

INDUSTRIAL ORGANIZATION AND STRATEGY

IE University

Professor: **JAVIER CAPAPÉ AGUILAR**

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Academic year: 23-24

Degree course: SECOND

Semester: 1^o

Category: COMPULSORY

Number of credits: 6.0

Language: English

PREREQUISITES

Microeconomics.

Concepts on market efficiency and perfect competition markets are desirable. We will discuss exactly the opposite.

SUBJECT DESCRIPTION

The course on Industrial Organization and Strategy (IO&S) will help you to understand the workings of markets and industries, in particular the way firms strategically compete with each other. Indeed, IO&S will show you why markets are neither perfectly competitive nor monopolies. The 4 assumptions we typically assume for perfectly competitive markets will not hold, and the violation of each of these assumptions will lead us into new scenarios, explored throughout the IO&S course.

So if you have ever asked yourself what is the reaction of Coca-Cola when Pepsi increased their investment in advertising or the reaction of Cabify to Uber's strategy, IO&S will provide you with the structured thinking to face and understand analytically these issues.

OBJECTIVES AND SKILLS

IO&S will also help you to understand oligopolies, the role of collusion and the mechanisms of price wars. The idea of having a small number of competing firms transforms the way we analyze economic issues. And the fact that many industries today point towards this direction, even on a global scale, makes IO&S more pertinent than ever. (Just think for a second about the concentration in sectors such as pharma, web search, video-conferencing software, cloud services, on-demand delivery, ride-hailing, or even video-on-demand platforms).

IO&S will also help to frame your economic thinking of market structures. IO&S helps you to compare countries or industries based on entry costs or horizontal mergers.

In the end, competition and business strategies are at the front of business newspapers on a daily basis. This course will allow you not only to understand but to have a critical mindset on hot issues such as the competition for the market share of the cloud, ride-hailing, and vaccines. Should Nintendo react to Sony's cutting the price of its PlayStation? Was the Department of Justice right in suing Apple for bundling Maps with iOS? How the acquisition made by LVMH of Tiffany & Co. was evaluated in competition terms? What is the rationale of the U.S. Senate investigating the market power of the Big Tech (Apple, Amazon, Facebook, Alphabet, Microsoft)?

METHODOLOGY

The course will combine theoretical sessions and applied exercises. The course also includes sessions with competition specialists, and in-hands game theory scenarios, used in behavioural economics.

Teaching methodology	Weighting	Estimated time a student should dedicate to prepare for and participate in
Lectures	43.33 %	65 hours
Discussions	20.0 %	30 hours
Exercises	30.0 %	45 hours
Group work	6.67 %	10 hours
Other individual studying	0.0 %	0 hours
TOTAL	100.0 %	150 hours

PROGRAM

SESSIONS 1 - 2 (LIVE IN-PERSON)

Presentation of the Course & Consumers

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapters 1 & 2) (See Bibliography)

SESSIONS 3 - 4 (LIVE IN-PERSON)

Consumers - Problem Set

Firms - Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapters 2 & 3) (See Bibliography)

SESSIONS 5 - 6 (LIVE IN-PERSON)

Firms & From Efficiency to Failure.

Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapters 3 and 4) (See Bibliography)

SESSIONS 7 - 8 (LIVE IN-PERSON)

From Efficiency to Failure & Market Failure and Incentives.

Problem Set.

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 4) (See Bibliography)

SESSIONS 9 - 10 (LIVE IN-PERSON)

Price Discrimination

Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 6) (See Bibliography)

SESSIONS 11 - 12 (LIVE IN-PERSON)

Oligopoly: Strategies.

Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 8) (See Bibliography)

SESSIONS 13 - 14 (LIVE IN-PERSON)

Price Discrimination & Oligopoly: Strategies

Problem Set

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 6 & 8) (See Bibliography)

SESSION 15 (LIVE IN-PERSON)

Midterm Exam.

Theory and Practice

SESSIONS 16 - 17 (LIVE IN-PERSON)

Collusion and Price Wars

Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapters 9) (See Bibliography)

SESSIONS 18 - 19 (LIVE IN-PERSON)

Midterm Exam Solutions & Collusion and Price Wars.

Problem Set

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 9) (See Bibliography)

SESSIONS 20 - 21 (LIVE IN-PERSON)

Market Structure: Entry Costs

Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 10) (See Bibliography)

SESSION 22 (LIVE IN-PERSON)

Market Structure: Entry Costs

Problem Set

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 9) (See Bibliography)

SESSION 23 (ASYNCHRONOUS)

Expert Interview 1 (TBC)

SESSIONS 24 - 25 (LIVE IN-PERSON)

Horizontal Mergers

Theory

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 11) (See Bibliography)

SESSION 26 (LIVE IN-PERSON)

Horizontal Mergers

Problem Set

Book Chapters: Luis M. B. Cabral. (2017). Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press (Chapter 11) (See Bibliography)

SESSIONS 27 - 28 (ASYNCHRONOUS)

Q&A Final Exam

Theory and Practice

SESSION 29 (ASYNCHRONOUS)

Expert Interview 2 (TBC)

SESSION 30 (LIVE ONLINE)

Final Exam

BIBLIOGRAPHY

Compulsory

- Luis M. B. Cabral. (2017). *Introduction to Industrial Organization - Second Edition. Second Edition. The MIT Press. ISBN 9789388028264 (Printed)*

EVALUATION CRITERIA

The evaluation will be based on three key elements: class participation (10%), practical assignments (biweekly) (30%), and exams (midterm, 30%, and final exam, 30%).

