

New Economic School
Masters in Finance
Economics of Markets and Incentives

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Summary

This microeconomics course aims at answering a few specific questions that matter for business strategy. How do markets work? How do firms compete in the markets? How do governments regulate the firms? How to create incentives within firms? Should the incentives be formal or informal? How do firms choose their size and scope? How does a corporate strategy depend on internal or external factors?

Teaching and Learning Strategy

The students will learn both through interactive lectures (50% of the time) and through examples (real-life case studies or news items, the remaining 50%). If needed, the regular classes will be supplemented by seminars on solving the basic problems in microeconomics.

The course involves a substantial amount of reading, most importantly the textbook and the case studies assigned each week. Each topic will include a lecture where we introduce the key points and tools of analysis and a discussion of a case study. Each lecture will start with a discussion of a recent news item assigned in the previous class.

The problems presented in the case or news discussion may not have one correct answer. However, there will generally be a set of insights and solutions which are better than others. The most important benefit of discussing the case studies is to work out the trade-offs that the real-life managers face in their strategic decision making.

Students are expected to prepare cases in teams; it is essential to prepare for each week's case or news item discussion and answer the assigned questions in writing. Each team should sign up for leading one in-class case discussion.

The course will also include two guest lectures.

Grading

The grade is made up of four components:

- Midterm Exam (20%): The midterm will be a written take-home exam – answering a set of questions regarding a case study.
- Class Participation (10%): This includes written answers to cases and active participation in in-class discussion of cases.
- In-class quiz (30%). Previous class's material. Six quizzes 5% each
- Final Exam (40%): The final exam will be a comprehensive take-home exam. g

Readings

The textbooks:

- The Economics of Strategy, 3rd Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer (BDSS).
- Microeconomics. Daniel Pindyck and Robert Rubinfeld (PR). (Russian translation of the 3rd edition is published by Delo in 2000, available at NES Library)

Cases:

Yoffie, David. “Cola Wars Continue: Coke and Pepsi in the 21st Century.” HBS Case 9-702-442.

Hall, Brian, and Jonathan Lim. “Incentive Pay for Portfolio Managers at Harvard Management Company.” HBS Case 9-902-130.

Collis, David, Juan Alcacer, and Mary Furey. “The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire?” HBS Case 9-709-462

Guest lectures.

Vitaly Klintsov, Partner, McKinsey. Market analysis in real life.

Elena Salikhova, Head of HR, Morgan Stanley Russia. Compensation system and incentives in investment banks.

Course Schedule

Week	Date	Topic	Chapters in BDSS	Case/ Additional reading
1	Nov 10	Market equilibrium in perfectly competitive markets. Demand and supply in short- and long-run. Effect of shifts in demand and supply. Distribution of tax incidence.	Introduction. Primer.	PR Ch. 2, 9
2	Nov 19	Monopoly. Monopolistic competition. Price discrimination. Tax incidence in monopoly. Natural monopoly. Incentive compatible regulation of monopoly: cost-plus vs. price-cap.	Primer 6	PR Ch. 10, 11
3	Nov 23	Imperfect competition. Game theory. Static and dynamic oligopoly analysis. Commitment. Coordination. Collusion. Industry analysis.	6-10	PR Ch. 12, 13 Case "Cola Wars."
<i>Take-home mid-term exam (20%)</i>				
4	Dec 3	Incentives. Adverse selection, moral hazard, and incentive contracts.	14	Guest lecture 1: market analysis
5	Dec 12	Alternative ways to provide incentives: relational contracting, career concerns, delegation of authority, hierarchical structure, intrinsic motivation.	15	Case "Incentives in HMC"
6	Dec 19	Firm's size and scope. Boundaries of the firm. Vertical integration.	3-4	Case "Disney and Pixar"
7	Dec 26	Strategy and structure.	16	Guest lecture 2
<i>Take-home final exam (40%)</i>				