Firms and Markets: Outline and Calendar (Spring 2005)
Revised: October 27, 2004
B01.1303.33 (Orange)

MODULE 1: MARKET FORCES

1. February 10
   Demand. Sensitivity of demand to prices and income, elasticities, substitutes and complements, estimating demand.

2. February 17
   Costs and Supply. Opportunity (marginal) costs, sunk cost and other cost concepts. The supply curve in competition.

   Due at start of class: Individual Problem Set 1.

3. February 24
   Competitive markets. Equilibrium, Perfect competition, profits in competitive markets, sources of profitability, curves and shifts.

4. March 3
   Monopoly pricing. Monopoly pricing, Surplus, properties of industries, sources of market power, social costs of monopoly, competition policy.

   Due at start of class: Individual Problem Set 2.

MODULE 2: ADVANCED REVENUE SCHEMES

5. March 10

   Due at the start of class: Group Project 1, Individual Problem Set 3.

6. March 24
   Midterm examination (in class). Same format as the practice exam (3 problems, largely quantitative). You may consult one page of notes (a standard-size piece of paper with anything on it you like) and a calculator.
Auctions. Types of auctions; the winner’s curse in common-value auctions; auctions and alternative selling mechanisms.

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**MODULE 3: IMPERFECT MARKETS**

7. March 31

**Strategy and games.** Strategies and payoffs, normal and extensive-form games (tables and trees), best responses, Nash equilibrium, Prisoner’s dilemma, win/win and win/lose games.

Due at the start of class: Individual Problem set 4

8. April 7

**Hazards of price competition.** Price setting in “commodity” markets: the “Bertrand trap” and how to avoid it.

**Asymmetric information.** What happens when the seller knows more than the buyer? When the manager knows more than the owner?

Group presentations: GE-Honeywell Merger (A & B), DeBeers

9. April 14

**Competition and cooperation.** Cooperative situations and how to produce them, trigger strategies, factors that make cooperation easier.

**Product differentiation and positioning.** The characteristics approach to consumer demand; product differentiation and price competition; strategic positioning games; differentiation strategies.

Due at start of class: Individual Problem Set 5.

Group presentations: Second- and third-generation wireless (A & B)

10. April 21

**Entry and exit.** Commitment and credibility, capacity expansion, product proliferation, long-term contracts. Predatory pricing and other exclusionary practices.

Due at start of class: Group Project 2.

Practice exercises.
11. April 28

   Group presentations: Superjumbo, Microsoft (A & B)

12. May 5
   Wrap-up

   Practice Problems + Questions

   Final examination handed out (Take Home). Same format as the practice exam, due on May 12.

   Group presentations: Online Music (A & B), eBay (A & B)