

1. General Information

1a. Submitted by the College of: BUSINESS AND ECONOMICS

Date Submitted: 11/10/2015

1b. Department/Division: B&E Economics

1c. Contact Person

Name: William Hoyt

Email: whoyt@uky.edu

Phone: 257-2518

Responsible Faculty ID (if different from Contact)

Name:

Email:

Phone:

1d. Requested Effective Date: Specific Term/Year¹ Spring 2017

1e. Should this course be a UK Core Course? No

2. Designation and Description of Proposed Course

2a. Will this course also be offered through Distance Learning?: No

2b. Prefix and Number: ECO 631

2c. Full Title: Business Economics

2d. Transcript Title: Business Economics

2e. Cross-listing:

2f. Meeting Patterns

LECTURE: 45

2g. Grading System: Graduate School Grade Scale

2h. Number of credit hours: 3

2i. Is this course repeatable for additional credit? No

If Yes: Maximum number of credit hours:

If Yes: Will this course allow multiple registrations during the same semester?

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Rev

2j. Course Description for Bulletin: ECO 631 studies the economics of organizations and the economics of strategy. The first half of the course applies transactions costs and principal-agent theories to study the internal organization of the firm. Topics to be covered include the boundaries of the firm, corporate governance, choice of production process, and internal incentive systems. The second half of the course applies economic tools to the analysis of firm strategy. Topics to be covered include basic cost and demand conditions, economies of scale and scope, product differentiation, entry, exit and mobility conditions, price discrimination and commodity bundling, vertical control, and rivalry and strategy. Basic tools of game theory and asymmetric information are integral parts of this course.

2k. Prerequisites, if any: ECO 621 or its equivalent or consent of the instructor.

2l. Supplementary Teaching Component:

3. Will this course taught off campus? No

If YES, enter the off campus address:

4. Frequency of Course Offering: Spring,

Will the course be offered every year?: Yes

If No, explain:

5. Are facilities and personnel necessary for the proposed new course available?: Yes

If No, explain:

6. What enrollment (per section per semester) may reasonably be expected?: 30

7. Anticipated Student Demand

Will this course serve students primarily within the degree program?: Yes

Will it be of interest to a significant number of students outside the degree pgm?: No

If Yes, explain:

8. Check the category most applicable to this course: Traditional – Offered in Corresponding Departments at Universities Elsewhere,

If No, explain:

9. Course Relationship to Program(s).

a. Is this course part of a proposed new program?: No

If YES, name the proposed new program:

b. Will this course be a new requirement for ANY program?: Yes

If YES, list affected programs: MS, Economics

10. Information to be Placed on Syllabus.

a. Is the course 400G or 500?: No

b. The syllabus, including course description, student learning outcomes, and grading policies (and 400G-/500-level grading differentiation if applicable, from **10.a** above) are attached: Yes

Distance Learning Form

Instructor Name:

Instructor Email:

Internet/Web-based: No

Interactive Video: No

Hybrid: No

1. How does this course provide for timely and appropriate interaction between students and faculty and among students? Does the course syllabus conform to University Senate Syllabus Guidelines, specifically the Distance Learning Considerations?

2. How do you ensure that the experience for a DL student is comparable to that of a classroom-based student's experience? Aspects to explore: textbooks, course goals, assessment of student learning outcomes, etc.

3. How is the integrity of student work ensured? Please speak to aspects such as password-protected course portals, proctors for exams at interactive video sites; academic offense policy; etc.

4. Will offering this course via DL result in at least 25% or at least 50% (based on total credit hours required for completion) of a degree program being offered via any form of DL, as defined above?

If yes, which percentage, and which program(s)?

5. How are students taking the course via DL assured of equivalent access to student services, similar to that of a student taking the class in a traditional classroom setting?

6. How do course requirements ensure that students make appropriate use of learning resources?

7. Please explain specifically how access is provided to laboratories, facilities, and equipment appropriate to the course or program.

8. How are students informed of procedures for resolving technical complaints? Does the syllabus list the entities available to offer technical help with the delivery and/or receipt of the course, such as the Information Technology Customer Service Center (<http://www.uky.edu/UKIT/>)?

9. Will the course be delivered via services available through the Distance Learning Program (DLP) and the Academic Technology Group (ATL)? NO

If no, explain how student enrolled in DL courses are able to use the technology employed, as well as how students will be provided with assistance in using said technology.

