APPLIED ECONOMICS FOR MANAGERS SESSION 9—

I. BASIC TACTICS FOR FIRMS WITH MARKET POWER

A. PRICE TACTICS

1. TWO-PART TARIFFS

2. BLOCK-PRICING OR QUANTITY DISCOUNTS

3. MARKET SEGMENTATION

B. PRODUCT DESIGN ISSUES

1. BUNDLING/TYING

2. VERSIONING

3. LOCATION ISSUES

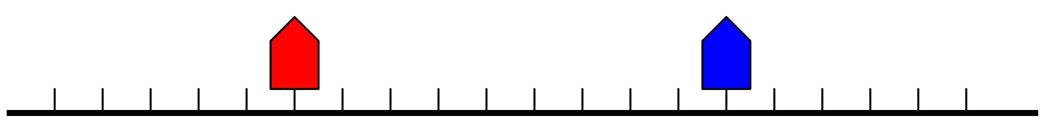
C. PROFIT = CREATION AND CAPTURE OF VALUE

D.   PRICE DISCRIMINATION, VERSIONING, AND COMPETITION

1. INTENSIFICATION OF PRICE COMPETITION

2. MARKET NICHES AND MONOPOLISTIC COMPETITION

3. LOCATION AS A STRATEGY CHOICE



II. MARKETS WITH A FEW FIRMS: GAME THEORY

A. THE NOTION OF A GAME: STRATEGIC INTERACTION

1. PROFIT-MAXIMIZING CHOICE DEPENDS ON STRATEGY OF RIVALS

2. GUESSING YOUR RIVAL’S STRATEGY

B. NASH EQUILIBRIUM

C. THE RULES OF THE GAME

1. ORDER OF PLAY

a. SIMULTANEOUS OR SEQUENTIAL

b. IF SEQUENTIAL, WHO MOVES FIRST?

2. WHAT IS THE STRATEGIC VARIABLE?

a. PRICE

b. QUANTITY

c. R&D

d. ADVERTISING

3. WHAT DO THE PLAYERS KNOW?

a. WHAT INFORMATION IS COMMON TO ALL PLAYERS?

b. ARE THERE ANY ASYMMETRIES

4. DURATION OF PLAY

IV. COURNOT vs BERTRAND vs STACKELBERG

A. AN EXPERIMENT

B. INSIGHTS OF THE COURNOT MODEL

1. INEFFICIENCY IS A CONCEPT THAT CAN BE APPLIED TO LOTS OF SOCIAL INTERACTIONS

2. NUMBER OF PLAYERS MATTERS

3. FIRMS WITH DIFFERENT UNIT COSTS CAN COEXIST

4. FROM PUBLIC POLICY PERSPECTIVE: OLIGOPOLY IS WORSE THAN PERFECT COMPETITION/BETTER THAN MONOPOLY

C. A SECOND EXPERIMENT