



## ***CCBU515GA Microeconomic Foundations for Strategic Management***

*Fall, 2015*

Moravian College Comenius center  
Tuesdays, 6:30-9:30pm, 101 PPHAC

### **Instructor Information**

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### **Course Description**

In this course, participants explore the role of economic theory and analysis in the formation of business strategy and policy. The course examines the importance of understanding the external market and competitive environment - including market structure, strategic interactions among competitors, pricing strategy options and the impact of government regulatory policies, antitrust policies and intellectual property issues. The course also examines the economic forces internal to the firm, particularly the forces that drive direct and overhead unit product and service costs, as well as the cost considerations that impact "make vs. outsource" decisions. The course throughout emphasizes the importance of economic reasoning in the strategic management process.

### **General Description**

The goal of this course is provide the student with a clear understanding of the microeconomic forces that underlie and shape the organization's business model for growing profits by increasing its revenues and controlling its costs.

To achieve these goals, the course's lectures and assignments first provide the student with an in depth look at the microeconomic forces that underlie and shape the firm's INDIVIDUAL PRODUCT AND PRODUCT LINE SPECIFIC revenues through a close look at both the nature (product and geographic breadth) and the price elasticities of the market demand curves the firm seeks to serve. The section also looks closely at the microeconomic structures and consequent business model profit potentials of the various kinds of industries the firm may find itself competing in while addressing these market demand curves. The idea that industry structures shape profit potential is a key course theme.

Next the course's lectures, assignments, readings and class discussions address the ability of a firm to understand and control its costs through an in depth understanding of the nature and measurement of microeconomic fixed, variable and marginal costs – again at the PRODUCT AND PRODUCT LINE SPECIFIC LEVEL - in a modern, multiproduct firm context. The course at this stage pays particularly close attention to the distinctions between fixed and sunk costs that can arise in different business contexts and with full consideration of the way the data available to decision makers for microeconomic fixed and sunk costs is reported in typical cost accounting systems (usually the only source of cost data available to management decision makers). This stage of the course also looks at the important topic of overhead allocation schemes typically used in cost accounting systems and how variations in these schemes often impact product line specific profits and the strategic incentives for further investment in specific product lines.

The third major topic the course addresses is the potential impact on a business model's revenues that may be gained by employing various pricing strategy concepts that are discussed in the microeconomics literature such as group pricing, two part pricing, block pricing, etc.

The fourth major course topic is the nature of the microeconomic forces that arise from government regulations regarding the environment, antitrust, workplace health and safety and product liability. The goal of this section is to provide the student with an in-depth understanding of the way that regulations may impact an organization's profits both positively (through positive impacts on market demand curves) and negatively (through impacts on firm costs). An important application of the material in this section is the recommendation to students that proposed regulations need to be examined by the firm on a rigorous Benefit/cost basis and not just judged by their impacts on costs alone.

Finally, intellectual property issues are examined in some depth, since these are critical in many marketing and supply chain management contexts.

## **Student Learning objectives and Management Program Learning Objectives Related to this Class**

By the end of the course students will be able to apply and analyze the impact on profits of an industry's structure and the following microeconomic, accounting and regulatory factors that shape business models and profit outlooks for organizations competing within specific industry structures. Each of the sixteen student learning objectives (SLOs) listed below support the Program Learning Objectives (PLOs) listed in parentheses appearing after each SLO.