10. Does the syllabus contain all the required components? NO

11. I, the instructor of record, have read and understood all of the university-level statements regarding DL.

Instructor Name:

SIGNATURE|MKT210|Steven J Skinner|ECO 631 NEW College Review|20150327

SIGNATURE|ZNN|KO0|Roshan Nikou|ECO 631 NEW Graduate Council Review|20150410

SIGNATURE|JEL224|Janie S Ellis|ECO 631 NEW Senate Council Review|20151109

SIGNATURE|WHOYT|William H Hoyt|ECO 631 NEW Approval Returned to Dept|20151110

New Course Form

<https://myuk.uky.edu/sap/bc/soap/rfc?services=>

[Open in full window to print or save](#)

Generate R

Attachments:

[Browse...](#)

Upload File

ID	Attachment
Delete: 4802	ECO 631_Syllabus (Business Economics).docx
<input type="button" value="First"/> <input type="button" value="1"/> <input type="button" value="Last"/>	

(*denotes required fields)

1. General Information

- a. * Submitted by the College of: Submission Date:
- b. * Department/Division:
- c.
- * Contact Person Name: Email: Phone:
- * Responsible Faculty ID (if different from Contact): Email: Phone:
- d. * Requested Effective Date: Semester following approval OR Specific Term/Year
- e.
- Should this course be a UK Core Course? Yes No
- If YES, check the areas that apply:
- Inquiry - Arts & Creativity Composition & Communications - II
- Inquiry - Humanities Quantitative Foundations
- Inquiry - Nat/Math/Phys Sci Statistical Inferential Reasoning
- Inquiry - Social Sciences U.S. Citizenship, Community, Diversity
- Composition & Communications - I Global Dynamics

2. Designation and Description of Proposed Course.

- a. * Will this course also be offered through Distance Learning? Yes No
- b. * Prefix and Number:
- c. * Full Title:
- d. Transcript Title (if full title is more than 40 characters):
- e. To be Cross-Listed ² with (Prefix and Number):
- f. * Courses must be described by at least one of the meeting patterns below. Include number of actual contact hours³ for each meeting pattern type.
- | | | | |
|---|--|---------------------------------|---------------------------------|
| <input type="text" value="45"/> Lecture | <input type="text"/> Laboratory ¹ | <input type="text"/> Recitation | <input type="text"/> Discussion |
| <input type="text"/> Indep. Study | <input type="text"/> Clinical | <input type="text"/> Colloquium | <input type="text"/> Practicum |
| <input type="text"/> Research | <input type="text"/> Residency | <input type="text"/> Seminar | <input type="text"/> Studio |
| <input type="text"/> Other | If Other, Please explain: <input type="text"/> | | |
- g. * Identify a grading system:
- Letter (A, B, C, etc.)
- Pass/Fail
- Medicine Numeric Grade (Non-medical students will receive a letter grade)
- Graduate School Grade Scale
- h. * Number of credits:
- i. * Is this course repeatable for additional credit? Yes No
- If YES: Maximum number of credit hours:
- If YES: Will this course allow multiple registrations during the same semester? Yes No

j. * Course Description for Bulletin:

ECO 631 studies the economics of organizations and the economics of strategy. The first half of the course applies transactions costs and principal-agent theories to study the internal organization of the firm. Topics to be covered include the boundaries of the firm, corporate governance, choice of production process, and internal incentive systems. The second half of the course applies economic tools to the analysis of firm strategy. Topics to be covered include basic cost and demand conditions, economies of scale and scope, product differentiation, entry, exit and mobility conditions, price discrimination and commodity bundling, vertical control, and rivalry and strategy. Basic tools of game theory and asymmetric information are integral parts of this course.

k. Prerequisites, if any:

ECO 621 or its equivalent or consent of the instructor.

l. Supplementary teaching component, if any: Community-Based Experience Service Learning Both3. * Will this course be taught off campus? Yes No

If YES, enter the off campus address:

4. Frequency of Course Offering.

a. * Course will be offered (check all that apply): Fall Spring Summer Winter

b. * Will the course be offered every year? Yes No

If No, explain:

5. * Are facilities and personnel necessary for the proposed new course available? Yes No

If No, explain:

6. * What enrollment (per section per semester) may reasonably be expected? 30

7. Anticipated Student Demand.

a. * Will this course serve students primarily within the degree program? Yes No

b. * Will it be of interest to a significant number of students outside the degree pgm? Yes No

If YES, explain:

8. * Check the category most applicable to this course:

Traditional – Offered in Corresponding Departments at Universities Elsewhere

Relatively New – Now Being Widely Established

Not Yet Found in Many (or Any) Other Universities

9. Course Relationship to Program(s).

a. * Is this course part of a proposed new program? Yes No

If YES, name the proposed new program:

b. * Will this course be a new requirement¹³ for ANY program? Yes No

If YES¹³, list affected programs::

MS, Economics

10. Information to be Placed on Syllabus.

a. * Is the course 400G or 500? Yes No

If YES, the *differentiation for undergraduate and graduate students must be included* in the information required in 10.b. You must include: (i) ident additional assignments by the graduate students; and/or (ii) establishment of different grading criteria in the course for graduate students. (See SR

b. * The syllabus, including course description, student learning outcomes, and grading policies (and 400G-/500-level grading differentiation if appl 10.a above) are attached.

