

Description

In the course *Strategic Management* we analyze the behavior of firms when there is strategic interaction with competitors, suppliers, and customers. This is typically the case, when competition is not perfect. In this sense, the course is similar to a course in Industrial Organization (IO). There are two main differences. First, we will pay little attention to economic policy (regulation and competition policy). Second, we discuss tools which should guide the analysis in practical situations.

Method and prerequisites

There will be lectures (in English) and you are expected to spend roughly the same amount of time on home assignments. You should work out the exercises in small teams (3 students).

Basic knowledge of microeconomic theory and game theory is useful but not strictly required. It will be explained as we need it.

At the end there will be a written examination.

Reading Material

The classic book on strategy (dubbed one of the most influential books in social science) is

- Thomas Schelling, 1960, *The Strategy of Conflict*, Harvard University Press, Cambridge Massachusetts, London

The following two books provide guidance for carrying out a structured analysis in a given case.

- Michael E. Porter, 1980, *Competitive Strategy — Techniques for Analyzing Industries and Competitors*, Free Press

- Adam M. Brandenburger, Barry J. Nalebuff, 1997, Co-opetition, Doubleday, New York

There are many textbooks on industrial economics. I recommend the following:

- Jeffrey Church, Roger Ware, 1999, Industrial Organization: A Strategic Approach, McGraw Hill
- David Besanko, David Dranove, Mark Shanley, 2000, Economics of Strategy, John Wiley & Sons, Inc.
- Stephen Martin, 2002, Advanced Industrial Economics, Blackwell
- Jean Tirole, 1992, The Theory of Industrial Organization, MIT Press

Church and Ware is suitable as the main textbook. It is available for download online. Besanko, Dranove and Shanley adopt a managerial perspective. For those who are looking for a more rigorous treatment Tirole and Martin are more adequate. In addition to these textbooks I will use material from

- Elmar Wolfstetter, 1999, Topics in Microeconomics — Industrial Organization, Auctions, and Incentives, Cambridge University Press
- John Sutton, 1996, Sunk Costs and Market Structure, MIT Press

To freshen up your microeconomics consult:

- Pindyck, Robert S; Rubinfeld, Daniel L. (1992), Microeconomics, Maxwell Macmillan.

A good source for optimization theory is:

- Avinash K. Dixit, 1990, Optimization in Economic Theory, Oxford University Press

Finally, you may want to consult books on game theory:

- Avinash K. Dixit; Barry J. Nalebuff, 1991, Thinking Strategically, W.W. Norton & Company; New York, London

- Robert Gibbons, 1992, *Game Theory for Applied Economists*, Princeton University Press
- Christian Montet, Daniel Serra 2003, *Game Theory & Economics*, Palgrave

The first is an entertaining non-formal overview. The other two provide a more rigorous presentation (the latter is recommended because its coverage of cooperative game theory).

Topics

(In the brackets you find references to chapters of books in the reading list, with: BN: Brandenburger, Nalebuff; CW: Church, Ware; P: Porter; BDS: Besanko, Dranove, Shanley.)

Preliminaries

Strategic Decisions: Changing the Game

(Reading: BN: 2-3, BDS: Primer: Economic Concepts for Strategy)

Making use of market power: Monopoly

Mark-up and demand elasticity, deadweight loss, multi-market pricing, strategic pricing, two part tariffs, optimal price discrimination under asymmetric information, product quality.

(Reading: CW: chap 4-6)

Principles

Competition & Cooperation: the static approach

Strategic interaction in a given market structure, competition in price and quantity, (Bertrand / Cournot), asymmetric information about rivals cost, rationing excess demand, pricing with capacity constraints.

(Reading: CW: chap 8; BDS: chap 7)

Competition & Cooperation: simple dynamics

Cooperating with Competitors, Collusion in repeated interactions, facilitating factors.

(Reading: CW: chap 10; BDS: chap 9)

Strategic commitment (and the lack of it)

Using first mover advantages, commitment with capacity, taxonomy of business strategies, quantity and the learning curve, incomplete contracts and the lack of commitment, hold-up and investment.

(Reading: CW: chap 13-16; BDS: chap 8)

Entry & exit

Sunk cost, inefficient entry, contestable markets, the commitment value of prices, deterring, accommodating, and inviting entry.

(Reading: CW: chap 14-15; BDS: chap 10)

Differentiation and positioning

Forms of product differentiation, trades-offs in positioning, excess differentiation in the linear model with quadratic transport cost, vertical differentiation.
(Reading: CW: chap 11; BDS: chap 12)

Building markets share

Search and switching cost, consumer 'lock in' and the fight for market shares.
(Reading: CW: chap 16, 17)

Managing the value-net

Strategic use of contracts in competition and cooperation, vertical structures, horizontal and vertical mergers.

Implementation

Five Forces Analysis

Structural Analysis, Generic Competitive Strategies, Competitor Analysis.
(Reading: P: chap 1-3)

Value-Net and PARTS

Players, added values, rules, tactics, scope.
(Reading: BN: chap 4-8)