1. How five forces identify an industry's structure and its profit outlook  
(PLOs: Understands the business, conducts diagnostic assessments, understands external factors and recognizes and acts on business opportunities).
2. How the origins and horizontal boundaries of a demand curve drive revenue opportunities  
(PLO: Recognizes business priorities).
3. How demand elasticity constrains pricing options and profit outlooks  
(PLOs: Understands the business, recognizes business priorities and understands external factors).
4. How opportunity costs, both visible and invisible in accounting data, shape profit outlooks  
(PLOs: Applies financial data, gathers information and conducts diagnostic assessments).
5. How distinguishing avoidable, unavoidable & sunk costs gives more accurate profit forecasts  
(PLOs: Recognizes business priorities, gathers information and conducts diagnostic assessments).
6. How misidentifications of fixed costs as variable costs & sunk as fixed costs can be avoided  
(PLOs: Gathers information and conducts diagnostic assessments)
7. How accounting and economic depreciation concepts differ & lead to different profit forecasts  
(PLOs: Applies financial data, gathers information and conducts diagnostic assessments).
8. How the scale, scope & learning options available to an organization impacts costs & profits  
(PLOs: Understands the business and understands external factors)
9. How perfect competition, monopoly, monopolistic competition and oligopoly impact profits  
(PLOs: Understands the business and understands external factors)
10. How accounting rules for transfer pricing and overhead allocation distort product line profits  
(PLOs: Applies financial data, gathers information and conducts diagnostic assessments).
11. How profit outlooks vary when firms employ group pricing, two part pricing, block pricing, menu pricing, Bundled, pricing, tit for tat pricing, predatory pricing, learning curve pricing, and pricing under vertical Restraints.  
(PLOs: Understands the business, recognizes and acts on opportunities and creates a value proposition).
12. How agency, influence & transactions costs not in accounting data impact outsource profits  
(PLOs: Gathers information and conducts diagnostic assessments)
13. How the revenue benefits and costs from government regulations can be analyzed properly  
(PLO: understands external factors influencing business)
14. How profits & environment impacts differ with emission limits, taxes & tradable permit rules  
(PLO: understands external factors influencing business)understands external factors
15. How antitrust laws shape profit outlooks  
(PLO: understands external factors influencing business)
16. How Government policies impact innovation and how intellectual property rights impact profit outlooks  
(PLO: Understands the business and understands external factors influencing business)

### **Required text**

*The Structure of American Industry*, 13th edition by James Brock (available in bookstore)

### **Main source used for lecture material (Students may borrow these from the instructor if they wish)**

*Industrial Organization*, 4<sup>th</sup> ed. By L.Pepall, D. Richards & G. Norman  
*Modern Industrial Organization*, 4th edition by D.W. Carlton & J.M. Perloff  
*Economics of Strategy*, 2nd edition by D. Bensanko, D. Dranove & M. Shanley  
*Accounting for Decision Making and Control*, 5th ed. by J.L. Zimmerman

## Assignments:

### **Enhanced student responsibilities in a blended eight week graduate course**

This blended course will cover the same topics in eight weeks that is normally covered in a full semester, traditional format course. However, students who may be concerned about whether the course will adequately prepare them to achieve their professional goals need not be. **The course's content will not be "watered down"** to fit within an eight week schedule.

The implication of the "full coverage in eight weeks" commitment to students is that **the course will move at a fairly fast pace**. In turn, this means that students will have significantly increased responsibilities to commit manage their time exceedingly well.

### **Weekly in class agendas**

The first half of the agenda for most of the eight weekly in class meetings will consist of an oral lecture covering the course topics to be covered that particular week.

In the second half of the weekly class meeting students will present and the class will discuss their five forces analyses of profit outlook for firms in specific industries that are profiled in the required text, and in supplemental reading material provided by the instructor.

### **Weekly take home exam assignments**

Each week all students will be responsible to submit their responses to a set of essay questions that measure the students mastery of last week's course topics. These exams will be numerically graded. The weekly take home exam assignment will be posted in blackboard for downloading and printing.

Students should respond to each exam by creating an MS word file, an rtf file or a pdf file with their exam responses and attach it to an e-mail sent before midnight on the Tuesday which the exam is due. **NO OTHER FILE FORMATS ARE ACCEPTABLE – the instructor is unable and unwilling to spend a significant number of hours each week struggling to download and print files submitted in esoteric formats.** Contact the CIT help line at x1500 for help if MS word or pdf file formats pose difficulties.

**Students also have the option of faxing their exam before midnight of the due date to 610-861-1466.**

**Responses to all take home exam essay questions must be typed.** If a graph is also required in answering a particular question, the graph can be freehand drawn in pencil in a whitespace between paragraphs of your text response to the question for which the graph pertains. If graphs are hand drawn your exam must be scanned into a pdf format file. Contact the CIT help line at x1500 for help should this requirement pose difficulties.

