

Business Economics

EE486

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Course Description

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- Prerequisite: EE311, EE312 and EE325 (or EE425)
- Economic theories and tools used to analyze business problems and business situations. The analysis includes understanding competition and financial strategies adopted by firms in different industries, as well as forecasting economic and industrial conditions in the future.

Grading

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Class Presentations	30%	(Group: 3 presentations, 10% each)
Business Plan	20%	(Group report 10%) + present (10%)
Class Participation	20%	
Final Exam	<u>30%</u>	(May, 17 th , 2022 at 13.30-16.30 pm)
Total	100%	

Enrollment key EE486 for BE-Moodle = 0145

Topics

Business Economics

Business Economics

(1) “Management Century” by Walter Kiechel HBR November 2012

(2) Reinventing your business model”by Mark W. Johnson, Clayton M. Christensen, and Henning Kagermann, HBR December 2008

(3) “Adapt Your Business to the New Reality” by Michael G. Jacobides HBR September-October 2020 + How to Create a Winning Post-Pandemic Business Model

(4) SCB EIC Insight:Unlocking the secrets of the digital consumers, June 2017

(5) “What Is Strategy?” HBR 1996 by Michael Porter

6) “The Five Competitive Forces That Shape Strategy” by Michael E. Porter HBR January 2008

(7) When Growth Stalls by Matthew S. Olson, Derek van Bever, Seth Verry HBR March 2008

(8) Blue Ocean Strategy, by W. Chan Kim and Renée Mauborgne, HBR 2004.

Topics

- (9) *“Rediscovery Market Segmentation by Daniel Yankelovich and David Meer, HBR February 2006*
- (10) *“Marketing Malpractice: The Cause & the Cure” by Clayton Christensen et al HBR December 2005.*
- (11) *“Why the Lean Start-Up Changes Everything” by Steve Blank HBR, May 2013+ “Four Step of Demand Forecasting” by William Barnett HBR 1988*
- (12) *“Pricing Policies for New Products” by Dean, Joel HBR November 1950.*
- (13) *“The Good Better Best approach to Pricing”. by Rafi Mohammed, HBR Sept-Oct 2018.*
- (14) *“How to stop consumer from fixating on Price?” by Marco Bertini and Luc Wathieu HBR May 2010*
- (15) *“The Right Game: Use Game Theory to Shape Strategy” by Adam M. Brandenburger and Barry J. Nalebuff. HBR July-August 1995.*
- (16) *“Strategies to Fight Lost Cost Rivals” by Nirmalya Kumar HBR December 2006 + Should You Launch a Fighter Brand? By Ritson, Mark: HBR October 2009*
- (17) *“Don’t let your supply chain control your business” by Thomas Choi; Tom Linton HBR December 2011.*
- (18) *“Do you know your cost of capital? Probably not, if your company is like most” by Michael T. Jacobs and Anil Shivdasani. HBR July-August 2012*

Topics

(19) *“From Economic Man to Behavioral Economics by Justin Fox, May 2015.*

(20) *“Economics of personnel and human resource management” by Morley Gunderson. Human Resource Management Review 11 (2001) 431–452*

(21) *“Innovation the Classic Traps” by Rosabeth Moss Kanter HBR November 2006*

(22) *“Creating Shared Value” by Michael E. Porter: HBR January–February 2011*

(23) *How CEOs Manage Time by Michael E. Porter and Nitin Nohria, HBR July-August 2018.*

(24) *How Will You Measure Your Life? by Clayton M. Christensen + Managing Oneself by Peter F. Drucker*

Business Plan 1: Group 1 -4

Business Plan 2: Group 5-8

Presentation

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Group	Round 1	Round 2	Round 3	Business Plan	
1	1	9	17	/	
2	2	10	18	/	
3	3	11	19	/	
4	4	12	20	/	
5	5	13	21		/
6	6	14	22		/
7	7	15	23		/
8	8	16	24		/

What you will study in MBA?

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Functional Skill

- BA.611 Accounting for Decision Making
- BA.621 Financial Management
- BA.631 Marketing Management
- BA.641 Human Resource Management
- BA.642 Leadership and Change
- BA.651 Logistics and Operations Management

Modern Management Concepts and Practices

- BA.605 Innovative Creation for Competitive Advantage
- BA.606 Corporate Governance and Social Responsibility
- BA.701 Performance Management and Value Creation
- BA.702 Seminar in Contemporary Strategic Management

Business Economics

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- Business economics as a field in applied economics uses economic theory and quantitative methods to analyze business enterprises and the factors contributing to the diversity of organizational structures and the relationships of firms with labour, Capital and product markets.
- Business economics is concerned with economic issues and problems related to business organization, management, and strategy. Issues and problems include: an explanation of why firms emerge and exist; why they expand: horizontally, vertically and spacially; the role of entrepreneurs and entrepreneurship; the significance of organizational structure; the relationship of firms with the employees, the providers of capital, the customers, the government; the interactions between firms and the business environment

Business Economics

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Ambiguity in the use of term

- The term 'business economics' is used in a variety of ways. Sometimes it is used as synonymously with industrial economics/industrial organisation, managerial economics, and economics for business.
- One view of the distinctions between these would be that business economics is wider in its scope than industrial economics in that it would be concerned not only with "industry" but also businesses in the service sector.
- Economics for business looks at the major principles of economics but focuses on applying these economic principles to the real world of business.
- Managerial economics is the application of economic methods in the managerial decision-making process.
- Program at Harvard University uses economic methods to analyze practical aspects of business, including business administration, management, and related fields of business economics

Industrial Organization

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- **Industrial organization** is the field of [economics](#) that builds on the [theory of the firm](#) in examining the structure of, and boundaries between, firms and [markets](#).
- The subject has been described as concerned with markets that "cannot easily be analyzed using the standard textbook competitive model." Industrial organization adds to the [perfectly competitive](#) model real-world frictions such as [transaction costs](#), limited [information](#), and [barriers to entry](#) of new firms that may be associated with [imperfect competition](#). It analyzes determinants of firm and market organization and behavior as between competition and [monopoly](#), including from government actions.
- There are different approaches to the subject. One is descriptive in providing an overview of industrial organization, such as measures of competition and the size-[concentration](#) of firms in an industry. A second uses [microeconomic](#) models to explain internal firm organization and market strategy. As to [strategic](#) firm interaction, [non-cooperative game theory](#) has become the standard unifying method of analysis. A third aspect is oriented to [public policy](#) as to [economic regulation](#) and [antitrust law](#).

