

Analysis of Strategy - A (MN415)

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Office hr.: 11-12.30 on Fridays

Lectures take place every Monday between 15.00-17.00 in Room D402.

Classes take place Wednesdays at 2pm (Room No. G215), 3pm (Room No. G215) and 5pm (Room No. H208); and Fridays at 1pm (Room No. H106).

The following are the four main books for 'Analysis of Strategy - A' course. The Strategy-A course starts with a fair amount of usage of the book 'Thinking Strategically' (DN). 'Economics of Strategy'(BDS) and 'Foundations of Corporate Success'(Kay) are also going to be used extensively while 'Coopetition' (BS) will be used mainly as a supplement for classes. I would strongly recommend that students buy the 'Economics of Strategy' book. You can buy the other books if you feel that the library does not have enough copies for the class size. The first two books are also going to be used extensively in 'Analysis of Strategy-B'.

- (1) 'Thinking Strategically' by Avinash Dixit and Barry Nalebuff, W.W. Norton and Co. 1993.
- (2) 'Economics of Strategy' by D. Besanko, D. Dranove and M. Shanley, John Wiley 1996.
- (3) 'Foundations of Corporate Success' by John Kay, Oxford University Press 1995.
- (4) 'Co-opetition' by A. Brandenburger and B. Nalebuff, Harper Collins Publishers 1996.

Other books which you will need from time to time are:

- (5) 'A Primer in Game Theory' by Robert Gibbons, published by Harvester Wheatsheaf, 1992.
- (6) 'Introduction to Industrial Organisation' By L.Cabral.
- (7) 'Information Rules' by H.Varian and C. Shapiro.

(8) ‘Competitive Strategy’ by Michael Porter, published by The Free Press (New York) 1980.

References of journal articles will be provided later on.

Course Outline

The following is a short outline of the course. You will get a more exacting reference in the handouts for lectures. A must pre-reading for this course is the chapter ‘Primer: Economic Concepts of Strategy’ (pp 9-40) in Besanko-Dranove-Shanley.

Lecture 1 Short Introduction of Strategy-A. Some basic games- Prisoner’s Dilemma, The Battle of the Sexes, The game of Chicken. The concept of a dominant and dominated strategy and how to simplify the analysis of a game using these concepts. Most of the examples are from Dixit-Nalebuff; some are from Kay and a few will be from Besanko-Dranove-Shanley. Reference to pages in the books will be given in a handout on the day of the lecture.

Lectures 2 and 3 Nash equilibrium, Mixed strategies (time permitting), Extensive form representations and subgame perfect equilibrium; Cooperation in the repeated Prisoner’s Dilemma; resolution of some of the problems raised in Lecture 1. The examples will be from the main books in the reference list. More details will be given in handouts on the day of the lectures. Although we will not cover the following in the lecture, a compulsory reading for the repeated Prisoner’s Dilemma is article titled ‘Reciprocity and Evolution of Cooperation’. This is Chapter 8 in *Games of Life: Explorations in Ecology, Evolution and Behaviour* published by Oxford University Press in 1993. The stress should be on ‘Tit for Tat’ strategies and variants. You might find the sections dealing with evolutionary dynamics and stability relatively complex, but they are important nevertheless and you should try as best as possible from a survey article. Reinforce understanding with sections ‘Tit for Tat’ and ‘Alternative to Tit for Tat’ in pp 106-115 of Dixit-Nalebuff.

Note that classes will start from the third week. Also note that for clarifications on material covered in Lectures 1-3, I would expect you to read from the following

sources: Gibbons (Chapters 1-3); Cabral (Chapter 4); Kay (Chapter 3); BDS (pp36-40).

Lecture 4 We first complete whatever is left from lecture 3. Economies of Scale and Scope; the learning or the experience curve; first mover advantages. Material is mostly from Chapter 2 of Besanko-Dranove-Shanley; a compulsory reading is the article by Liebermann and Montgomery titled 'First Mover Advantages'.

Lectures 5 and 6 Costs and Benefits of using markets; Contracts - formal and relational; transactions with relation specific assets and the holdup problem; Vertical Integration - motives; alternatives to vertical integration. Most of this material is from chapters 3 to 5 of Besanko-Dranove-Shanley; a part will be from Kay (chapter 4).

Lecture 7 Adding value and firm asymmetries. The lecture will be built around the paper 'Value Based Business Strategy' by A. Brandenburger and H. Stuart. This was published in 'Journal of Economics and Management strategy', spring 1996, pp 5-24. We will also draw on the definitions provided in Kay (pp19-32, pp63-64) and B-D-S (pp 391-411).

Lectures 8 and 9 Distinctive capabilities and competitive advantages; Architecture, Reputation, Innovation and Strategic Assets; sustainability and appropriability of advantages. The material is from chapters 5,6,7,8, 11 and 12 of Kay. This will be supplemented with chapter 13 from B-D-S.

A small part of lecture 9 will be devoted in introducing the industry semiconductor designer 'Arm Holdings'. While I will set out only the basics of the case, the real work will be done by the students in the last class of this course.

Lecture 10 In this lecture we study strategic issues arising in industries involving 'Network Effects'. Necessary reference for this lecture are (a) Chapter 7 of 'Information Rules' by Shapiro and Varian (HBS Press); (b) Chapter 17 of 'Industrial Organization' by Luis Cabral (MIT Press); and (c) pp 232-236 of Dixit and Nalebuff.