**NOTE THAT ALL TAKE HOME EXAMS AND 5 FORCES WORKSHEETS ARE DUE BY MIDNIGHT ON THE DUE DATE - IRRESPECTIVE OF ANY ABSENCE FROM CLASS FOR ANY REASON. LATE SUBMITTALS GET ZERO CREDIT**

### **Weekly reading and five forces analysis worksheet preparation that profiles a specific industry**

In addition to the weekly take home exam assignment, each week students will read an assigned chapter in the Brock text and other material provided by the instructor that profile a specific industries and will each bring a hard copy of their five forces analysis worksheet that prepares them to be called on, at random, to lead a 3-4 person weekly "panel of experts" discussion of a specific industry's structure and competitive dynamic described in the Brock text. Instructor provided supplemental readings will be placed in Blackboard as a pdf file.

### **Contacting the instructor and working with other students for extra help**

If Students are having problems with some aspects of a topic being covered in this course, particularly microeconomic theory related topics, please don't hesitate to reach out for help. Contact the instructor by e-mail, by phone or in person – during office hours or by appointment.

I have no problem with students working together to prepare their weekly exam responses and 5 forces analyses. However, the work you submit for a grade must clearly reflect your own thoughts and communication Style.

### **Grading Summary:**

The following table indicates how the final course grade will be computed. The usual 100 point based grade scoring will be observed (e.g. 83-86 points = B, 87-89 = B+, 90-92 = A-, etc.)

Seven take home exams & 1 in class exam Exams 1-6, 9 points per exam, exam 7, 6 points.	60 points maximum total
Six weekly industry analyses Six 5-forces worksheets (S, S- or U graded) Discussion participation (S, S- or U graded)	25% points maximum total 15% total
Missing greater than 1 class	- 3 points per class per class missed

**Late submittals (after midnight of due date) of exams or five forces worksheets will not be accepted, for any reason. Late submittals receive zero credit.**

If you turn in a five forces worksheet on time for an industry but miss the class discussion on that industry you will get credit for the worksheet submittal but not for the discussion participation

### **Other Important Information**

#### **Academic Honesty**

Students are expected to comply with Moravian College's policy on academic honesty as found in the "Moravian College Comenius Center Graduate Academic Policies Handbook" when preparing assignments and reports, or taking quizzes and exams. Please make yourself familiar with that policy. If you do not have a copy of the Handbook please request one from the Comenius Ctr. Office.

**Moravian's cheating and plagiarism policies will be followed for both the weekly exams and the 5 forces worksheet submittals. This instructor has experienced students copying each other's several times since I began teaching at Moravian in 1994, so I will be on the lookout for such infractions, particularly with respect to the take home exam submittals.**

#### **Attendance Policy**

Missing any class will expose the student to significant risks. An attendance sign in sheet will be circulated in each class. Each student is permitted one unexcused absence from class to allocate as they see fit. After one absences, each further absence, for any reason, penalizes the student three points out of the potential one-hundred point total used to determine the final grade.

#### **Blackboard**

All students must enroll for the course on Blackboard. There is no access code. All class lecture notes, homework assignments and exam study guides will be put into the Course Information section of Blackboard, ahead of their due dates. Students are strongly encouraged to print out the day's lecture notes ahead of each class so they can follow the discussion more easily and add their own margin notes as needed. Also, students will be notified of any class cancellations or assignment schedule revisions through Blackboard, so it should be checked prior to every class.

**WHEN YOU ENROLL IN BLACKBOARD PLEASE MAKE SURE YOU ENTER AN E-MAIL ADDRESS THAT YOU CHECK FREQUENTLY, SO YOU CAN BE REACHED QUICKLY IN SNOW OR OTHER EMERGENCIES**

#### **Cancelled Classes**

Class may be canceled due to weather or for some other reason

#### **Copyrights**

Only the copyright holder has the right to make copies of books, articles, cases, software, and other copyrighted material. Anyone else (you, the reader) must have the copyright holder's permission to make copies unless the item being copied falls under the Copyright Law's "fair use" provision or is in the public domain. You must get permission from the copyright holder to make any copies legally of any copyrighted materials.

## Disabilities

“Students who wish to request accommodations in this class for a disability should contact Elaine Mara, Assistant Director of Academic and Disability Support, located in the lower level of Monocacy Hall, or by calling [610-861-1401](tel:610-861-1401). Accommodations cannot be provided until authorization is received from the Academic Support Center.”