Managerial Economics

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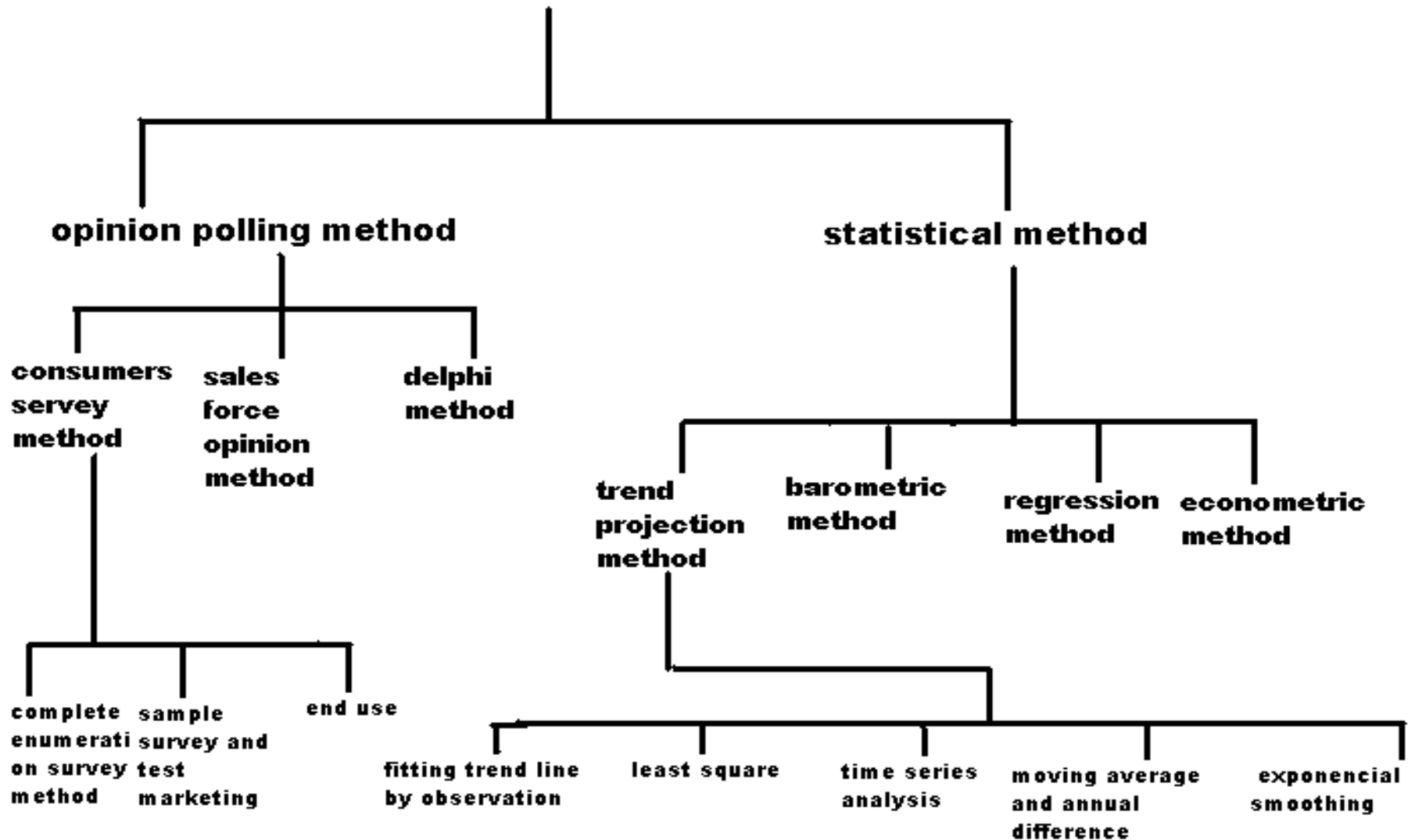
- **Managerial economics** as defined by [Edwin Mansfield](#) is "concerned with application of the economic concepts and economic analysis to the problems of formulating rational managerial decision." It is sometimes referred to as [business economics](#) and is a branch of [economics](#) that applies [microeconomic](#) analysis to decision methods of businesses or other management units. As such, it bridges economic theory and economics in practice. It draws heavily from quantitative techniques such as [regression analysis](#) and [correlation](#), [calculus](#). If there is a unifying theme that runs through most of managerial economics, it is the attempt to [optimize](#) business decisions given the firm's objectives and given constraints imposed by scarcity, for example through the use of [operations research](#), [mathematical programming](#), [game theory](#) for strategic decisions, and other [computational methods](#).

FAMOUS OPTIMIZATION PROBLEMS IN ECONOMICS

Optimization Problem	Objective Function	Constraint	Control Variables	Parameters	Solution Functions	Optimal Value Function
Consumer's Problem	$U(x_1, \dots, x_n)$ utility function	$p_1 \cdot x_1 + \dots + p_n \cdot x_n = I$ budget constraint	$x_1, \dots, x_n$ commodity levels	$p_1, \dots, p_n, I$ prices and income	$x_i(p_1, \dots, p_n, I)$ regular demand functions	$V(p_1, \dots, p_n, I)$ indirect utility function
Expenditure Minimization Problem	$p_1 \cdot x_1 + \dots + p_n \cdot x_n$ expenditure level	$U(x_1, \dots, x_n) = \bar{u}$ desired utility level	$x_1, \dots, x_n$ commodity levels	$p_1, \dots, p_n, \bar{u}$ prices and utility level	$h_i(p_1, \dots, p_n, \bar{u})$ compensated demand functions	$e(p_1, \dots, p_n, \bar{u})$ expenditure function
Labor/Leisure Decision	$U(H, I)$ utility function	$I = I_0 + w \cdot (168 - H)$ budget constraint	H, I leisure time, disposable inc.	w, I_0 wage rate and nonwage income	$168 - H(w, I_0)$ labor supply function	$V(w, I_0)$ indirect utility function
Consumption/Savings Decision	$U(c_1, c_2)$ utility function	$c_2 = I_2 + (1+i) \cdot (I_1 - c_1)$ budget constraint	c_1, c_2 consumption levels	I_1, I_2, i income stream and interest rate	$c_1(I_1, I_2, i), c_2(I_1, I_2, i)$ consumption functions	$V(I_1, I_2, i)$ indirect utility function
Long Run Cost Minimization	$w \cdot L + r \cdot K$ total cost	$F(L, K) = Q$ desired output	L, K factor levels	Q, w, r desired output and factor prices	$L(Q, w, r), K(Q, w, r)$ output-constrained factor demand functions	$LTC(Q, w, r)$ long run total cost function
Long Run Profit Maximization (in terms of Q)	$P \cdot Q - LTC(Q, w, r)$ total profit	none	Q output level	P, w, r output price and factor prices	$Q(P, w, r)$ long run supply function	$\pi(P, w, r)$ long run profit function
Long Run Profit Maximization (in terms of L and K)	$P \cdot F(L, K) - w \cdot L - r \cdot K$ total profit	none	L, K factor levels	P, w, r output price and factor prices	$L(P, w, r), K(P, w, r)$ factor demand functions	$\pi(P, w, r)$ long run profit function

Year = 0	1	2	3	4
Sale (Revenue)= (P x Q) Quantity Demand (PRODUCT) (PRICE) – in the pocket	Size? Growth? Seasonal?			
Cost of goods sold (Expense) Production (Make or Buy) Fixed Cost Machineries/Equipment Factory/ Land –rent or buy Variable Cost Raw Material Overhead Cost Transportation cost	% of Sale Growth?		New !	Salvage Value
HR (Salary x Person)---month/day/job				
Shelf/ Office Rental (PLACE)				
Advertising exp (PROMOTION) Commission				
Gross Profit				
Free Cash Flow—cash vs. accounting				

