

**COURSE DATA****Data Subject**

Code	35922
Name	Applied industrial economics
Cycle	Grade
ECTS Credits	6.0
Academic year	2021 - 2022

Study (s)

Degree	Center	Acad. year	Period
1314 - Degree in International Business	Faculty of Economics	3	Second term

Subject-matter

Degree	Subject-matter	Character
1314 - Degree in International Business	32 - Industrial economics	Optional

Coordination

Name	Department
MAÑEZ CASTILLEJO, JUAN ANTONIO	132 - Economic Structure
SANCHIS LLOPIS, MARIA DESAMPARADOS	132 - Economic Structure

SUMMARY

The objective of this subject is the analysis of firm's internal organization and its behaviour in imperfect competitive markets. We aim to provide students with the tools to understand the determinants of industries' competitive structure. Using as framework Applied Industrial Organization methods we will make use of a three-stage procedure of analysis: i) identification of the relevant problem, ii) search of the appropriate theoretical model, and, iii) empirical application of the theoretical model.

This subject is a basic element to better understand firm activity in most productive sectors. Additionally, the strong relationship between the theoretical model we use and reality make possible a serious thinking on the practical matters that lead firm behaviour.

The syllabus is organised in six topics. The first topic introduces some basic concepts of Industrial Economics and Game Theory that will be used in later topics. The second topic focuses on the analysis of oligopoly models and firms' strategic interaction using intensively Game Theory tools. The third topic studies the trade-off between strategic commitment and flexibility. The fourth topic is devoted to the analysis of the dynamics of price rivalry. In this topic, we pay special attention to the existence of possible cooperation mechanisms and to the possible firm competition in dimensions other than price



such as quality. The effects of entry and exit are covered in topic 5. Finally, topic 6 is devoted to the analysis of firms' innovation strategy.

Each one of the topics is organised as follows. We start with an introduction in which we discuss the economic relevance of the problem under analysis, and we briefly present the relevant theoretical models. Then, we devote most of the time to the analysis of the empirical applications of these models and related case studies.

PREVIOUS KNOWLEDGE

Relationship to other subjects of the same degree

There are no specified enrollment restrictions with other subjects of the curriculum.

Other requirements

Basic knowledge of maths and microeconomics. Good level of English.

OUTCOMES

1314 - Degree in International Business

- Develop the capacity to evaluate and critically analyse international economic phenomena and agents.
- Understand and reflect on socio-economic and political contexts that affect business and economic decision-making in an international environment.
- Understand the basic concepts of economic analysis that are applicable to the operation of companies and institutions in the international context.
- Understand the behaviour of economic agents and their interaction in global markets.
- Know the basic elements of the legislation regulating international economic, financial and fiscal operations.
- Develop the capacity to prepare and defend reports that contribute to the decision-making of public and private agents.
- Conocimiento del paradigma estructura-conducta-resultados.
- Conocimiento de los mercados de competencia imperfecta y de las relaciones estratégicas entre empresas.
- Conocimiento de las fórmulas de competencia no basadas en los precios.



LEARNING OUTCOMES

1. Ability to identify real market structures different from perfect competition and their social constns.
2. Ability to use the basic concepts of Game Theory and their application to real problems.
3. Ability to understand the news from the media regarding competitive strategies of firms and their markets.

DESCRIPTION OF CONTENTS

1. Economic Concepts for Strategy. The boundaries of the firm.

This first topic introduces some basic concepts of Industrial Economics and Game Theory that will be used in later topics. It is organized as follows:

- 1.1 A benchmark for the analysis of strategy
- 1.2 Horizontal boundaries of the firm
- 1.3 Vertical boundaries of the firm. Vertical integration.

Basic readings:

Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M. (2016): Economics of Strategy, 7th Edition, John Wiley and Sons. Capítulos 2, 3 y 4.

Cabral, L. (1997): Introduction to Industrial Organization. Capítulos 2 and 4.

Further reading: Nalebuff, B. y Brandenburger, A. (1997): Coopetition. Doubleday. Chapter 3.

2. Industry analysis, markets and competitive analysis

The second topic focuses on the analysis of oligopoly models and firms strategic interaction using intensively Game Theory tools. It is organised as follows:

- 2.1 Competitor identification and market definition
- 2.2. Market structure and competition
- 2.3 Industry analysis
- 2.4. Empirical evidence

Basic readings:

Bibliografía básica: Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M.(2016): Economics of Strategy. 7th Edition, John Wiley and Sons, Capítulos 5 y 8.

Further readings:

Porter, M. (1980) Competitive Strategy. New York, The Free Press. Chapter 1.

Oster, S. (1994) Modern Competitive Analysis. Oxford University Press. Chapters 3 and 13.



3. Strategic commitment and flexibility

The third topic studies the trade- off between strategic commitment and flexibility. It is organised as follows:

- 3.1. Strategic commitment: credibility and irreversibility
- 3.2. Strategic commitment and competition.
- 3.3. El valor de la flexibilidad

Basic readings:

Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M.(2016): Economics of Strategy. Seventh Edition. Capítulo 7.

Further readings:

Dixit, A. y Nalebuff (1991): Thinking Strategically: the competitive edge in business, Politics and Everyday life. New York: Norton. Chapters 5 y 6.

Ghemawat, P. y Del Sol, P. (1999) ¿Compromiso o flexibilidad? Harvard Deusto Business Review, 94, pp. 14-26.

