

Course Outline

RSM 3003

Course Name: Strategy and Economics

Fall 2015

Course Meets: 9am – 12pm, Fridays, Rotman School of Management 7024

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Course Scope and Mission

The course emphasizes both seminal research and recent developments in the application of economics to strategic management. We will explore theoretical analyses and empirical studies that address fundamental questions in strategy research: What are the sources of differential firm performance? What are the appropriate boundaries of the firm? What drives innovation in industries? How does market design relate to strategic management?

The overarching objectives of the course are:

- To be able to model phenomenon in an empirically relevant manner;
- To explore the theoretical foundations of alternative models of strategic management;
- To integrate lines of thought across strategic management, the economics of innovation, the theory of the firm and organizational economics.

Required Texts

There is no required text for this course. We will however rely heavily - though not exclusively - on a new (2009) reader developed and distributed by the Strategy Research Initiative, an informal organization of mid-career strategy scholars to which several Rotman faculty members belong. You can find the reader online at http://strategyresearch.net/strategy_reader.

Evaluation and Grades

Grades are based on the following

Presentations (2):	50%
Participation:	10%
Term Paper:	40%

Lectures and Reading List

1. Introduction to Bargaining

- Sutton, J., 1986, "Non-Cooperative Bargaining Theory: An Introduction," *Review of Economic Studies*, 53, 709-724.
- Stole, L. and J. Zwiebel (1996), "Intra-firm Bargaining under Non-binding Contracts," *Review of Economic Studies*, 63 (3), 375-410.

2. Theory of the Firm

- Grossman, S. and O. Hart (1986) "The costs and benefits of ownership: A theory of lateral and vertical integration," *Journal of Political Economy*, 91: 907-928
- Segal, I. and M. Whinston (2010), "Property Rights," mimeo, Stanford.
- Gans, J.S. (2005), "Markets for Ownership," *RAND Journal of Economics*.
- Aghion, P. and J. Tirole, 1994, "The Management of Innovation," *Quarterly Journal of Economics*, 109(4), 1185-1210.

3. Relational Contracting

- Baker, G., R. Gibbons and K.J. Murphy (2002), "[Relational Contracts and the Theory of the Firm](#)," *Quarterly Journal of Economics*, 117: 39-83.
- Gibbons and Henderson

4. Competition and Innovation

- Arrow, K.J., 1962, "Economic Welfare and the Allocation of Resources for Invention," in R. Nelson, eds., *The Rate and Direction of Inventive Activity*, Princeton(NJ): Princeton University Press, 609-625
- Gilbert, R. and D. Newbery, 1982, "Preemptive Patenting and the Persistence of Monopoly," *American Economic Review*, 72(3), 514-526.
- Reinganum, J.F., 1983, "Uncertain Innovation and the Persistence of Monopoly," *American Economic Review*, 73(4), 741-748.
- Gans, J. and S. Stern (2000), "Incumbency and R&D incentives: Licensing the gale of creative destruction," *Journal of Economics and Management Strategy* 9:485-511
- Anton, J.J. and D.A. Yao, 1994, "Expropriation and Inventions: Appropriable Rents in the Absence of Property Rights," *American Economic Review*, 84(1), 190-209.
- Segal, I. and M. Whinston (2009), "Antitrust in Innovative Industries," *American Economic Review*.

5. Disruption

- Christensen, C. and J. Bower, 1995, "Disruptive Innovation: Catching the Wave," *Harvard Business Review*.
- Henderson, R. and K. Clark, "Architectural Innovation: The Reconfiguration of Existing Product Technologies and the Failure of Established Firms," *Administrative Science Quarterly*, 1990
- Bresnahan, T., S. Greenstein, R. Henderson "Schumpeterian competition and diseconomies of scope: illustrations from the histories of IBM and Microsoft," 2010.

5. Bargaining and Market Competition

- de Fontenay, C. and J.S. Gans (2008), "[A Bargaining Perspective on Strategic Outsourcing and Supply Competition](#)," *Strategic Management Journal*, Vol.29, No.8, August 2008, pp.819-839.
- Makowski, L. & Ostroy, J. M. (2001), "Perfect Competition and the Creativity of the Market," *Journal of Economic Literature* 39: 479--535.
- MacDonald, G. & Ryall, M. D. (2004), "How Do Value Creation and Competition Determine Whether a Firm Appropriates Value?" *Management Science* 50, 1319—1333.
- Brandenburger, A. & Stuart, H. (2007) "Biform games," *Management Science* 53, 537-549.

7. Drivers of Vertical Integration

Gans, J.S., D. Hsu and S. Stern (2002), "When Does Start-Up Innovation Spur the Gale of Creative Destruction?" *RAND Journal of Economics* Vol.33, No.4, pp.571-586.
Bruno Cassiman & Masako Ueda, 2006. "Optimal Project Rejection and New Firm Start-ups," *Management Science*, 52(2), pages 262-275,

8. Entrepreneurial Strategy

Shane, S.

Teece, D.

Rajan, R. (2012), "The Corporation in Finance," *Journal of Finance*.

9. Market Design

Roth, A.E. (2008), "What have we learned from market design?" Hahn Lecture, *Economic Journal*, 118 (March), 285-310.

Gans, J.S. and S. Stern (2010), "Is there a market for ideas?" *Industrial and Corporate Change*, Vol.19, No.3, 2010, pp.805-837.

10. Two-Sided Markets

Rochet, J-C. and J. Tirole (2006): "Two-Sided Markets: A Progress Report," *Rand Journal of Economics*, 37, 645-667.

Armstrong, M. (2006): "Competition in Two-Sided-Markets," *Rand Journal of Economics*, 37, 668-691.

Weyl, G. (2010), "A Price Theory of Multi-Sided Markets," *American Economic Review*.

11. Platform Competition

Anderson, S.P. and S. Coate (2005): "Market Provision of Broadcasting: A Welfare Analysis," *Review of Economic Studies*, 72, 947-972.

Athey, S., E. Calvano and J.S. Gans (2013), "The Impact of the Internet on Advertising Markets for News Media," mimeo.

12. Recap

Date	Lecture Topic	Presentation Paper	Reading Paper
18 th September	Bargaining	na	na
25 th September	Theory of the Firm	Aghion-Tirole, 1994	
2 nd October	Relational Contracting	Forbes & Lederman, 2009	
9 th October	Competition & Innovation	Segal and Whinston	Gibbons & Henderson, 2012
16 th October	Disruption	Henderson 1995	
23 th October	Bargaining & Market Competition	Grennan 2014	
30 th October	Vertical Integration	Marx, Gans, Hsu 2015	
6 th November	Entrepreneurial Strategy	Rajan 2012	
8 th November	Market Design	Van den Steen 2012	
13 th November	Two-Sided Markets	Einav et al 2013	
20 nd November	Platform Competition	Haigu and Wright	
29 th November	No class		
4 th December	Recap		