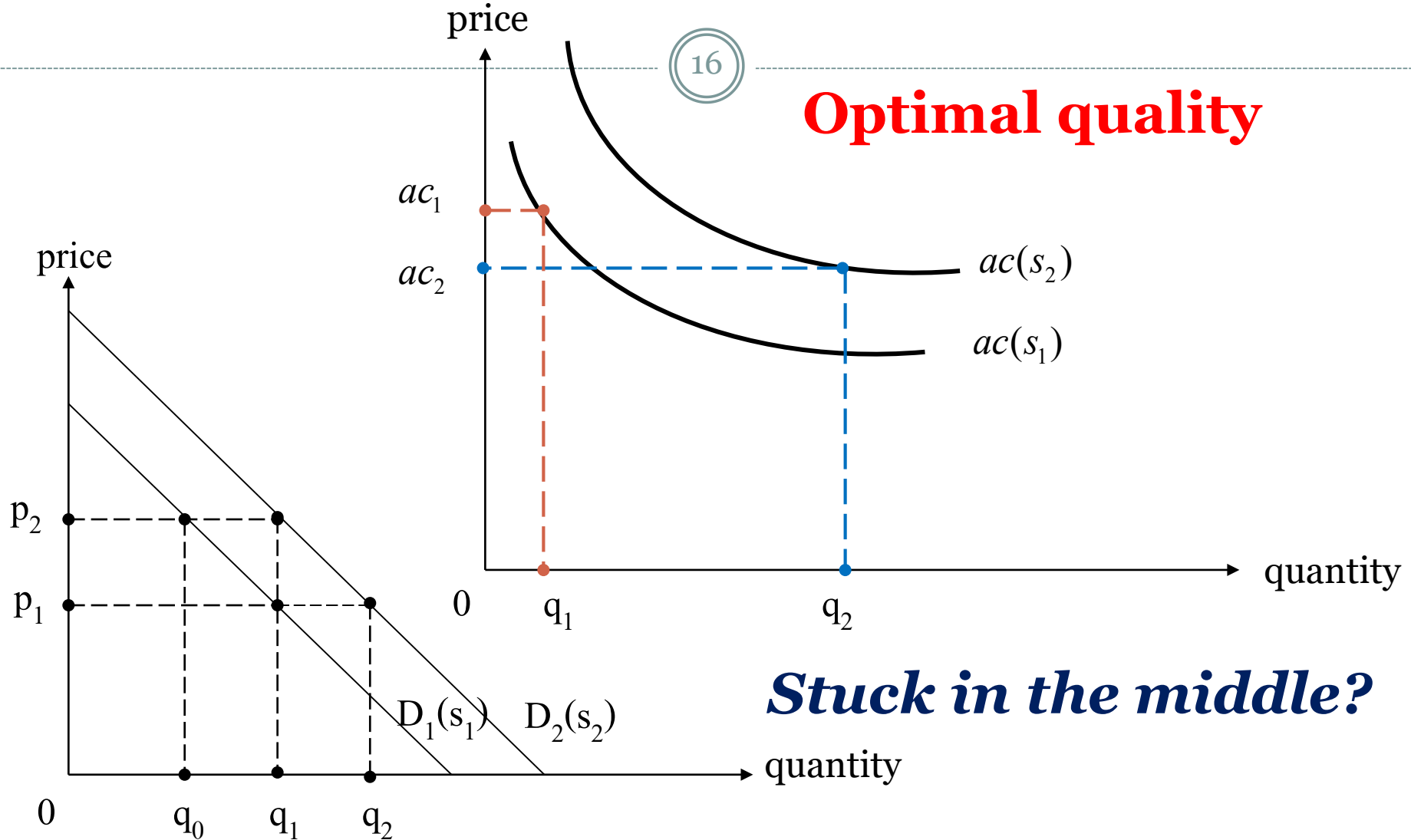
Methods Of Demand Forecasting



PRODUCT

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Optimal quality



Stuck in the middle?

Target customer

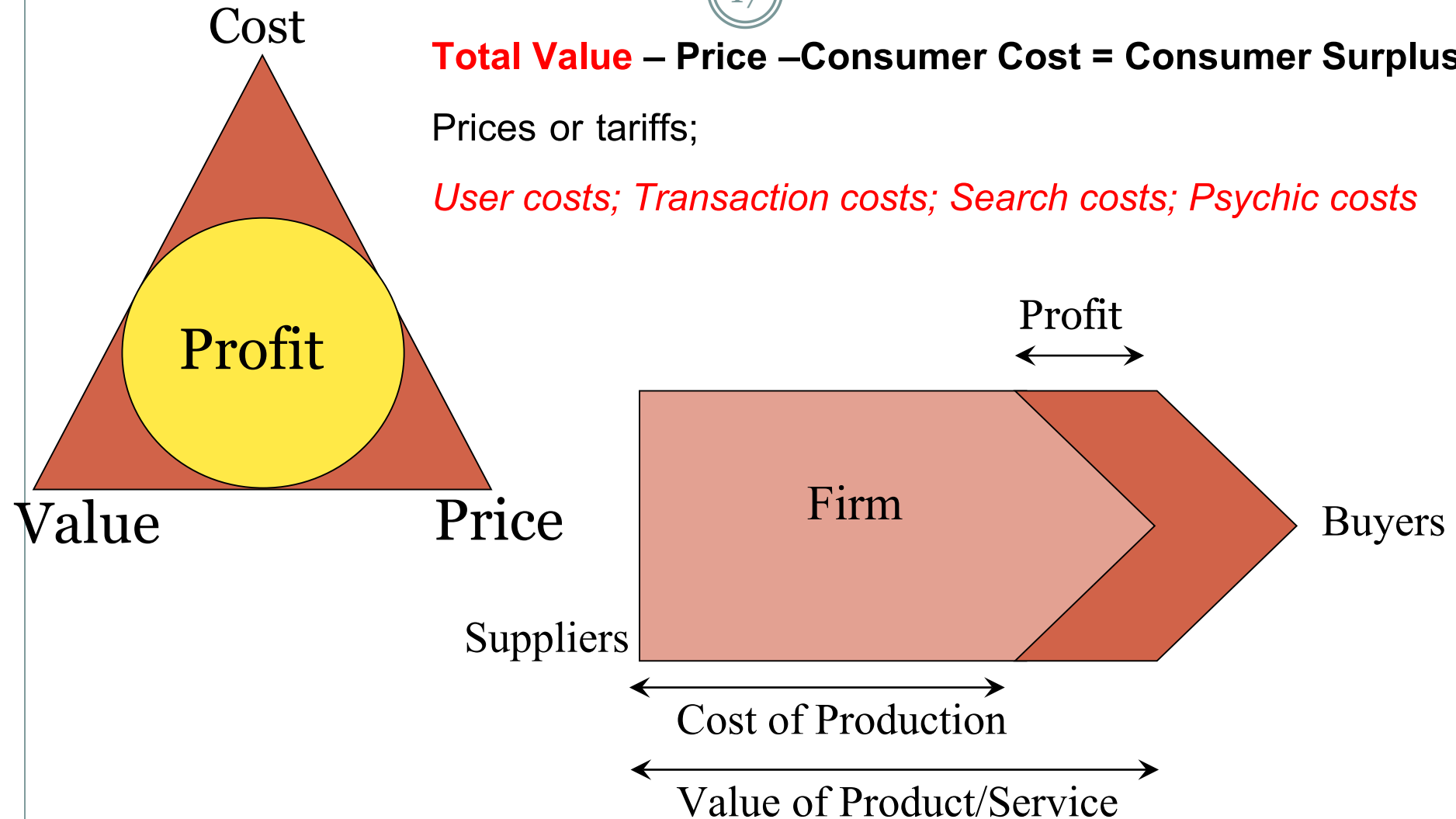
Firm's Value Creation and Profit

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Total Value – Price – Consumer Cost = **Consumer Surplus**

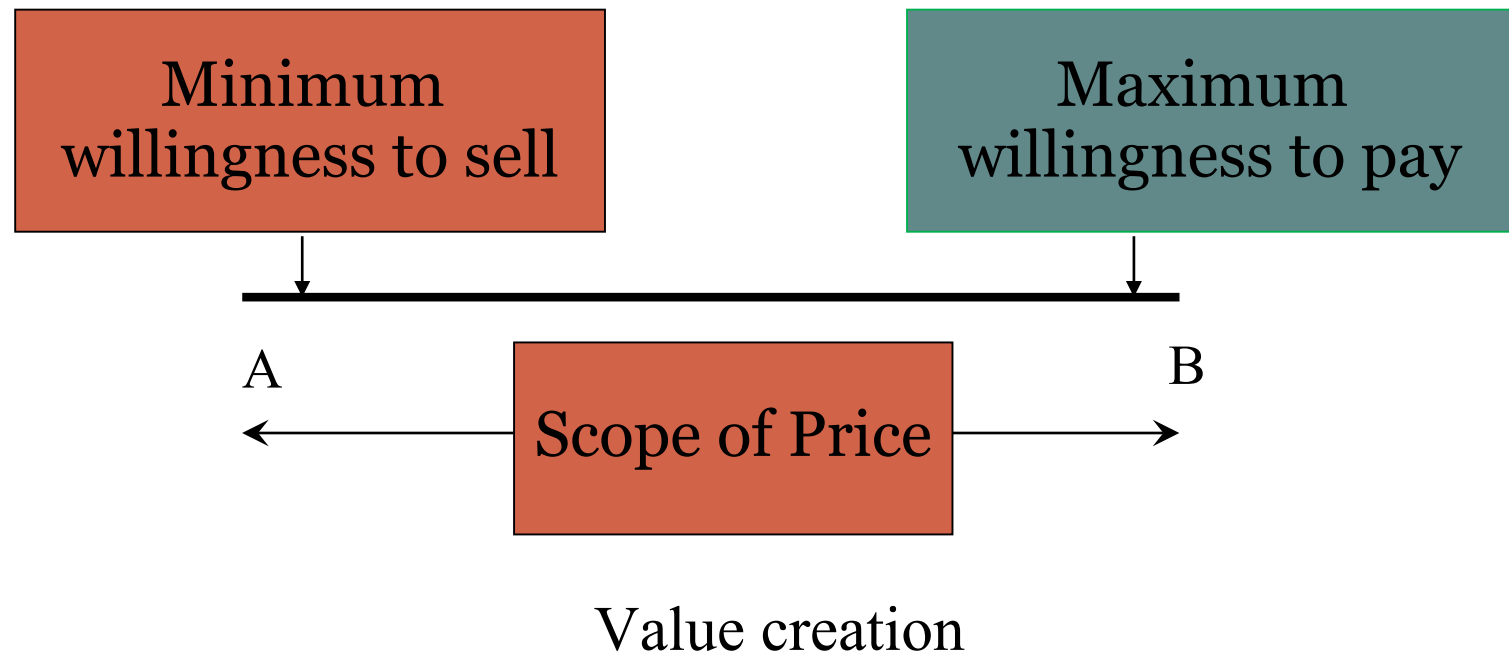
Prices or tariffs;

