

COURSE OUTLINE

RSM 3003

Course Name: *Strategy and Economics*

Instructor: Prof. Alberto Galasso

Fall 2017, Wednesdays 9-12, RT 470 (in RT 7024 on 20 Sept, 27 Sept and 4 Oct).

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 economic forces drive entrepreneurship, knowledge flows and cooperation between firms?

The overarching objectives of the course are:

1. To familiarize you with the core questions in the economics literature with relevance for strategy research;
2. To help you hone the skills required to model economic trade-offs and to use micro-economics tools to develop empirically testable predictions;
3. To broaden your exposure to empirical economics and strategy research, and to develop presentation skills required for an effective research seminar.

Required Texts

There is no required text for this course. All articles are available for download in the library portal.

Evaluation and Grades

Grades are based on the following

COMPONENT	Weight
Presentations	20%
Participation	10%
Term paper and presentation	40%
Theoretical Model	30%

Presentations: Each student will present one (or two) articles. Presentations will last one hour and resemble a standard research seminar. The only difference is that you will not present your own research but a top publication in the strategy and economics literature. You will be evaluated on the base of the clarity of the presentation, your understanding of the material and the way you address the questions and comments of the audience.

Participation in class discussion: Prior to the class you must read the paper(s) that will be presented by your classmates and think about questions to ask (as if it was a regular seminar presentation). You will be judged on the quality of your contribution to our collective effort of evaluating and understanding the presented research.

Term paper: each student should choose a topic area at the intersection between Economics and Strategy and provide a directed survey of core readings in that area. This can be one of the core areas discussed in our lectures or something that we have not covered. Additional relevant topics can be found in the strategy reader

<http://strategyresearchinitiative.wikispaces.com>

which was developed by SRI an informal organization of mid-career strategy scholars to which several Rotman faculty belong. While comprehensive, this list is not complete and each student should meet with me to agree on the topic and the structure of the survey.

The survey should be comprehensive (not cover only a handful of articles). You may browse articles in the Journal of Economic Literature (<https://www.aeaweb.org/journals/jel/issues>) or in one of the Elsevier Handbooks (<http://www.sciencedirect.com/science/handbooks/22108807>) to get some guidance on how to provide a complete survey of the literature. You should discuss what the main research questions in the area are, the approaches used to address them, what has been discovered so far and what are the avenues for future research. The survey should provide an overview both of the relevant economics literature as well as of the strategic management literature in the area (i.e. consulted journals should include *AER*, *QJE*, *JPE*,... as well as *Management Science*, *SMJ*, *Organization Science*, *Academy of Management Journal* etc..).

The paper is due at the end of the course and will be presented by each student in the last class.

Modeling exercise: Each student should write a simple theoretical model building on the theoretical component of the classes. The topic and question to model should be chosen by the student and related to the topic area of the survey. I will provide additional information (and guidance) on how to conduct the modeling exercise in class.

OUTLINE

- 1. Introduction to the course - Modeling ownership and firm boundaries (Sept 13 – RT 470)**
 - a. Aghion, P. and J. Tirole, 1994, "The Management of Innovation," *Quarterly Journal of Economics*, 109(4), 1185-1210
 - b. 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
 - c. Hart, Oliver, and John Moore. "Incomplete contracts and ownership: Some new thoughts." *American economic review* 97.2 (2007): 182-186.
 - d. Cremer, Jacques, Luis Garicano, and Andrea Prat. "Language and the Theory of the Firm." *Quarterly Journal of Economics* 122.1 (2007): 373-407.
 - e. Van den Steen, Eric J. "Interpersonal Authority in a Theory of the Firm." *American Economic Review* 100, no. 1 (March 2010): 466–490.
 - f. Baker, George, Robert Gibbons, and Kevin J. Murphy. "Relational Contracts and the Theory of the Firm." *The Quarterly Journal of Economics* 117.1 (2002): 39-84.
 - g. Williamson, Oliver E. "Comparative economic organization: The analysis of discrete structural alternatives." *Administrative Science Quarterly* (1991): 269-296.

