

STRAMGT 630
Economics of Strategy and Organization
Winter 2007
Tuesday, 10:00 a.m. – 1:00 p.m., location L104

Contact Information

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Course Summary

This seminar examines economic approaches to the classic issues of strategic management. Topics include “outside the firm” areas of research such as industry and competitor analysis, switching costs, network externalities, nonlinear pricing, and pricing with naïve consumers as well as “inside the firm” areas such as leadership, allocation of authority, and organizational complementarities. The seminar also considers research on the boundaries of the firm including vertical integration, contractual channel relationships, and the relationship of financial structure and strategy. Empirical work is emphasized, but theoretical work is also examined, especially as it informs the empirical work.

Class sessions combine lectures, discussions and student presentations. Discussions emphasize evaluating the research methods employed in the papers and identifying opportunities for future research. For selected topics we briefly discuss an M.B.A.-style case study relevant to the topic. This provides “real-world” examples to inform the research and to familiarize students with M.B.A. teaching.

Students are required to write a referee report and present two papers. I provide written feedback after each presentation to provide an opportunity for students to improve their skills at presenting research. In addition, students are responsible for participating in class discussions.

Course Materials

- Course Reader 1 (contains HBS cases and materials)
- Course Reader 2 (contains journal articles)
- Saloner, G., S. Shepard and J. Podolny (2001), *Strategic Management*, Wiley. (Available on reserve at Jackson Library Course Reserve)

Course Requirements

- One referee report 35%
- Two paper presentations 35%
- Class participation 30%

January 9 Organizational Meeting
Introduction to Strategy

- Gibbons, R. (2003). "Team Theory, Garbage Cans and Real Organizations: Some History and Prospects of Economic Research on Decision-Making in Organizations," *Industrial and Corporate Change* 12, 753 – 787.
- Porter, M. (1996). "What is Strategy?," *Harvard Business Review*, 61 – 78, Reprint # 96608.
- Saloner, G., A. Shepard and J. Podolny (2001). *Strategic Management*, Wiley, Chapters 2 & 3, 19 – 63. (Jackson Library Course Reserve)

January 16 Vertical Integration and the Value Chain

- Baker, G. and T. Hubbard (2003). "Make Versus Buy in Trucking: Asset Ownership, Job Design and Information," *American Economic Review*, 93, 551 – 572. (JSTOR)
- Hastings, J. and R. Gilbert (2002). "Market Power, Vertical Integration and the Wholesale Price of Gasoline," *Journal of Industrial Economics*, 47, 469 – 492. (Blackwell-Synergy)
- Martin, S., H.-T. Normann, and C. Snyder (2001). "Vertical Foreclosure in Experimental Markets," *RAND Journal of Economics*, 32, 466 – 496. (JSTOR)
- Ordover, J., G. Saloner and S. Salop (1990). "Equilibrium Vertical Foreclosure," *American Economic Review*, 80, 127 – 142. (JSTOR)
- "Benneton S.p.A." HBS Case 9-389-074.

January 23 Contractual Channel Relationships

- Akerberg, D. and M. Botticini (2002). "Endogenous Matching and the Empirical Determinants of Contract Form," *Journal of Political Economy*, 110, 564 – 91. (EBSCO)
- Shepard, A. (1993). "Contractual Form, Retail Price, and Asset Characteristics in Gasoline Retailing," *RAND Journal of Economics*, 24, 58 – 77. (JSTOR)
- Mortimer, J. (2004). "Vertical Contracts in the Video Rental Industry," working paper, Harvard University.
(<http://www.economics.harvard.edu/faculty/mortimer/papers/06jmp212.pdf>)
- "Xerox and Fuji-Xerox" HBS Case 9-391-156.

January 30 Leadership and Allocation of Authority

Bertrand, M. and A. Schoar (2003). “Managing with Style: The Effect of Managers on Firm Policies,” *The Quarterly Journal of Economics*, 118, 1169 – 1208. (EBSCO)

Bloom, N. and J. Van Reenen (2006). “Measuring and Explaining Management Practices across Firms and Countries,” NBER working paper. (<http://www.stanford.edu/~nbloom/MeasuringManagement.pdf>)

Garicano, L. and T. N. Hubbard (2006). “The Return to Knowledge Hierarchies,” working paper, Northwestern University. (<http://www.kellogg.northwestern.edu/faculty/hubbard/htm/research/papers/july0606.pdf>)

February 6 Organizational Complementarities

Athey, S. and S. Stern (1998). “An Empirical Framework for Testing Theories about Complementarity in Organizational Design,” NBER Working Paper 6600. (<http://kuznets.fas.harvard.edu/~athey/testcomp0498.pdf>)

Athey, S. and S. Stern (2002). “The Impact of Information Technology on Emergency Health Care Outcomes,” *RAND Journal of Economics*, 33, 399 – 432. (JSTOR)

Bresnahan, T. F., E. Brynjolfsson and L. M. Hitt (2002). “Information Technology, Workplace Organization, and the Demand for Skilled Labor: Firm-Level Evidence,” *The Quarterly Journal of Economics*, 117, 339 – 376. (EBSCO)

“Lincoln Electric Co” HBS Case 9-376-028.