User costs; Transaction costs; Search costs; Psychic costs



PRICE: Value, Cost, and Price → Profit

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PLACE: Approaches to Distribution

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- These strategies require tradeoffs: → *Cost*
 - **Wide**--essential to low involvement goods
 - **Selective**--desire to maintain image
 - **Exclusive**--very high prestige needed or very high service requirements
- Direct-to-Customer Sales
 - High need for customization—especially if the work can be done by the customer
 - Rapid decline in the value of inventory
 - High value/bulk ratio
 - Low need for customer to manually inspect the product
 - Highly specialized product requiring a very large assortment of inventory

PROMOTION: Advertising

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- A Rule of Thumb for Advertising

$$(A/Q)(\Delta Q/\Delta A) = E_A = \text{Adv. elasticity of demand}$$

$$(P - MC)/P = -1/E_P$$

$$A/PQ = -(E_A/E_P) = \text{Rule of Thumb}$$

- ❑ The proportion of sales revenue that a profit-maximizing monopolist spends on advertising is thus determined by a simple elasticity ratio.
- ❑ The advertising intensity must equal the ratio of elasticities of demand with respect to advertising and price
- ❑ The demand function is more price inelastic (i.e., when ε_P is smaller), a monopolist chooses a high advertising intensity and a large markup.

Industrial Economics



Industrial Organization: Theory and Policy

Study of structure, conduct and performance of firm, relationship of various market structures and business operations and resource allocation, as well as an analysis of firm's strategic behavior

Chapter 1

Introduction to Industrial Organization

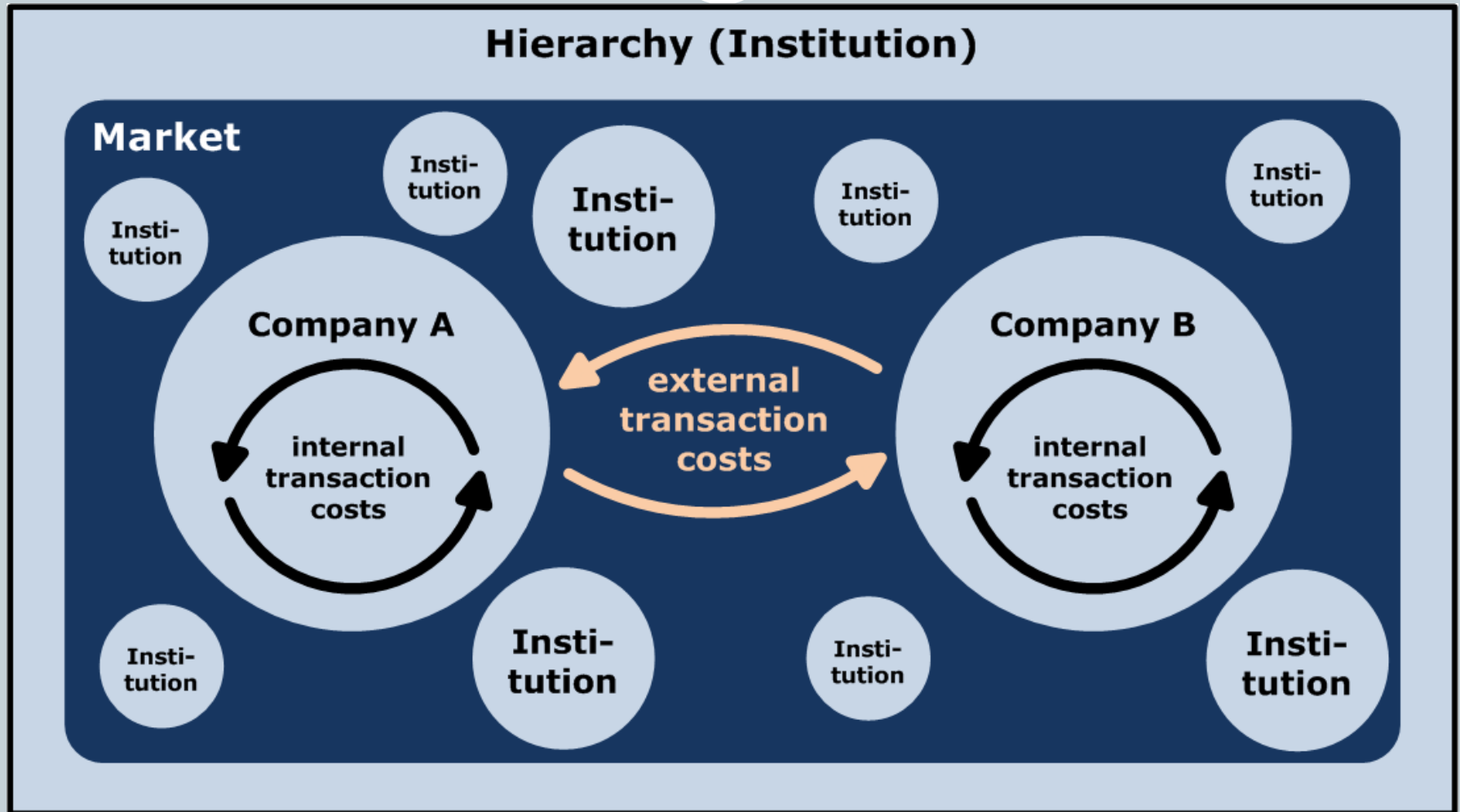


- **Industrial Organization:** the study of the structure of firms and markets and of their interactions
- **Models:** There are at least two major approaches to study of industrial organization.
 1. **Structure – Conduct – Performance** (*SCP approach*) and
 2. **Price Theory** : uses microeconomics models to explain firm behavior and market structure. (*Transaction Cost Economics; Game theory; Contestable Market*)
- **Organization:** Basic Theory; Market Structure; Business Practices: Strategies and Conduct; Information ,Advertising ,and Disclosure; Dynamic Models and Market Clearing; Government Policies and their Effects