¹³ Courses are typically made effective for the semester following approval. No course will be made effective until all approvals are received.

¹⁴ The chair of the cross-listing department must sign off on the Signature Routing Log.

In general, undergraduate courses are developed on the principle that one semester hour of credit represents one hour of classroom meeting per week for a semester, exclusive of any laboratory meeting. Laboratory meeting, generally, is two hours per week for a semester for one credit hour. (from SR 5.2.1)

You must also submit the Distance Learning Form in order for the proposed course to be considered for DL delivery.

In order to change a program, a program change form must also be submitted.

Rev 8/09

ECO 631 Business Economics: Organizations and Strategy

Instructor: Professor Frank Scott

Office: 302-D Mathews Bldg.

Office Hours: Tu Th 9:30-11:00

Phone: 257-7643

e-mail: fscott@uky.edu Website:

Course Description: ECO 631 studies the economics of organizations and the economics of strategy. The first half of the course applies transactions costs and principal-agent theories to study the internal organization of the firm. Topics to be covered include the boundaries of the firm, corporate governance, choice of production process, and internal incentive systems. The second half of the course applies economic tools to the analysis of firm strategy. Topics to be covered include basic cost and demand conditions, economies of scale and scope, product differentiation, entry, exit and mobility conditions, price discrimination and commodity bundling, vertical control, and rivalry and strategy. Basic tools of game theory and asymmetric information are integral parts of this course.

Course Goals: The intent of the course is to provide students with a broad-based foundation of economic analysis of business problems. The goal is for the students to be able to apply this framework to more detailed analyses in their respective fields.

Student Learning Outcomes:

1. Students will develop deeper knowledge of use of economic theory can be used to analyze a broad set of business problems and issue.
2. Students will gain greater understanding specific models that are most applicable in various business situations.
3. Students will become proficient at recognizing and applying the appropriate framework to particular business scenarios.

Prerequisites: ECO 621 or its equivalents.

Assigned Readings: The following textbooks will serve as the background for material presented in the course:

Paul Rubin, *Managing Business Transactions*, Free Press, 1990.

James Brickley, Clifford Smith, and Jerold Zimmerman, *Managerial Economics and Organizational Architecture*, McGraw Hill - Irwin, 6th edition, 20014.

Sharon Oster, *Modern Competitive Analysis* 3rd ed., Oxford University Press, 1999.

Jeffrey Church and Roger Ware, *Industrial Organization: A Strategic Approach*, Irwin McGraw-Hill, 2000.

D. Besanko, D. Dranove, and M. Shanley, *Economics of Strategy* 6th ed., John Wiley & Sons, 2014.

Avinash Dixit and Barry Nalebuff, *Thinking Strategically*, Norton, 1991.

Other reading assignments will be taken from journal articles or other books.

Course Requirements: Students' grades will be determined by performance on a midterm and a final exam, as well as on a written capstone project proposal. Students' preparation for class and participation in class discussions will also count in the determination of the final grade in the course.

Grades will be determined as follows:

midterm exam	45%
final exam	45%
class preparation and participation	10%

Grading:

Grades are assigned depending on your point accumulation throughout the term. In determining your grade, University rules regarding the marking system is followed. It is (with slight paraphrasing).

- A: Represents exceptionally high achievement.
- B: Represents high achievement.
- C: Represents average achievement.
- D: not used for graduate students
- E: Represents unsatisfactory performance and indicates failure of the course.

To implement these standards, the grade scale will be no more stringent than the following:

- 90 – 100% = A
- 80 – 89% = B
- 70 – 79% = C
- ≤ 69% = E

Excused Absences

Students need to notify the professor of absences prior to class when possible. S.R. 5.2.4.2 defines the following as acceptable reasons for excused absences: (a) serious illness, (b) illness or death of family member, (c) University-related trips, (d) major religious holidays, and (e) other circumstances found to fit "reasonable cause for nonattendance" by the professor.