February 13 Strategy in Markets with Demand-Side Increasing Returns

- Gowrisankaran, G. and J. Stavins (2004). "Network Externalities and Technology Adoption: Lessons from Electronic Payments," *RAND Journal of Economics*, 35, 260 – 276. (EBSCO)
- Rysman, M. (2004). "Competition Between Networks: A Study of the Market for Yellow Pages," *The Review of Economic Studies*, 71, 483 – 512. (EBSCO)
- Saloner, G. and A. Shepard (1995). "Adoption of Technologies with Network Effects: An Empirical Examination of the Adoption of Automated Teller Machines," *RAND Journal of Economics*, 26, 479 – 501. (JSTOR)
- Saloner, G., A. Shepard and J. Podolny (2001). "Strategy in Markets with Demand-Side Increasing Returns," *Strategic Management*, 305 – 328 (Jackson Library Course Reserve).

February 20 Switching Costs (Buyer and Supplier Power)

- Goettler, R. L. and R. Shachar (2001). "Spatial Competition in the Network Television Industry," *RAND Journal of Economics*, 32, 624 – 656. (JSTOR)
- Keane, M. P. (1997). "Modeling Heterogeneity and State Dependence in Consumer Choice Behavior," *Journal of Business and Economic Statistics*, 15, 310 – 327. (JSTOR)
- Klemperer, P. (1995). "Competition When Consumers Have Switching Costs: An Overview with Applications to Industrial Organization, Macroeconomics, and International Trade," *The Review of Economic Studies*, 62, 515 – 539. (JSTOR)
- Shum, M. (2004). "Does Advertising Overcome Brand Loyalty? Evidence from the Breakfast Cereals Market," *Journal of Economics & Management Strategy*, 13, 241 – 272. (EBSCO)

February 27 Financial Structure and Corporate Strategy

- Busse, M. (2002). "Firm Financial Condition and Airline Price Wars," *RAND Journal of Economics*, 33, 298 – 318. (JSTOR)
- Chevalier, J. (1995). "Capital Structure and Product-Market Competition: Empirical Evidence from the Supermarket Industry," *American Economic Review*, 85, 415 – 35. (JSTOR)
- Lang, L. and R. Stulz (1994). "Tobin's Q, Corporate Diversification, and Firm Performance," *Journal of Political Economy*, 102, 1248 – 1280. (JSTOR)
- Schoar, A. (2002). "Effects of Corporate Diversification on Productivity," *The Journal of Finance*, 62, 2379 – 2403. (JSTOR)
- "The Walt Disney Co.: The Entertainment King," HBS Case 9-701-035.

March 6 Price Discrimination and Dispersion

- Busse, M. and M. Rysman (2004). "Competition and Price Discrimination in Yellow Pages Advertising," *RAND Journal of Economics*, 36, 378 – 390. (ABI-INFORM)
- Leslie, P. (2004), "Price Discrimination in Broadway Theatre," *RAND Journal of Economics*, 35, 520 – 541. (ABI-INFORM)
- McManus, B. (2003). "Nonlinear Pricing in an Oligopoly Market: the Case of Specialty Coffee," *RAND Journal of Economics*, forthcoming. (<http://www.olin.wustl.edu/faculty/mcmanus/coffeeMay06.pdf>)
- Sorenson, A. (2000). "Equilibrium Price Dispersion in Retail Markets for Prescription Drugs," *Journal of Political Economy*, 108, 833 – 850. (JSTOR)

March 13 Pricing Strategies with Naïve Consumers

- DellaVigna, S. and U. Malmendier (2004). "Contract Design and Self Control: Theory and Evidence," *Quarterly Journal of Economics*, 119, 353 – 402. (EBSCO)
- Madrian, B. and D. Shea (2001). "The Power of Suggestion: Inertia in 401(K) Participation and Savings Behavior," *Quarterly Journal of Economics*, 116, 1149 – 87. (EBSCO)
- Miravete, E. (2003). "Choosing the Wrong Calling Plan? Ignorance and Learning," *American Economic Review*, 93, 297 – 310. (JSTOR)