Transaction Cost Theory

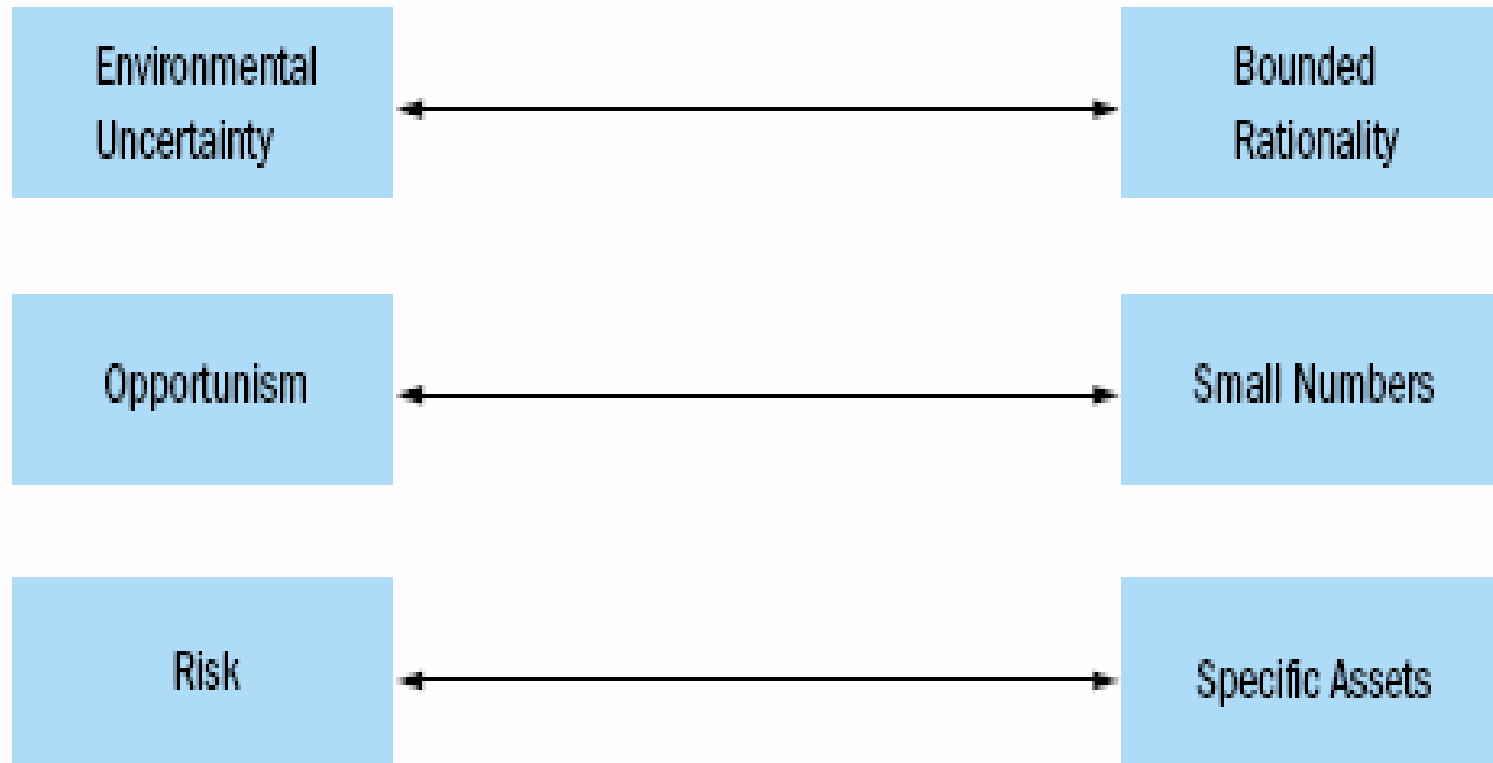
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Hierarchy (Institution)



Sources of Transaction Costs

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Matching Governance Structures with Commercial Transaction

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Frequency	Investment Characteristic		
	Non-Specific	Mixed	Idiosyncratic
Occasional	Market Governance	Trilateral Governance	
Recurrent		Bilateral Governance	Unified Governance (Vertical Integration)

Examples of *trilateral governance* structures include long-term contracting, reciprocal trading, regulation and franchising

Make-or-Buy Re-Examined

by Carter C. Higgin

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Reasons of Making:

1. Cost studies indicate it is cheaper for you to make than to buy
2. Making fits your know-how, your equipment, and your tradition.
3. Idle capacity is available to absorb overhead.
4. What you are considering is unusual or complex ; direct supervision is needed to assure control.
5. Making will facilitate your control of parts changes, inventories, and deliveries.
6. The part is hard to transport.
7. The design of the part or its processing is confidential.
8. You do not wish to depend on a single outside source of supply.

Make-or-Buy Re-Examined

by Carter C. Higgin

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- **Reasons for Buying:**

1. Cost studies indicate it is cheaper for you to buy than to make.
2. Space, equipment, time, and/ or skill are not available for you to develop the necessary production operations.
3. Because of small volume or because of other capital needs, the investment in making is not attractive.
4. You wish someone else to face seasonal, cyclical, or risky market demands.
5. The need for special techniques, or equipment, makes buying more logical. Your supplier will help you produce a better engineered end product.
6. You think it is best for your executives to concentrate on your specialty.
7. You want a check on your own operations.
8. Patents or customer-supplier relationships favor going outside.

Economics of personnel and human resource management

Morley Gunderson

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- Economic phenomenon: fixed hiring costs, asymmetric information, option values
- Deferred compensation
- Pensions and Mandatory retirement)
- Superstar salaries
- Compensation as tournament prizes
- Teams, cooperation, and egalitarian pay structures
- Option values
- Long-hours and overtime coexisting with unemployment and underemployment often within the same organisation;
- The reluctance of seemingly risk averse workers to accept small wage cuts to avoid the possibility of a layoff
- The payment of fringe benefits that may not be valued by many employees

Economics of personnel and human resource management

Morley Gunderson

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- The “regular” hiring of temporary workers when permanent workers are available;
- Egalitarian pay structures and fairness in compensation
- Monopsony market structure: The persistent reporting of vacancies on the part of firms but a reluctance to raise wages to fill those vacancies
- The use of piece rates in some jobs and salary structures that are based on relative ranking of workers in other jobs;
- Tenure or “up-or-out” rules where people who are not promoted are required to leave rather than work for lower pay.

Basic Conditions

<i>Consumer Demand</i>	<i>Production</i>
Elasticity of demand	Technology
Substitutes	Raw materials
Seasonality	Unionization
Rate of growth	Product durability
Location	Location
Lumpiness of orders	Scale economies
Method of purchase	Scope economies

Structure

Numbers of buyers and sellers
Barriers to entry of new firms
Product differentiation
Vertical integration
Diversification

Conduct

Advertising
Research and development
Pricing behavior
Plant investment
Legal tactics
Product choice
Collusion
Merger and contracts

Performance

Price
Production efficiency
Allocative efficiency
Equity
Product quality
Technical progress
Profits

Government Policy

Regulation
Antitrust
Barriers to entry
Taxes and subsidies
Investment incentives
Employment incentives
Macroeconomic policies

An industry's performance of an industry in producing benefits for consumers depends on the Conduct (behavior) of its firms, which, in turn, depends on the structure (Factors that determines the competitiveness of the market)

Part1: Introduction and Theory

Chapter1: Overview

- Models
- Organization

Chapter2: The Firm and Costs

- The Firm
- Mergers and Acquisitions
- Cost Concepts
- Economies of Scale
- Cost Concepts for Multi-product Firms

Chapter3: Competition

- Perfect Competition
- Elasticities and the Residual Demand Curve
- Efficiency and Welfare
- Entry and Exit
- Externalities
- Limitations of Perfect Competition

Chapter4: Monopolies, Monopsonies, and Dominant Firms

- Monopoly Behavior
- The Costs and Benefits of Monopoly
- Creating and Maintaining a Monopoly
- Profits and Monopoly
- Monopsony
- Dominant Firm with a competitive fringe

Part2: Market Structures

Chapter5: Cartels (Oligopoly Joint Decision Making)

- Why Cartels Form
- Creating and Enforcing the Cartel
- Consumers Gain as Cartels fail
- Price-Fixing Laws

Chapter6: Non-cooperative Oligopoly

- Game Theory
- Single-Period Oligopoly Models
- Multi-period Game
- Testing Oligopoly Models

Chapter7: Product Differentiation and Monopolistic Competition

- Differentiated Products
- The Representative Consumer Model
- Location Models
- Hybrid Models

Chapter8: Industry Structure and Performance

- Theories of Price markups and profits
- Structure Conduct Performance

Part3: Business Practices (Strategies and Conduct)

Chapter9: Price Discrimination

- Non-Uniform Pricing
- Incentive and Conditions for Price Discrimination
- Types of Price Discrimination
- Welfare Effects of Price Discrimination