- 2. Empirical analysis of horizontal and vertical integration (Sept 20 – RT 7024)**
 - a. Azoulay, Pierre. "Capturing knowledge within and across firm boundaries: evidence from clinical development." *American Economic Review* 94.5 (2004): 1591-1612.
 - b. Acemoglu, D., Aghion, P., Lelarge, C., Van Reenen, J., & Zilibotti, F "Technology, information, and the decentralization of the firm." *Quarterly Journal of Economics* 122.4 (2007)
 - c. Hortaçsu, Ali, and Chad Syverson. "Cementing relationships: Vertical integration, foreclosure, productivity, and prices." *Journal of Political Economy* 115.2 (2007): 250-301.
 - d. Novak, Sharon, and Scott Stern. "How does outsourcing affect performance dynamics? Evidence from the automobile industry." *Management Science* 54.12 (2008): 1963-1979.
 - e. Forbes, S.J. and M. Lederman (2009), "Adaptation and Vertical Integration in the Airline Industry," *American Economic Review*
 - f. Atalay, Enghin, Ali Hortaçsu, and Chad Syverson. "Vertical integration and input flows." *American Economic Review* 104.4 (2014): 1120-1148.
 - g. Nickerson, Jack A., and Brian Silverman. "Why firms want to organize efficiently and what keeps them from doing so: Evidence from the for-hire trucking industry." *Administrative Science Quarterly* 48.3 (2003): 433-465.
 - h. Silverman, Brian S., and Paul Ingram. "Asset ownership and incentives in early shareholder capitalism: Liverpool shipping in the eighteenth century." *Strategic Management Journal* 38.4 (2017): 854-875.

- 3. Modeling competitive advantage and dynamic industry interaction (Sept 27 – RT 7024)**
 - a. Pacheco-de-Almeida, G., & Zemsky, P. (2007). The Timing of Resource Development and Sustainable Competitive Advantage. *Management Science*, 53(4), 651-666
 - b. Katz, Michael L., and Carl Shapiro. "R&D rivalry with licensing or imitation." *The American Economic Review* (1987): 402-420.
 - c. Ryall, Michael D. "Causal ambiguity, complexity, and capability-based advantage." *Management Science* 55.3 (2009): 389-403.
 - d. Cabral, Luis. "Dynamic price competition with network effects." *The Review of Economic Studies* 78.1 (2011): 83-111.

- e. Fudenberg, Drew, and Jean Tirole. "The fat-cat effect, the puppy-dog ploy, and the lean and hungry look." *American Economic Review* 74.2 (1984): 361-366.
 - f. Wernerfelt, Birger. "A resource-based view of the firm." *Strategic Management Journal* 5.2 (1984): 171-180.
- 4. Empirical analysis of firm performance and industry profitability (Oct 4 – RT 7024)**
- a. Goolsbee, Austan, and Chad Syverson (2008) "How do incumbents respond to the threat of entry? Evidence from the major airlines." *The Quarterly Journal of Economics* 123.4: 1611-1633.
 - b. Syverson, Chad. "Market structure and productivity: A concrete example." *Journal of political economy* 112.6 (2004): 1181-1222
 - c. McGahan, Anita M., and Michael E. Porter. "What do we know about variance in accounting profitability?" *Management Science* 48.7 (2002): 834-851.
 - d. Vanneste, Bart S. "How Much Do Industry, Corporation, and Business Matter, Really? A Meta-Analysis." *Strategy Science* 2.2 (2017): 121-139.
 - e. Khanna, Tarun, and Jan W. Rivkin. "Estimating the performance effects of business groups in emerging markets." *Strategic Management Journal* (2001): 45-74.
 - f. Bloom, Nicholas, Raffaella Sadun, and John Van Reenen. "Americans Do IT Better: US Multinationals and the Productivity Miracle." *The American Economic Review* (2012): 167-201.
 - g. Bronnenberg, Bart J., Sanjay K. Dhar, and Jean-Pierre H. Dubé. "Brand history, geography, and the persistence of brand shares." *Journal of Political Economy* 117.1 (2009): 87-115.
- 5. Modeling regional clusters and knowledge spillovers (Oct 11 – RT 470)**
- a. Duranton, Gilles, and Matthew A. Turner. "Urban growth and transportation." *The Review of Economic Studies* 79.4 (2012): 1407-1440.
 - b. Ellison, Glenn, and Edward L. Glaeser. 1997. Geographic Concentration in U.S. Manufacturing Industries: A Dartboard Approach. *The Journal of Political Economy*. 105 (5):889–927
 - c. Kline, Patrick, and Enrico Moretti. "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority." *Quarterly Journal of Economics* 129.1 (2014).
 - d. Glaeser, Edward L., William R. Kerr, and Giacomo AM Ponzetto. "Clusters of entrepreneurship." *Journal of urban economics* 67.1 (2010): 150-168.
 - e. Glaeser, Edward L. "Learning in cities." *Journal of urban Economics* 46.2 (1999): 254-277.
 - f. Saxenian, AnnaLee. 1991. The Origins and Dynamics of Production Networks in Silicon Valley. *Research Policy* 20 (5):423–437.
- 6. Empirical analysis of regional ecosystems (Oct 18 – RT 470)**
- a. Ellison, Glenn, Edward Glaeser, and William R. Kerr. "What Causes Industry Agglomeration? Evidence from Co-agglomeration Patterns." *American Economic Review* 100, no. 3 (June 2010): 1195–1213.
 - b. Greenstone, Michael, Richard Hornbeck, and Enrico Moretti. "Identifying Agglomeration Spillovers: Evidence from Winners and Losers of Large Plant Openings." *Journal of Political Economy* 118.3 (2010): 536-598.
 - c. Alcacer, Juan. 2006. Location Choices across the Value Chain: How Activity and Capability Influence Collocation. *Management Science* 52 (10):1457–1471.
 - d. Moretti, Enrico, and Daniel Wilson, forthcoming, "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists." *American Economic Review*
 - e. Autor, David, David Dorn, and Gordon H. Hanson. "The China syndrome: Local labor market effects of import competition in the US." *American Economic Review* 103.6 (2013): 2121-68.