## e2Campus

In the event of an emergency the system called e2Campus allows Moravian College to send text messages to the cell phones of registered members of the campus community with information about what is happening and/or what precautions should be taken. Up to two cell phone numbers and two e-mail addresses per user may be registered. This service is an integral part of the College’s emergency response system. If you are not already registered on the system, please do so as soon as possible. To register for e2Campus visit <http://intranet.moravian.edu/e2campus/index.asp> from a computer on Moravian’s campus.

## Expectations of Students

As a matter of courtesy and professionalism, students are expected to make every effort to be on time for class and to participate in discussions in a manner appropriate for mature adults. Classes will generally start on time and late arrivals will be expected to catch up with the discussion on their own, without disrupting other students.

Students are allowed to bring non-alcoholic beverages to class as long as they clean up and dispose of their cups, bottles and cans after class ends. **FOOD OR SNACK CONSUMPTION WILL NOT BE ALLOWED IN THIS CLASS** to avoid burdening other students with the noise and odor disruptions that such eating in class frequently entails.

**ALSO, NO TEXTING, CELL PHONING, FACEBOOK USE, ETC. IS PERMITTED IN THE CLASSROOM WHEN CLASS IS IN SESSION.** Offenders will be asked to leave the room and take the rest of the evening off, incurring a full class cut penalty. On the other hand, if you need to be reachable from work or from home during class you are encouraged to take whatever phone call or respond to whatever text message you need to by simply leaving the class room area after your cell phone rings, if and as often as you need to, and then return to class when your outside communication is concluded.

## Grading Judgment

It is within the purview of the instructor to apply qualitative judgment in determining grades for an assignment or for a course.

## Inclement Weather

In the case of inclement weather, the instructor will post a message on Blackboard to inform students if the class is canceled. It is the student's responsibility to check Blackboard prior to each class period for cancellations due to inclement weather.

## Contact information

Students must maintain their current phone and regularly viewed e-mail contact information in Blackboard. To do this click “My places” in the upper right of the browser window displaying Blackboard. Next click on personal information and then edit personal information and update your information as needed.

Students can e-mail each other directly through blackboard by going to tools then users then e-mail selected Students and select the e-mail address of the specific student(s) you wish to contact.

## Syllabus Status

This syllabus and the course contents are subject to change at the discretion of the instructor. Generally changes will be finalized only after discussion of the change with students in the class.

## Workload

CCBU 515 is a full semester graduate class to be learned in a half semester time duration. **Therefore the hours required per week per student is double what is expected in a full semester class.** Students are expected to work at least 5-6 hours on average outside of class for every hour in class – **in other words 15 - 18 hours per week total, outside of class total.**

**Long experience teaching this course shows clearly that students attempting to do the work required for this course by committing less than 15-18 hours outside of class to the course’s assignments are highly likely to receive a course grade they will not find very satisfactory.**

## Style guide

Students should respond to each exam by creating an MS word file, an rtf file or a pdf file with their exam responses and attach it to an e-mail sent before midnight on the Thursdays which the exam is due. **NO OTHER FILE FORMATS ARE ACCEPTABLE.**

**Responses to all take home exam essay questions must be typed.** If a graph is also required in answering a particular question, the graph can be freehand drawn in pencil in a whitespace between paragraphs of your text response to the question for which the graph pertains. If graphs are hand drawn your exam must be scanned into a pdf format file. Contact the CIT help line at x7929 for help should this requirement pose difficulties.

Five forces worksheets can be done in pencil and submitted in hard copy format in class on their due date.

## Inclusion

Moravian College is a welcoming community that embraces and values the diversity of all members of the campus community. We acknowledge the uniqueness of all individuals, and we seek to cultivate an environment that respects, affirms, and defends the dignity of each member of the community. Moravian College complies with all federal and state laws regarding nondiscrimination in recruitment, admission, and employment of students, faculty, and staff.

You may wonder what that statement means. For the purposes of this class, the statement means that all persons, regardless of actual or perceived race, color, sex, religion, ancestry, genetic information, national origin, sexual orientation, gender identity or expression, familial status, marital status, age, mental or physical disability, use of guide or support animals and/or mechanical aids have an equal opportunity to participate and learn in this class and are to be treated equally in an inclusive and supportive manner.