Chapter10: Advanced Topics in Pricing

- Nonlinear Pricing
- Tie-in-Sales
- Quality choice
- Other Methods of Nonlinear Pricing

Chaper11: Strategic Behavior

- Strategic Behavior Defined
- Non Cooperative Strategic
- Cooperative Strategic Behavior

Chaper12: Vertical Integration and Vertical Restrictions

- The Reasons for and against Vertical Integration
- The life cycle of a firm
- Vertical Restrictions
- Franchising

Part4: Information, Advertising, and Disclosure



Chapter13: Information

- Why information is limited
- Limited information about quality
- Limited information about price
- Providing Consumer Information lower price

Chapter14: Advertising and Disclosure

- Information and advertising
- Effects of Advertising on welfare
- False advertising

Part5: Dynamic Models and Market Clearing



Chapter15: Decision Making Over Time (Durability)

- How long should durable good last?
- Renting vs Selling by a Monopoly

Chaper16: Patents and Technological Change

- Patents, Copyrights and Trademarks
- Incentives for inventions are needed
- Patents Prize, Research Contracts and joint ventures
- Market Structure

Chapter17: How markets Clear (Theory and Facts)

- How markets clear: 3 simple theories
- Empirical Evidence on the role of price in allocating goods
- Explaining the evidence
- Market structure is more than concentration

Part6: Government Policies and Their Effects



Chapter18: International Trade

- Reasons for Trade between countries
- Tariffs, Subsidies, and Quotas

Chapter19: Antitrust Laws and Policy

- The antitrust Laws and their purposes
- Market power and the definition of markets
- Cooperation among competition
- Exclusionary actions and other strategic behavior
- Price Discrimination
- Effects of Antitrust Laws on the organization of firms

Chapter20: Regulation and Deregulation

- The objectives of Regulators
- Making monopolies more competitive
- Making competitive industries more monopolistic
- Deregulation

Business Economics & the Development of Strategic Business Plans

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- ✓MACROECONOMIC FORECAST
- ✓ANALYSES OF THE INDUSTRY, COMPETITORS
- ✓RELEVANT REGULATORY AND TRADE ISSUES

Macroeconomic Forecast

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- ❑ The macroeconomic forecast that drives industry demand and overall cost levels is critical at every phase of planning
- ❑ The forecast is an integral part of an analytical effort to understand and plan for an uncertain future rather than a discreet set of data points for cranking out budget and earnings projections.
- ❑ Long-term, trend forecasts spanning the planning horizon (typically five years) of growth in GNP, disposable income, personal consumption expenditures, employment, inflation, interest and exchange rates and energy and other raw materials prices are all essential inputs into the strategic planning process.
- ❑ They are essential not only as basic drivers of demand and cost, but also as determinants of competitive advantage and changing business opportunities and threats.

Macroeconomic Forecast

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- ❑ These macroeconomic forecasts must take on a global dimension, which does not mean simply generating forecasts for the various regions of the world in which the company operates.
- ❑ Companies in global industries need integrated, worldwide design, research, production and marketing strategies to compete successfully.
- ❑ The strategic business planner therefore needs to understand the implications of developments in one region of the world for interdependent operations in others, and how the economies of the different regions of the world are linked together through global financial and product markets.
- ❑ For example, forecasts of slowing U.S. consumption and growing exports to reduce the huge U.S. trade deficit must be accompanied by the implications for demand, imports and growth in large trade-surplus nations such as Germany and Japan, the NICs and the debt-ridden countries of South America.

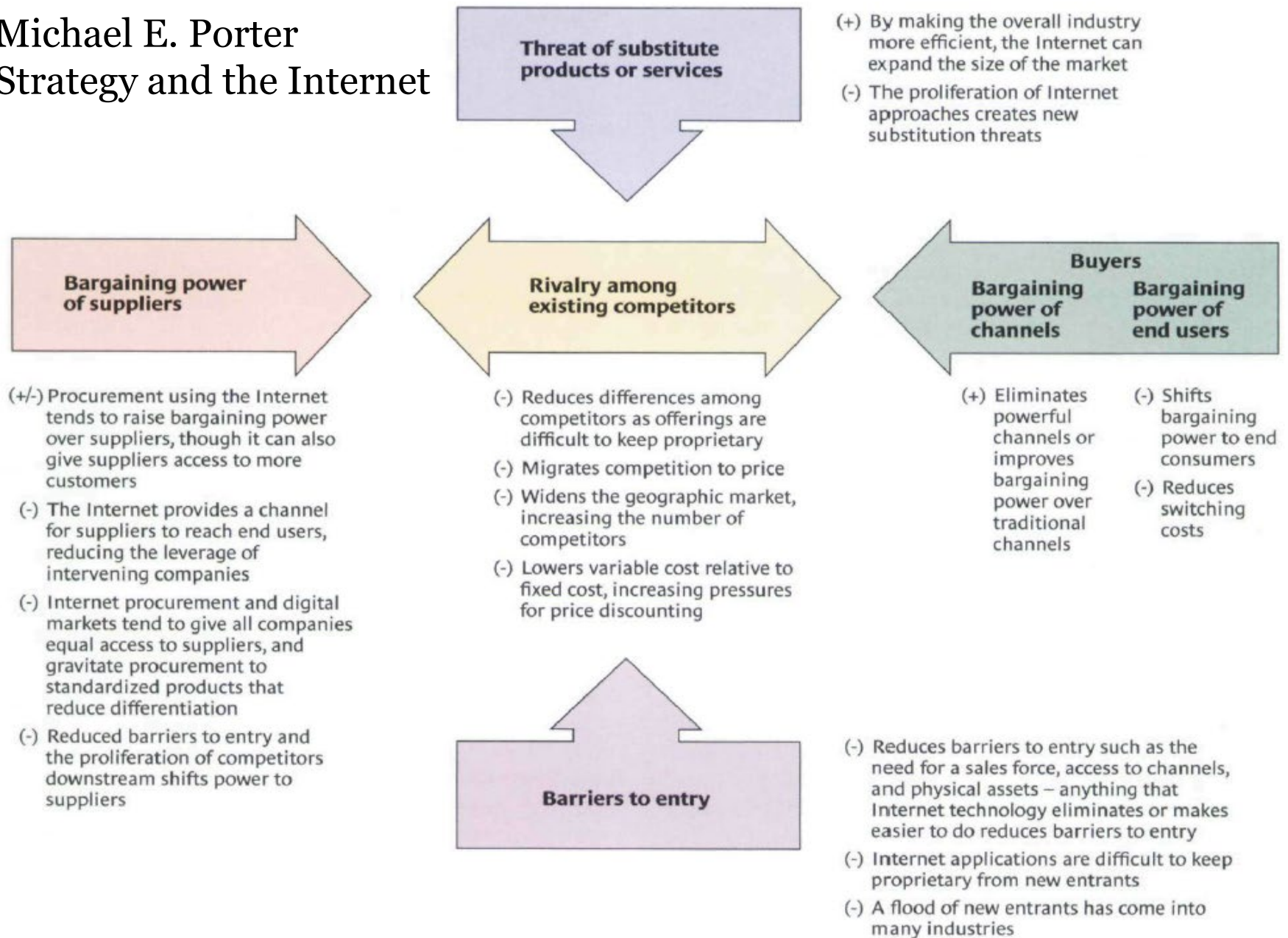
Industry Analysis

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- ❑ The role of the business economist changes dramatically with the added responsibility for the analysis of the competitive structure of the industry (ies) in which the company (SBUs) competes.
- ❑ Analyses of the number and size distribution of sellers and buyers in the industry, potential new entrants, capacity utilization and expansion, economies of scale, entry barriers, vertical integration, diversification, distribution channels and downstream component suppliers all are undertaken to provide strategic business planners with the information they need to plan effectively.
- ❑ These analyses help planners understand the nature of competition in the industry; identify current and future business opportunities and risks; and assess the long-term profit potential of alternate strategies.

