanding of literature on theory of the firm and industrial organization; they should be able to apply tools of economics to analyze the strategic behavior of the firms and evolution of the industry and the organizations; they should be able to formulate empirically testable hypotheses based on those theories; they should be able to integrate economics theories with other theoretical foundations of strategies.

Course Plan

Session 1: Industrial organization theory and game theory

Required readings

Salant, Stephen W, Sheldon Switzer and Robert J Reynolds, 1983, Losses from horizontal merger: The effects of an exogenous change in industry structure on Cournot-Nash equilibrium, *The Quarterly Journal of Economics*, 98(2), 185-199.

Spulber, Daniel, 1992, Economic analysis and management strategy: A survey, *Journal of Economics & Management Strategy*, 1(3) 535–574.

Porter, Michael E. 1981. The contributions of industrial organization to strategic management. *Academy of Management Review*, 6, 609-620.

Optional readings

Caves, Richard E., 1980, Industrial organization, corporate strategy and structure, *Journal of Economic Literature*, 18 (1) 64-92.

Caves, Richard E., 1998, Industrial organization and new findings on the turnover and mobility of firms, *Journal of Economic Literature*, 36 (4) 1947-1982.

Rumelt, Richard P. 1991. How much does industry matter? *Strategic Management Journal*, 12(3), 167-185.

Rumelt, Richard P., Dan Schendel, David J. Teece, 1991, Strategic management and economics, *Strategic Management Journal*, 12, Special Issue, 5-29.

Salant, Stephen W, Sheldon Switzer and Robert J Reynolds, 1983, Losses from horizontal merger: The effects of an exogenous change in industry structure on Cournot-Nash equilibrium, *The Quarterly Journal of Economics*, 98(2), 185-199.

Schmalensee, Richard. 1985. Do markets differ much? *American Economic Review*, 75(3), 341-351.

Shapiro, C. 1989. The theory of business strategy. *Rand journal of economics*, 20(1): 125-137.

Spulber, Daniel, 1992, Economic analysis and management strategy: A survey, *Journal of Economics & Management Strategy*, 1(3) 535-574.

Spulber, Daniel, 1994, Economic analysis and management strategy: A survey continued, *Journal of Economics & Management Strategy*, 3(2) 355-406.

The Royal Swedish Academy of Sciences, 2014, Jean Tirole: Market power and regulation, Section 3, 18-28.

Session 2: Transaction cost economics

Required readings

Coase, Ronald H. 1937. The nature of the firm. *Economica*, 4: 386-405

Williamson, Olivier E. 1975. Markets and Hierarchies. New York, NY: Free Press. (Page 1-40)

Williamson, Olivier E. 1981. The Economics of organization: The transaction cost approach. *American Journal of Sociology*, 87(3): 548-577.

Optional readings

Williamson, Olivier E. 1985. The Economic Institution of Capitalism. The Free Press.

Session 3: Agency theory

Jensen, M.C. and Meckling W.H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3: 305-360.

Fama, E F. & Jensen, M.C. 1983. Separation of ownership and control. *Journal of Law and Economics*, 26: 301-325.

Session 4: Property right theory of the firm

Grossman, Jean and Oliver Hart, 1986, The costs and benefits of ownership: A theory of vertical and lateral integration, *Journal of Political Economy*, 94: 691-719.

Hart, Oliver, 1995, *Firms, Contracts, and Financial Structure*, Oxford University Press, Part I 13-88.

Hart, Oliver and John Moore, 1990, Property rights and the nature of the firm, *Journal of Political Economy*, 98(6): 1119-1158

Session 5: Information economics and platform economics

Brandenburger, A. M. and Nalebuff, B. J. 2002. The right game: Use game theory to shape strategy. *Harvard Business Review*. 57-71.

Rysman, M. 2009. The economics of two-sided markets. *The Journal of Economic Perspectives*, 23(3): 125-143.

Final Exam:

There is no written final examination for this course. Students are asked to write a critical review of the topics covered in the course.

Teaching Methods

Classroom discussion and presentation.

Lecture

There is no formal lecture, seminar style of stimulating discussions will be the norm of the learning.

IT tools to be used in the classroom

On-line discussion teaching facility will be used throughout the course..

Textbooks

Joseph T. Mahoney, *Economic Foundations of Strategy*, Sage Publications, 2004.

References & Readings

John Roberts, *The Modern Firm: Organizational Design for Performance and Growth*, Oxford University Press, 2007.

Jean Tirole, *Theory of Industrial Organization*, MIT Press, 1988.

Videos, CD-ROMs and other adjunct learning resources used

Overhead projector and whiteboard will be available for students to present their work.

Rules students must follow

Students must read the assigned articles before coming to the class.

Course Assessment

Student performance is based on the pre-course preparation, in class participation of discussion and depth of review paper.