In other words, in this class we all promote a culture of inclusion that welcomes and supports people of varying backgrounds, different viewpoints, experiences, talents, and ideas. By respecting and valuing these differences we can make problem solving and decision making multi-dimensional leading to more learning and better outcomes for all, including project clients.

Behaviors such as those listed in the table below will lead to an inclusive classroom culture.

<b>Behavior</b>	<b>Description</b>
Listening to understand	Listening with an open mind to fully understand all aspects of a situation
Seeing multiple points of view	Understanding that our perspective is not the only one when looking at a situation, issue, or person
Giving and receiving feedback	Inviting and giving feedback
Enhancing inclusion	Helping others feel included and involved
Addressing inappropriate behavior	Acknowledging inappropriate behavior; communicating expectations and consequences for repeated behavior.

Source: MIT Human Resources, Diversity & Inclusion, <http://hrweb.mit.edu/diversity/affirmative-action-plan-admins/resources>

## **CCBU 515 GA - Class agendas and assignment schedules, Fall, 2015**

**(If any assignment schedules listed below conflict with assignments in Blackboard, Blackboard takes priority)**

- 9/1      Introductions, syllabus review  
Lecture,1 part 1: Microeconomic demand, elasticity theory  
Lecture 1, part 2: performing a 5 forces analysis  
Lecture 1, part 3: Microeconomic cost theory, part a  
Take home exam 1 on lecture 1, due 9/8, see Blackboard  
Discussion prep readings (due 9/8) Brock - Ch.1 agriculture.  
Written Homework: (due 9/8) 5 forces worksheet for the agriculture industry, see Blackboard.
- 9/8      Lecture 2, part 1: Microeconomic cost theory, part b  
Lecture 2, part 2: Determining economic costs using cost accounting procedures and data  
Student presentations and class discussion on the agriculture industry's profit outlook  
Take home exam 2 on lecture 2, due 9/15, see Blackboard  
Discussion prep readings (due 9/15) Brock - Ch.5 beer.  
Written Homework: (due 9/15) 5 forces worksheet for the beer industry, see Blackboard.
- 9/15     Lecture 3: Determining price, output and profits under various industry structures  
Student presentations and class discussion on the beer industry's profit outlook  
Take home exam 3 on lecture 3, due 9/22, see Blackboard  
Discussion prep readings (due 9/22) Brock, Ch.6 autos + instructor provided material.  
Written Homework: (due 9/22) 5 forces worksheet for the auto industry, See Blackboard.
- 9/22     Lecture 4: Horizontal and vertical integration – economics of outsourcing  
Student presentations and class discussion on the auto industry's profit outlook  
Take home exam 4 on lecture 4, due 9/29, see Blackboard  
Discussion prep readings (due 9/29) Brock - Ch.7 movies.  
Written Homework: (due 9/29) 5 forces worksheet for the movie industry, see Blackboard.
- 9/29     Lecture 5, part 1: Economics of regulation  
Lecture 5, part 2: Approaches to the cost effective regulation of pollution externalities  
Student presentations and class discussion on the movie industry's profit outlook  
Take home exam 5 on lecture 5, due 10/6, see Blackboard  
Discussion prep readings (due 10/6) Brock – Ch. 9 airlines.  
Written Homework: (due 10/6) analysis of the outlook for the airline industry, see Blackboard.
- 10/6     Lecture 6. part 1: An overview of Antitrust  
Lecture 6, part 2: Government policy regarding innovation  
Lecture 6, part 3: Managing intellectual property strategically – an overview  
Student presentations and class discussion on the airline industry's profit outlook  
Take home exam 6 on lecture 6, due 10/13, see Blackboard  
Discussion prep readings (due 10/13) Brock – U.S. hospitals parts of Ch. 10 + instructor provided material.  
Written Homework: (due 10/13) analysis of the U.S. hospital and health insurance industries, see Blackboard.
- 10/13    Lecture 7: Managing intellectual property strategically – intellectual property specifics  
Student presentations and class discussion on the U.S. hospital and health insurance industry's profit outlook  
Take home exam 7 on lecture 7, due 10/20, see Blackboard
- 10/20    Lecture 8: Selected international trade topics  
In class exam on lecture 8