Michael E. Porter

Strategy and the Internet



Competitive Analysis

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- ❑ Competitive analysis is typically conducted at the SBU, division and corporate levels within the firm. The business economist contributes to competitive analysis primarily at the corporate level.
- ❑ This analysis is directed at providing a broad strategic perspective on the company's competitors, which is needed to supplement the more product or functional-specific analysis conducted at the SBU and divisional levels.
- ❑ The business economist also helps avoid costly duplication by conducting competitive analyses needed by several SBUs competing against common rivals.
- ❑ Finally, the competitive analyses conducted by the business economist, who has no line responsibilities, often provide a more objective assessment of competitors' strengths, and the probable success of their strategic initiatives

Competitive Analysis

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- ❑ The business economist is well equipped to conduct analyses of competitors' production and distribution systems, sourcing strategies, R&D programs, incentive systems, capital structures and financial position.
- ❑ But the most important contribution of the business economist to competitive analysis is the analysis of cost differences among companies in the industry, and the reasons for those differences.
- ❑ The tools of the business economist are particularly useful for analyzing differences in labor, materials and capital cost, and differences in productivity.
- ❑ For global industries, the tools of the business economist are absolutely essential because these comparative cost analyses must include the important effects of exchange rates on costs, and country-specific cost advantages arising from differences in relative factor endowments, culture and the institutional relationships among business, government and labor.

Public Policy Analysis

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- ❑ The business economist must analyze the impact on the company of a broad array of safety, health, environmental, energy and industrial policies (e.g., plant closing legislation).
- ❑ These regulations can have an important impact on the demand for the company's product, its cost and performance and on the company's relative competitive position.
- ❑ The tools of the business economist are especially helpful in analyzing the impact of regulation on product cost and performance as viewed by the consumer, who may well discount any social benefits in his purchase decision.
- ❑ Even more importantly, the business economist must analyze the differential competitive effects these regulations can have on individual competitors, or between current and potential competitors or domestic and foreign competitors.

Public Policy Analysis

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- ❑ Environmental regulations that limit plant or product emissions illustrate the full range of public policy analysis required of the business economist.
- ❑ These regulations add to the cost of the product and often reduce its performance, while the social benefits in terms of cleaner air are not adequately valued by the individual consumer because of a classic free-rider problem.
- ❑ These regulations often benefit existing firms, which may be "grandfathered-in" under the regulations, over new entrants that are required to install the best available (and most expensive) technology.
- ❑ They often disadvantage domestic firms relative to foreign producers who face less stringent or perhaps no regulation. If economies of scale are significant in reducing emissions, large manufacturers also may be advantaged over smaller producers.

Trade Policy

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- ❑ Trade policy has become a critical element in strategic planning for international companies. Trade policy also can have an important impact on the competitive position of domestic companies.
- ❑ A company cannot avoid international competition by restricting its operations to its home market. Indeed, such a strategy may only increase the company's exposure to global competitive risks by limiting its access to international product and financial hedging strategies.
- ❑ Trade restraints, local content and export requirements, exchange rate policies and nontariff barriers to trade all can have significant effects on a company's competitive position and on its efforts to implement an integrated, global strategy.
- ❑ Like domestic regulations, they can have an important impact on the company's competitive position.

Trade Policy

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- The strategic opportunities and risks created by international trade policies are illustrated by the current effort to improve the integration of the European Common Market by harmonizing regulations, standardizing border taxes and lowering trade barriers among the Common Market nations.
- This development will create important strategic opportunities and risks for different companies.
- This integration should lower costs and increase overall economic growth and consumer demand. It also will change relative prices, and thus the demand for the goods and services of particular companies.
- For countries outside the Common Market, there is the risk of heightened trade barriers as the internal barriers within the Common Market are dismantled.

Business Economics and the Implementation of the Strategic Plans

- ❑ The business economist can assist in the implementation of the business plans by helping ensure that a good strategic fit exist among the company's strategy and its organizational structure and internal management systems.
- ❑ The internal organizational structure of the firm is critical to the successful implementation of the business plan because it effects the basic flow of information to decision makers (including the information provided by business economists); the decision makers' collective capacity for processing that information; and the incentives facing those decision makers.
- ❑ An ill-conceived organizational structure will result in decision makers receiving inadequate or biased information; being unable to process that information in a timely manner; or facing incentives for decisions inconsistent with the company's long-term strategic goals.

Business Economics and the Implementation of the Strategic Plans

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- ❑ Business economists can provide substantial assistance to strategic planners attempting to design internal organizational structures that will ensure the effective implementation of their strategic plans.
- ❑ A rich tradition of organizational efficiency analysis in business economics traces its origins to the fundamental insights of Ronald Coase, who first noted that "a firm will tend to expand until the costs of organizing an extra transaction within the firm become equal to the cost of carrying out the same transaction by means of exchange on the open market or the cost of organizing in another firm." Subsequent work has added to the richness of this analysis in especially relevant ways.
- ❑ This work now provides both a theoretical and empirical foundation for assessing the impact of different organizational structures (e.g., functional and multi-divisional structures) on the firm's ability to process complex information, eliminate sub-goal pursuit and monitor SBU performance.

Business Economics and the Implementation of the Strategic Plans

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- ❑ Following the dictum that "structure follows strategy," General Motors, after extensive analysis, undertook a massive reorganization in 1984.
- ❑ General Motors had developed strategies to shorten product lead times, to increase the differentiation of its vehicles and to improve quality and lower cost through better coordination among product design, engineering and manufacturing.
- ❑ Implementing this strategy required a new, less centralized organizational structure to improve the coordination and speed of decision making.
- ❑ The company created two new car groups (C-P-C and B-O-C) that were given total responsibility for engineering, manufacturing and marketing their products and that were held accountable for the quality and performance of their vehicles and for the profitability of their operations.

Business Economics and the Implementation of the Strategic Plans

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- Business economists have an important role to play in the design of the all-important incentive systems. The incentive systems must be congruent with the strategic business plan to ensure the successful implementation of that plan.
- The rewards of key decision makers must be tied to accomplishment of the long-term goals of the business plan to ensure an identity of corporate and self interests.
- This typically requires incentives to be tied to external benchmarks of long-term financial or stock performance.
- Establishing and measuring progress against such external benchmarks is vastly more difficult than basing rewards on annual performance relative to historical norms for the company.
- The business economist, utilizing his knowledge of competitors and competitive conditions, can play an important role in helping to establish appropriate external benchmarks that account for differences in financial and business risks.

Economists and Economics in Tech Companies

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The economics of digitization has explored a wide range of questions. For example:

- How does the advent of artificial intelligence and the use of large-scale consumer datasets affect industry structure and market power?
- How should tech companies be regulated?
- How should data from the tech sector inform policy?
- How do aggregators, search engines, reputation systems, and social media affect the decisions we make and the news we read?
- How should online marketplaces be designed to ensure safe and efficient transactions?

Source: Why Tech Companies Hire So Many Economists by Susan Athey and Michael Luca
HBR FEBRUARY 12, 2019

5 Questions Economists Can Help Tech Companies Answer

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- What are your goals around user growth, profitability, fairness, etc, and how is the design of your platform affecting them?
- Are scale economies important for your company, your suppliers, or your customers?
- How is your company affecting the world?
- Can economics improve your management practices and decision making?
- How are you thinking about your data assets?

What Tech-Relevant Skills Do PhD Economists Have?

