



Course information 2023-24

MN3212 Strategy

General information

COURSE LEVEL: 6

CREDIT: 30

NOTIONAL STUDY TIME: 300 hours

Summary

This course is concerned with strategic thinking. It uses basic economic principles and game theoretic tools to address strategic issues that arise in a firm's relationships with customers, suppliers, competitors, employees, other organizations, and stakeholders in general. It links critical analysis with practice. All topics are illustrated with examples of real companies in different industries. Students will be challenged to understand and apply managerial and economic theory to real world examples through business cases.

The course is structured in two parts. The first part will introduce tools that aid in identifying the external opportunities available to a firm. We start by analysing a firm's external environment through the formulation of economic models of competition between firms. We will then discuss management tools to carry out industry profitability qualitative analysis. We will finally critically evaluate the literature on the main sources of a sustainable competitive advantage. The second part of the course will be focused on identifying and studying how firms organize to seize these opportunities. We will study a firm's internal environment by developing economic models that illustrate the trade-offs that firms face to motivate and coordinate their members' actions, as well as discussing the main factors that determine a firm's scope.

Conditions

Prerequisite: If taken as part of a BSc degree, the following courses must be passed before this course may be attempted:

- EC1002 Introduction to economics **AND**
- **EITHER** MT105a Mathematics 1 **OR** MT1174 Calculus **OR** MT1186 Mathematical methods

Note: Students may find it helpful to have studied course *MN2028 Managerial economics* or *EC2066 Microeconomics* before registering for this course.

Aims and objectives

The course aims to provide students with an understanding of strategy formulation in firms and its main challenges. There is a particular emphasis on the practical application of the analysis of strategy.

Please consult the current EMFSS Programme Regulations for further information on the availability of a course, where it can be placed on your programme's structure, and other important details.

Learning outcomes

At the end of this course and having completed the essential reading and activities students should be able to:

- Understand the main static and dynamic determinants of the intensity of rivalry between firms.
- Explain the structure of an industry and the nature of the competitive interactions among firms in this industry and perform a qualitative analysis of industry profitability.
- Identify the sources of competitive advantage and link them to the external environments in which firms operate and apply them to the analysis of real-world examples.
- Identify the main challenges in motivating individual workers and teams and identify which organizational practices are more likely to result in higher performing work environments.
- Understand the basic driving factors determining the boundaries of the firm and evaluate the strategic rationale for vertical consolidation, and its implications for other upstream and downstream firms, as well as rivals.

Essential reading

The material for this course can be found in the lecture notes and lecture slides prepared by Prof. Ricardo Alonso. Students can complement these lecture notes with selective chapters from the following textbooks:

- Economics of Strategy, 6th Edition, by David Besanko, David Dranove, Mark Shanley and Scott Schaefer.
- Strategic Management by Garth Saloner, Andrea Shepard and Joel Podolny.

While most of our discussion can be found in the lecture notes, we will also make use of two relatively short books:

- The Art of Strategy, WW Norton, 2008, by Avinash Dixit and Barry Nalebuff.
- The Modern Firm: Organizational Design for Performance and Growth, 2007, by John Roberts.

Students can use the first book to complement our discussion of game theory in the first part of the course, while the second book can complement our discussion of the internal organization of the firm in the second part of the course.

Assessment

This course is assessed by a three-hour unseen written examination.

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Syllabus

The theoretical topics covered are:

- Introduction: What is Strategy? Structure of the Course

PART I: EXTERNAL ENVIRONMENT

Part I-a Competitive Analysis.

- Game Theory I: Simultaneous Games.
- Market Structure and Market Power: Monopoly.
- Market Structure: Oligopoly.
- Game Theory II: Dynamic Games.
- Dynamic Collusive Pricing.
- Entry, Exit and Industry Dynamics.
- Industry Analysis.

Part I-b Strategic Positioning.

- Competitive Advantage.
- Strategic Positioning: Cost Advantage.
- Strategic Positioning: Benefit Advantage and Differentiation.
- Strategic Positioning: Focus Strategies.
- Information and Value Creation.

PART II: INTERNAL ENVIRONMENT

- Economic View of Organisations.
- Paying for Performance (I and II).
- Incentives in Teams.
- Decision-Making in Organisations: Empirical Evidence.
- Improving-Decision Making.
- Horizontal Mergers.
- Vertical Mergers.

Several topics are supplemented with business case studies.

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