Students anticipating an absence for a major religious holiday are responsible for notifying the instructor in writing of anticipated absences due to their observance of such holidays no later than the last day in the semester to add a class. Information regarding dates of major religious holidays may be obtained through the religious liaison, Mr. Jake Karnes (859-257-2754).

Students are expected to withdraw from the class if more than 20% of the classes scheduled for the semester are missed (excused or unexcused) per university policy.

Verification of Absences

Students may be asked to verify their absences in order for them to be considered excused. Senate Rule 5.2.4.2 states that faculty have the right to request "appropriate verification" when students claim an excused absence because of illness or death in the family. Appropriate notification of absences due to university-related trips is required prior to the absence.

Academic Integrity

Per university policy, students shall not plagiarize, cheat, or falsify or misuse academic records. Students are expected to adhere to University policy on cheating and plagiarism in all courses. The minimum penalty for a first offense is a zero on the assignment on which the offense occurred. If the offense is considered severe or the student has other academic offenses on their record, more serious penalties, up to suspension from the university may be imposed.

Plagiarism and cheating are serious breaches of academic conduct. Each student is advised to become familiar with the various forms of academic dishonesty as explained in the Code of Student Rights and Responsibilities. Complete information can be found at the following website: <http://www.uky.edu/Ombud>. A plea of ignorance is not acceptable as a defense against the charge of academic dishonesty. It is important that you review this information as all ideas borrowed from others need to be properly credited.

Part II of *Student Rights and Responsibilities* (available online <http://www.uky.edu/StudentAffairs/Code/part2.html>) states that all academic work, written or otherwise, submitted by students to their instructors or other academic supervisors, is expected to be the result of their own thought, research, or self-expression. In cases where students feel unsure about the question of plagiarism involving their own work, they are obliged to consult their instructors on the matter before submission.

When students submit work purporting to be their own, but which in any way borrows ideas, organization, wording or anything else from another source without appropriate acknowledgement of the fact, the students are guilty of plagiarism. Plagiarism includes reproducing someone else's work, whether it be a published article, chapter of a book, a paper from a friend or some file, or something similar to this. Plagiarism also includes the practice of employing or allowing another person to alter or revise the work which a student submits as his/her own, whoever that other person may be.

Students may discuss assignments among themselves or with an instructor or tutor, but when the actual work is done, it must be done by the student, and the student alone. When a student's assignment involves research in outside sources of information, the student must carefully acknowledge exactly what, where and how he/she employed them. If the words of someone else are used, the student must put quotation marks around the passage in question and add an appropriate indication of its origin. Making simple changes while leaving the organization, content and phraseology intact is plagiaristic. However, nothing in these Rules shall apply to those ideas which are so generally and freely circulated as to be a part of the public domain (Section 6.3.1).

Please note: Any assignment you turn in may be submitted to an electronic database to check for plagiarism.

Accommodations due to disability

If you have a documented disability that requires academic accommodations, please see me as soon as possible during scheduled office hours. In order to receive accommodations in this course, you must provide me with a Letter of Accommodation from the Disability Resource Center (Room 2, Alumni Gym, 257-2754, email address: jkarnes@email.uky.edu) for coordination of campus disability services available to students with disabilities.

Course Outline

I. The Economic Approach and Some Basic Ideas (1 week)

Jensen, Michael and Meckling, William, "The Nature of Man," *Journal of Applied Corporate Finance*, Summer 1994.

Coase, Ronald, "The Nature of the Firm," *Economica*, 1937.

II. Vertical Integration: To Make or Buy (2 weeks)

A. Asset Specificity and Transactions Costs: Theory

Williamson, Oliver, "Transaction Costs Economics: The Governance of Contractual Relations," *Journal of Law and Economics*, October 1979.

Klein, B.; Crawford, R. and Alchian, A., "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law and Economics*, October 1978.

B. Vertical Integration and Contracts: A Case Study

*Joskow, Paul, "Vertical Integration and Long-Term Contracts: The Case of Coal-Burning Electric Generating Plants," *Journal of Law, Economics, and Organization*, Spring 1985.

C. Reputation

Klein, Benjamin and Leffler, Keith, "The Role of Market Forces in Assuring Contractual Performance," *Journal of Political Economy*, August 1981.

D. Asset Specificity, Incomplete Contracts, and Asset Ownership

Baker, George and Hubbard, Thomas, "Make Versus Buy in Trucking: Asset Ownership, Job Design, and Information," *American Economic Review*, June 2003.

III. Corporate Governance (2 weeks)

A. The Corporation: Basic Issues

Fama, Eugene and Jensen, Michael, "Separation of Ownership and Control," *Journal of Law and Economics*, June 1983.