- Assessing Empirical Relationships
- Designing Markets and Incentives
- Analyzing Equilibrium Market Structure

Applications of Economics in Technology Firms

- Design of Online Advertising
- The Role of Ranking and Incentives in Marketplaces
- Estimating the Returns to Advertising
- Designing Review and Reputation Systems
- The Effects of Reviews
- Acquisitions, Exclusive Deals, and Strategy
- Positions for Economists at Tech Companies
- Partnerships with Academics & Shifts Between Academia and Practice

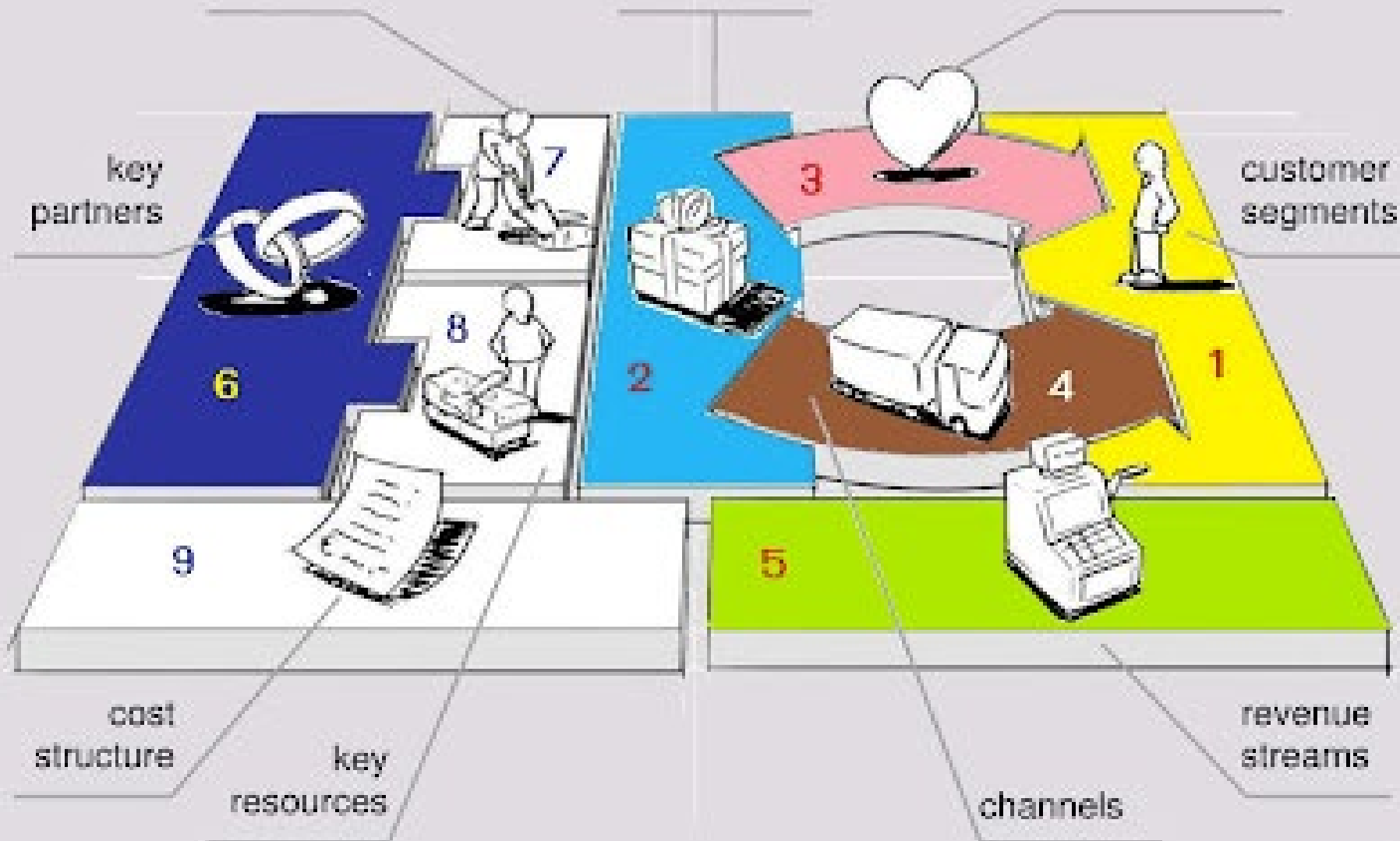
key activities

value proposition

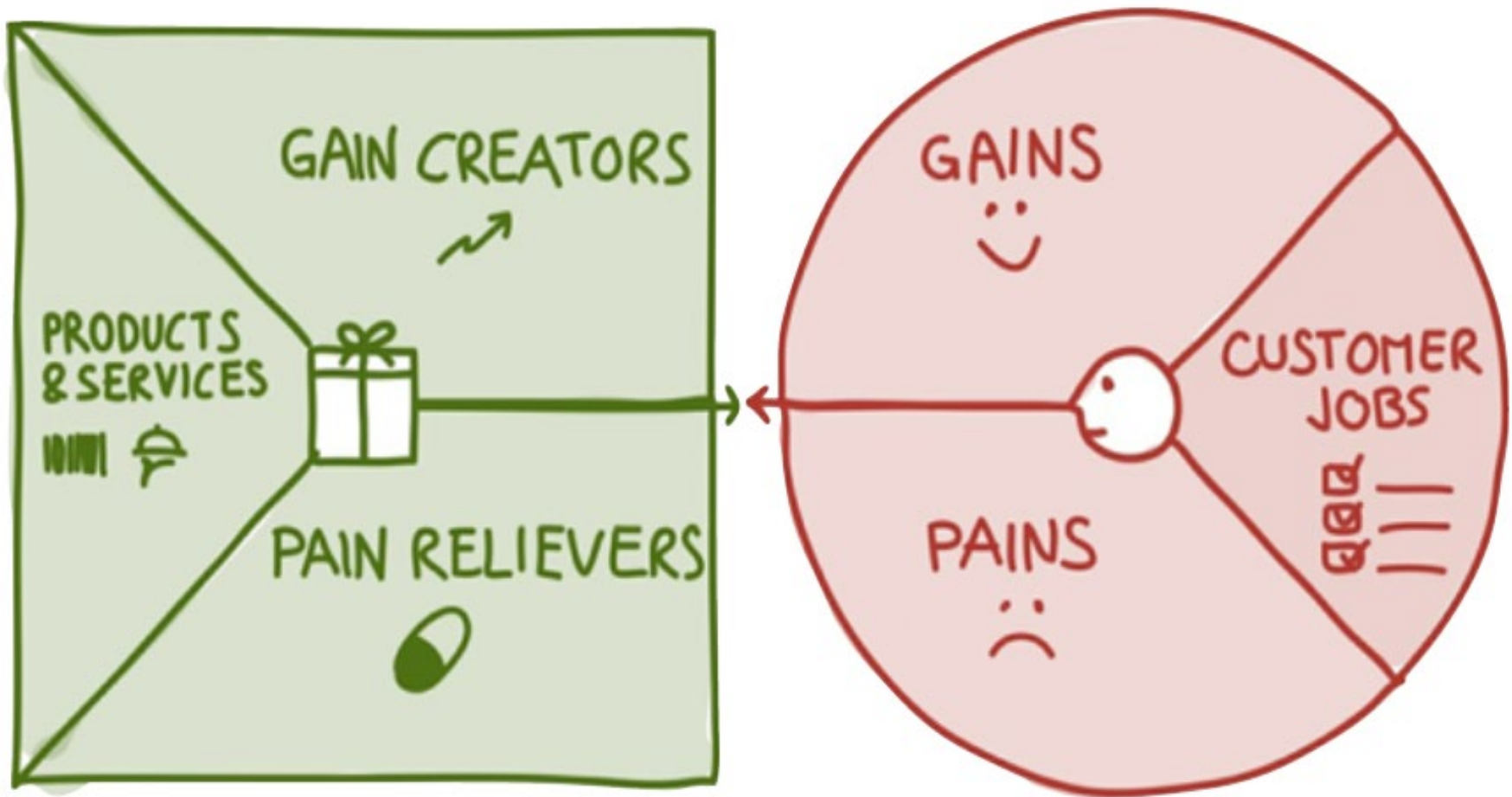
customer relationships

key partners

customer segments



Value proposition design



NOTICE TO ALL STUDENTS

Leave the excuses at the door.

If you didn't do your home work, just admit it.

If you didn't understand the assignment, ask for help.

**If you didn't study for the test,
accept the grade and resolve to do better
(with my help if necessary) next time.**

If you refuse to follow my rules, accept the consequences.

This is not a democracy.

**This is MY classroom:
and I'm here for one reason and one reason only:**

**TO TEACH YOU
TO INSPIRE YOU
TO HELP YOU GROW**

I'll do my part. The rest is up to you.