

# Markets for Managers

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## 1. Introduction / Summary

The course provides a practical introduction to the economic way of thinking, and how managers can utilize that to create value within organizations. We will understand the power of incentives, which are what economists define as the relationship between the benefits (the value we expect to gain) and the costs (the value we expect to give up) of a decision. We will conduct a negotiation exercise to understand costs in more detail, and relate these to practical cases relating to short run and long run decision making. We will see how market prices are formed by creating a trading floor and then utilise comparative statics for understanding the market process over time. Specific attention will be given to market design and the implications of microeconomic theory to pricing and market segmentation. Finally, these concepts are all brought together with a detailed look at how organisations have successfully utilised internal markets to improve their information channels and incentive mechanisms.

## 2. Learning Objectives

Attendees will participate in a negotiation simulation and see the link between cost structures and competition theory. Important concepts such as market design and competition policy will be demonstrated through case studies and group discussion.

Particular emphasis is placed on the role of markets as a source of value-creation, and how managers can build internal institutions that generate knowledge and align incentives.

## 3. Learning Outcomes

Managers will internalise core concepts such as value creation, opportunity cost, price discrimination and be able to recognise and apply them on a daily basis. In addition, we will achieve the following:

- Bring new ideas to everyday management that create genuine value
- Work together in group exercises whilst learning new material
- Contribute experiences and insights to communal debriefs

- Generate energy and enthusiasm for economic theory and management practice

#### **4. Main Topics and Course Content**

- i. Demand, supply and competition
- ii. Market exchange
- iii. Markets within the firm

#### **5. Teaching Methods**

A combination of lectures, case discussion and group activities.

#### **6. Preparatory Work and Required Readings**

The textbook is Markets for Managers by Anthony J. Evans (Wiley, 2014).

The website provides a number of interactive features including videos. More details are here: <http://www.marketsformanagers.com/>.

I also recommend Managerial Economics by Luke M. Froeb, Brian T. McCann, Michael R. Ward and Mikhael Shor (Thomson Southwestern 3rd edition, 2013)

#### **7. Further Readings**

The following materials will be distributed in class but should *not* be read in advance:

- Malhotra, Deepak, "Hamilton Real Estate: BUYER", Harvard Business School Case No. 9-905-052, January 2005 (£)
- Malhotra, Deepak, "Hamilton Real Estate: SELLER", Harvard Business School Case No. 9-905-053, January 2005 (£)
- "Mr Morita", October 2010
- Rivkin, J.W., "Dogfight over Europe: Ryanair (B)" Harvard Business School case no. 9-700 116, October 23rd 2000
- "CC Simulation (B)", May 2018
- "CC Verdict", February 2014
- "Trading in a Pit Market: Trader's Instructions", September 2018
- "Trading in a Pit Market: Assistant's Instructions", September 2018
- "Comparative Statics Worksheet" July 2018
- "Comparative Statics Solutions" July 2018

- “India Worksheet” April 2019
- “An Economist’s Passage to India: Debrief” May 2018
- “The Biggest Auction Ever: What Happened Next?”, February 2019
- “Prediction Markets”, February 2016
- “MBM Dimensions”, March 2011
- “ACS Worksheet” May 2018
- Koch, C., 2014 Case Study #4: Georgia-Pacific Green Bay Broadway Mill, in ‘Good Profit’ (£)
- Koch, C., 2014 Case Study #4: Georgia-Pacific Green Bay Broadway Mill (B), in ‘Good Profit’ (£)

## 8. Schedule

Day 1: Demand, supply, and competition	
9:00 – 10:45	1. Incentives matter* [Evans Ch.1]
10:45 – 11:00	<b>BREAK</b>
11:00 – 12:30	2. Understanding cost* [Evans Ch.2.1]
12:30 – 14:00	<b>LUNCH</b>
14:00 – 15:30	3. Cost curves* [Evans Ch.2.2] La Marmotte, January 2012 <i>Instructions: Complete Exhibit 1 and provide suggestions for the two key decisions</i>
15:30 – 15:45	<b>BREAK</b>
15:45 – 17:15	4. Economies of scale [Evans Ch.2.3] “Dogfight over Europe: Ryanair (A)” Harvard Business School case no. 9-700-115, November 21st 2007 (£) <i>Discussion question: What are some sources of economies of scale? How do they apply to British Airways in 1986?</i>
17:15 – 17:30	<b>BREAK</b>
17:30 – 18 :15	5. CC Simulation [Evans Ch.5] – Group Work CC Simulation, February 2014 <i>Discussion question: Is the market for airport services in the UK competitive?</i>
18 :15 – 19 :00	CC Simulation Debrief

Day 2 – Market exchange	
9:00 – 10:45	6. Market Equilibrium* [Evans Ch.3.1, 3.2]
10:45 – 11:00	<b>BREAK</b>
11:00 – 12:30	7. Two-sided markets

	Moon, Y., "Uber: Changing The Way The World Moves" Harvard Business School Case No. 316-101, January 2017
<b>12:30 – 14:00</b>	<b>LUNCH</b>
14:00 – 15:30	8. Auctions* Hild, M., Dwidevy, A., and Raj, A., (2004) "The Biggest Auction Ever: 3G Licensing in Western Europe", Darden Business Publishing (£) <i>Discussion question: What are the alternatives to auctions?</i>
<b>15:30 – 15:45</b>	<b>BREAK</b>
15:45 – 17:30	9. Price discrimination* [Evans Ch.4.3] – Group Work <i>Read through the following Twitter thread:</i> <a href="https://twitter.com/anthonyjeans/status/993918866186297349">https://twitter.com/anthonyjeans/status/993918866186297349</a>
<b>17:30 – 17:45</b>	<b>BREAK</b>
17:45 – 19:00	Price Discrimination Debrief

<b>Day 3 – Markets within the firm</b>	
8:30 – 9:30	10. Internal Markets [Evans Ch.4.4, 4,5] Wessen, R.R. and Porter, D., "The Cassini Resource Exchange" Ask Magazine 16, Fall 2007, p. 14-18 (£)
9:30-10:30	11. Prediction Markets – Group Work Coles, Peter, Lakhini, Karim and McAfee, Andrew, "Prediction Markets at Google" Harvard Business School Case No. 9-190-053, November 2000 (£)
<b>10:30–10:45</b>	<b>BREAK</b>
10:45 - 11:30	Prediction Markets Debrief
11:30 – 12:30	12. Corporate Entrepreneurship – Group Work Weston, Hilary A., "Automation Consulting Services", Harvard Business School Case No. 9-190-053, November 2000 (£)
12:30 – 13:30	Corporate Entrepreneurship Debrief

Sessions marked with an asterix (\*) have a lecture handout available in advance.

Cases marked with a pound sign (£) will be made available separately.