- f. Dittmar, Jeremiah E. "Information technology and economic change: the impact of the printing press." *The Quarterly Journal of Economics* 126.3 (2011): 1133-1172.
- g. Agrawal, Ajay, Iain Cockburn and John McHale. 2006. Gone But Not Forgotten: Knowledge Flows, Labor Mobility, and Enduring Social Relationships. *Journal of Economic Geography* 6: 571-591.
- h. Myles J. Shaver and Flyer, Fredrick. 2000. Agglomeration Economies, Firm Heterogeneity, and Foreign Direct Investment in the United States. *Strategic Management Journal*. 21:1175-1193.

7. Modeling entrepreneurship and spin-outs (Oct 25 – RT 470)

- a. Anton, James J., and Dennis A. Yao. "Start-ups, spin-offs, and internal projects." *Journal of Law, Economics, & Organization* (1995): 362-378
- b. Gans, Joshua S., and Scott Stern. "Endogenous Appropriability." *American Economic Review* 107.5 (2017): 317-21.
- c. Hellmann, Thomas. "When do employees become entrepreneurs?" *Management science* 53.6 (2007): 919-933
- d. Franco, April M., and Matthew F. Mitchell. "Covenants not to compete, labor mobility, and industry dynamics." *Journal of Economics & Management Strategy* 17.3 (2008): 581-606
- e. Cassiman, Bruno, and Masako Ueda. "Optimal project rejection and new firm start-ups." *Management Science* 52.2 (2006): 262-275.
- f. Klepper, Steven, and Peter Thompson. "Disagreements and intra-industry spinoffs" *International Journal of Industrial Organization* 28.5 (2010): 526-538.

8. Empirical analysis of entrepreneurship (Nov 1 – RT 470)

- a. Glaeser, Edward L., Sari Pekkala Kerr, and William R. Kerr. "Entrepreneurship and urban growth: An empirical assessment with historical mines." *Review of Economics and Statistics* 97.2 (2015): 498-520
- b. Marx, Matt, Deborah Strumsky, and Lee Fleming. "Mobility, skills, and the Michigan non-compete experiment." *Management Science* 55.6 (2009): 875-889
- c. Levine, Ross, and Yona Rubinstein. "Smart and Illicit: Who Becomes an Entrepreneur and Do they earn more?" *Quarterly Journal of Economics* (2016)
- d. Hamilton, Barton H. "Does entrepreneurship pay? An empirical analysis of the returns to self-employment." *Journal of Political economy* 108.3 (2000): 604-631.
- e. Åstebro, Thomas, Jing Chen, and Peter Thompson. "Stars and misfits: Self-employment and labor market frictions." *Management Science* 57.11 (2011): 1999-2017.
- f. Hurst, Erik, and Annamaria Lusardi. "Liquidity constraints, household wealth, and entrepreneurship." *Journal of political Economy* 112.2 (2004): 319-347.