4. The dynamics of pricing rivalry

The fourth topic is devoted to the analysis of the dynamics of price rivalry. In this topic, we pay special attention to the existence of possible cooperation mechanisms and to the possible firm competition in dimensions other than price such as quality. It is organized as follows:

- 4.1. The dynamics of pricing rivalry
- 4.2. Market structure and sustainability of cooperative pricing
- 4.3. Facilitating practices
- 4.4. Quality competition

Basic readings:

Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M.(2016): Economics of Strategy. Seventh Edition. Chapter 7.

Cabral, L. (2000): Introduction to Industrial Organization, Chapter 7.

Further readings:

Ghemawat, P. (1999): Strategy and the Business Landscape. Addison- Wesley, Chapter 4.

Oster, S. (1994): Modern Competitive Analysis. Oxford University Press. Chapter 15.

5. Entry and exit decisions

This topic analyses the effects of entry and exit. It is organised as follows:

- 5.1. Entry and exit decisions: basic concepts
- 5.2. Entry deterring strategies
- 5.3. Exit promoting strategies.

**Basic readings:**

Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M.(2016): Economics of Strategy. Seventh Edition. Chapter 6.

Cabral, L. (1997): Introduction to Industrial Organization, Chapters 14 and 15.

Further readings:

Oster, S. (1994): Modern Competitive Analysis. Oxford University Press. Chapter 4.

Tirole, J. (1988): The Theory of Industrial Organization. Cambridge, The MIT Press. Chapter 8.

6. Innovation

Finally, topic 6 is devoted to the analysis of firms innovation strategy

6.1 Schumpeter and the process of creative destruction

6.2 The incentive to innovate

6.3 Competition and innovation

6.4 Innovation competition

Basic readings:

Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M.(2016): Economics of Strategy. Seventh Edition. Chapter 11.

Cabral, L. (1997): Introduction to Industrial Organization, Chapter 16.

Further readings:

Scotchmer, S. (2004): Innovation and incentives, The MIT Press, Cambridge, Chapter 1.

WORKLOAD

ACTIVITY	Hours	% To be attended
Theory classes	30,00	100
Classroom practices	30,00	100
Development of group work	20,00	0
Study and independent work	5,00	0
Readings supplementary material	10,00	0
Preparation of evaluation activities	5,00	0
Preparing lectures	30,00	0
Preparation of practical classes and problem	10,00	0
Resolution of case studies	10,00	0
TOTAL	150,00	



TEACHING METHODOLOGY

Lectures to introduce the main theoretical concepts. Tutorials devoted to solve exercises and discuss case studies. The tutorials will involve both/individual and group presentation and debates.

Guided self study based on the reading and considering case studies, solving practical exercise and carrying out projects both individually and in groups.

Independent self study and both oral and written tests.

EVALUATION

The subject will be evaluated with the following twofold procedure:

- The **written examination**: the questions will have a theoretical or theoretical-practical approach. The exam mark will account for a 70% of the final subject mark
- **Continuous (follow-up) assessment of the student**: on the basis of her involvement in the teaching-learning process. It will account 30% of the final mark.

TO PASS THE COURSE IT WILL BE REQUIRED TO OBTAIN A MINIMUM OF 5 OUT 10 POINTS IN THE EXAM

REFERENCES

Basic

- Dranove, D.S. Besanko, D., Shanley, M. & Schaefer, M. (2016): Economics of Strategy. Seventh Edition. John Wiley and Sons.
- Cabral, L. ,1997, Introduction to Industrial Organization, The MIT Press

Additional

- Nalebuff, B. y Brandenburger, A. ,1997, Coopetition. Doubleday. Chapter 3.
- Porter, M., 1980, Competitive Strategy. New York, The Free Press. Chapter 1.
- Oster, S. ,1994, Modern Competitive Analysis. Oxford University Press. Chapters 3, 4, 13, 15.
- Dixit, A. y Nalebuff ,1991, Thinking Strategically: the competitive edge in business, Politics and Everyday life. New York: Norton. Chapters 5 y 6.
- Ghemawat, P., 1999, Strategy and the Business Landscape. Addison- Wesley, Chapter 4.
- Tirole, J., 1988, The Theory of Industrial Organization. Cambridge, The MIT Press. Chapter 8.



- Scotchmer. S., 2004, Innovation and incentives, The MIT Press, Cambridge, Chapter 1.

ADDENDUM COVID-19

This addendum will only be activated if the health situation requires so and with the prior agreement of the Governing Council

1. Contents

The contents of the Teaching Guide remain unchanged

2. Workload and teaching planning

The contents of the Teaching Guide remain unchanged

3. Teaching methodology

The modality of classes for students will depend on the social and health conditions and the restrictions established by the competent authorities.

In the case of **online teaching**, classes will be given by videoconference, preferably synchronous, using Blackboard Collaborate, Teams, Skype or the tool that the lecturer considers appropriate to optimize the student's teaching-learning process during the scheduled program sessions, **which remain the same days and times**.

In the case of **blended teaching**, the students will have to access the classroom in alternate weeks according to the initial of their last name (A-M or L-Z). The classes will be broadcast so that the students will have face-to-face teaching one week, and the next week they will follow the classes in streaming.

4. Evaluation

Increase in the weight of the continuous assessment (from 30 to 40%) and reduction of the weight of the final exam (from 70% to 60%), with the restriction of having passed the final exam to pass the subject. Continuous assessment is not recoverable. The final exam will take place in the classroom unless health circumstances prevent it, in which case the evaluation will be adapted to the guidelines developed by the University.

5. Bibliography

The recommended bibliography is maintained.