B. Financial Structure and Agency Costs

Jensen, M. and Meckling, W., "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics*, Oct. 1976.

C. Ownership Concentration

Demsetz, Harold and Lehn, Kenneth, "The Structure of Corporate Ownership: Causes and Consequences," *Journal of Political Economy*, Dec. 1985.

D. Executive Compensation

Garen, John, "Executive Compensation and Principal-Agent Theory," *Journal of Political Economy*, Dec. 1994.

Bebchuk, Lucian and Fried, Jesse, "Executive Compensation as an Agency Problem," *Journal of Economic Perspectives*, Summer 2003.

IV. Incentives, Control, and Decision Making in Organizations (2 weeks)

A. Incentive Systems: General Ideas

Holmstrom, Bengt and Milgrom, Paul, "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization*, Spring 1991.

Steinbrink, John, "How to Pay Your Salesforce," *Harvard Business Review*, July-Aug. 1978.

*Kohn, Alfie, "Why Incentive Plans Cannot Work," *Harvard Business Review*, Sept.-Oct. 1993.

B. Moral Hazard and Adverse Selection

Lazear, Edward, "Performance Pay and Productivity," *American Economic Review*, 90, December 2000.

B. Decision Authority

Jensen, Michael and Meckling, William, "Specific and General Knowledge and Organizational Structure," in Lars Werin and Hans Wijkander (eds.), *Contact Economics*, Blackwell: Cambridge, Mass., 1992.

C. The Employment Relationship and Outsourcing

Masten, Scott, "A Legal Basis for the Firm," *Journal of Law, Economics, and Organization*, Spring 1988.

D. Franchising

Rubin, Paul, "The Theory of the Firm and the Structure of the Franchise Contract," *Journal of Law and Economics*, 28, April 1978.

E. Noncorporate Forms of Organization

Fama, Eugene and Jensen, Michael, "Agency Problems and Residual Claims," *Journal of Law and Economics*, June 1983.

Midterm Exam

V. Structural Analysis of Industry and Strategic Groups (3 weeks)

A. Introduction

Michael Porter, Ch. 1: "The Structural Analysis of Industries," in Competitive Strategy, Free Press, 1980.

Oster, Ch. 3, "Industry Analysis."

B. Basic Market Structure

Oster, Ch. 2, "Efficient Markets."

Church and Ware, Ch. 2, "The Welfare Economics of Market Power," pp. 19-25, 29-33; Ch. 4, "Market Power and Dominant Firms," pp. 111-145.

- C. Economies of Scale and Scope
Church and Ware, Ch. 3, "Theory of the Firm," pp. 49-62.
- D. Product Differentiation
Oster, Ch. 14, "Product Positioning and Strategic Marketing."

Church and Ware, Ch. 6, "Market Power and Product Quality."
- E. Entry, Exit, and Mobility of Firms
Oster, Ch. 4, "Understanding the Impediments to Entry;" Ch. 5, "Groups Within Industries."

William Baumol, "Contestable Markets, An Uprising in the Theory of Industry Structure," American Economic Review, 1982.
- F. Pricing Decisions
Oster, Ch. 15, "Competitive Pricing."

Church and Ware, Ch. 5, "Non-Linear Pricing and Price Discrimination."
- G. Vertical Control
Oster, Ch. 11, "Vertical Linkages."

Church and Ware, Ch. 22, "Vertical Integration and Vertical Restraints."

VI. Rivalry and Strategy (4 weeks)

- A. Introduction to Game Theory
Oster, Ch. 13, "Understanding Rivalry: Game Theory."
- B. Static Games
Church and Ware, Ch. 7, "Game Theory I."
 - A. Dixit and B. Nalebuff, "Ch. 4: Resolving the Prisoner's Dilemma," in *Thinking Strategically*.
- C. Dynamic Games
Church and Ware, Ch. 9, "Game Theory II."
 - S. Salop, "Strategic Entry Deterrence," American Economic Review, May 1979, pp. 335-338.
 - A. Dixit, "Recent Developments in Oligopoly Theory," American Economic Review, May 1982, pp. 12-17.
- D. Applied Models of Oligopoly
Church and Ware, Ch. 10, "Dynamic Models of Oligopoly."

R. F. Lanzillotti, "Great School Milk Conspiracies of the 1980's," *Review of Industrial Organization* 11, August 1996, 413-458.

F. A. Scott, "Great School Milk Conspiracies Revisited," *Review of Industrial Organization* 17, November 2000, 325-341.

Final Exam