9. Cooperative strategy: theoretical tools and empirical evidence (Nov 8 – RT 470)

- a. Lerner, Josh, and Ulrike Malmendier. "Contractibility and the design of research agreements." *The American Economic Review* 100.1 (2010): 214-246.
- b. Gans, Joshua S., David H. Hsu, and Scott Stern. "When does start-up innovation spur the gale of creative destruction?" *The Rand Journal of Economics* 33.4 (2002): 571.
- c. Mowery, David C., Joanne E. Oxley, and Brian S. Silverman. "Strategic alliances and interfirm knowledge transfer." *Strategic Management Journal* 17.S2 (1996): 77-91.
- d. Oxley, Joanne, and Tetsuo Wada. "Alliance structure and the scope of knowledge transfer: Evidence from US-Japan agreements." *Management Science* 55.4 (2009): 635-649.
- e. Galasso, Alberto. "Broad Cross-License Negotiations." *Journal of Economics & Management Strategy* 21.4 (2012): 873-911.

- f. 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

10. CEOs, Managers and career concerns: theoretical tools and empirical evidence (Nov 15 – RT470)

- a. Aghion, Philippe, John Van Reenen, and Luigi Zingales. "Innovation and institutional ownership." *The American Economic Review* 103.1 (2013): 277-304
- b. Malmendier, Ulrike, and Geoffrey Tate. "Superstar Ceos." *Quarterly Journal of Economics* 124.4 (2009): 1593-1638.
- c. Bloom, Nicholas, Carol Propper, Stephan Seiler, and John Van Reenen. "The impact of competition on management quality: evidence from public hospitals." *The Review of Economic Studies* (2015)
- d. Bloom, Nicholas, et al. "Does Management Matter? Evidence from India." *Quarterly Journal of Economics* 128.1 (2013).
- e. Halac, Marina, and Andrea Prat. "Managerial attention and worker performance." *American Economic Review* 106.10 (2016): 3104-3132.
- f. Bloom, N., Genakos, C., Sadun, R., & Van Reenen, J. (2012). Management practices across firms and countries. *The Academy of Management Perspectives*, 26(1), 12-33.

11. Innovation: theoretical tools and empirical evidence (Nov 22 –RT470)

- a. Weyl, E. Glen, and Jean Tirole. "Market Power Screens Willingness-to-Pay." *Quarterly Journal of Economics* 127.4 (2012): 1971-2003
- b. Moser, Petra, and Alessandra Voena. "Compulsory licensing: Evidence from the trading with the enemy act." *American Economic Review* 102.1 (2012): 396-427
- c. Finkelstein, Amy. "Static and Dynamic Effects of Health Policy: Evidence from the Vaccine Industry." *The Quarterly Journal of Economics* 119.2 (2004): 527-564.
- d. Acemoglu, Daron, and Joshua Linn. "Market Size in Innovation: Theory and Evidence from the Pharmaceutical Industry." *Quarterly Journal of Economics* 119.3 (2004): 1049-1090
- e. Budish, Eric, Benjamin N. Roin, and Heidi Williams. "Do Firms Underinvest in Long-Term Research? Evidence from Cancer Clinical Trials." *American Economic Review* 105.7 (2015): 2044-2085.
- f. Arora, Ashish, Andrea Fosfuri, and Alfonso Gambardella. "Markets for technology and their implications for corporate strategy." *Industrial and corporate change* 10.2 (2001): 419-451.
- g. Ziedonis, Rosemarie Ham. "Don't fence me in: Fragmented markets for technology and the patent acquisition strategies of firms." *Management Science* 50.6 (2004): 804-820.

12. Student Presentations of Term Papers (Nov 29 –RT470)