What do I expect from each criterion?

****Class Participation**

The instructor will incentivize and reward questions and comments from students during lectures, forums, and practical lessons.

Two main criteria will be used to judge your class participation:

- Frequency: It refers to the attainment of a threshold quantity of contributions that is sufficient for making a reliable assessment of comment relevance. The logic is that if contributions are too few, one cannot reliably assess the quality of your remarks. However, once threshold quantity has been achieved, simply increasing the number of times you talk does not improve your evaluation, so please do not try "to steal the show", and make sure you do not sacrifice quality for quantity.
- Relevance: This is the most important dimension of participation. A relevant comment reveals depths of insight, rigorous use of case evidence, and most importantly it helps to move your peers' understanding forward.

****Problem Sets**

Should be emailed on time when required, almost on a biweekly basis. Delays will penalize your grades.

During sessions, some of you can voluntarily help the instructor resolve exercises or examples on the whiteboard.

On other occasions, you would be randomly required to help with the solution of exercises/examples during problem set solving sessions.

****Final and Midterm Exams**

They both will have a similar structure: A set of analytical exercises similar to those solved during the practice sessions.

The Final Exam will include the materials covered during the whole course.

Criteria	Percentage	Comments
Class Participation	10 %	
Individual Work	30 %	
Midterm Exam	30 %	
Final Exam	30 %	

GENERAL OBSERVATIONS

Each student has four attempts over two consecutive academic years to pass this course.

For every BIE Program mandatory class, students are required to obtain the minimum grade of 5 required to pass the course. Students whose grade in the Final Exam (or the largest assignment) is below 5 will fail the course. The rule applies to whichever assignment carries the greatest weight to the final grade. The dates and location of the final exam will be posted in advance and will not be changed.

Students must attend at least 70% of the sessions. Students who do not comply with the 70% attendance rule will receive a 0.0 on their first and second attempts and go directly to the third one (they will need to enroll in this course again the following academic year).

Students who are in the third or fourth attempt must contact the professor during the first two weeks of the course.

ATTENDANCE

In-person attendance is mandatory at IE University, as it is an essential factor of IE's learning methodology. While we do closely monitor attendance in each course, we also consider our students responsible for their own agenda and commitments, as adult university students. With that in mind, each student may miss up to 30% of the sessions within a given course and still maintain the possibility of passing that given course. This 30% "buffer" is to be used for any absences, such as illnesses, personal emergencies, commitments, official/governmental matters, business and/or medical appointments, family situations, etc. Students should manage their various needs and situations that may arise, within that 30% buffer. If a student is absent for more than the allowed 30% of the sessions (regardless of the reason), s/he will obtain a 0.0 grade for that course in both the ordinary and extraordinary calls of the current academic year, and s/he will have to retake the course during the following academic year.

Please pay close attention to your attendance. The program strongly encourages attending 100% of the sessions as it will improve your learning outcomes, it will increase the class performance, and will benefit your participation grade. Noncompliance with deadlines for Non-Classroom Learning activities or assignments will result in an absence from the session.

Extreme cases involving emergencies such as extended hospitalizations, accidents, serious illnesses, and other cases of force majeure, are to be consulted with the Program Management (bir.biemadrid@ie.edu) for assessment of the situation and corresponding documentation, in order to support and guide each student optimally.

For more information about the university attendance policy, please check; <https://www.ie.edu/student-guide/bir/policies-and-guidelines/attendance/>

RETAKE POLICY

Any student whose weighted final grade is below 5 will be required to sit for the retake exam to pass the course (except those not complying with the attendance rules, whom are banned from this possibility).

Grading for retakes will be subject to the following rules:

- The retakes will consist of a comprehensive exam or equivalent assignment. The grade will depend only on the performance on this exam; continuous evaluation over the semester will not be taken into account.
- Dates and locations of the retakes will be posted in advance and will not be changed.
- The exam/assignment will be designed bearing in mind that the passing grade is 5 and the maximum grade that can be attained is 8 out of 10.

PLAGIARISM / ACADEMIC HONESTY

Plagiarism is the dishonest act of presenting another person's ideas, texts, or words as your own. This includes in order of the seriousness of the offense:

- providing faulty sources;
- copy-pasting material from your own past assignments (self-plagiarism) without the instructor's permission;
- copy-pasting material from external sources even while citing them;
- using verbatim translations from sources in other languages without citing them;
- copy-pasting material from external sources without citing them;
- and buying or commissioning essays from other parties.

IEU students must contact the professor if they don't know whether the use of a document constitutes plagiarism. For help with your academic writing, contact the Writing Center (writingcenter@faculty.ie.edu). The professor will also advise the student on how to present said material. All written assignments must be submitted through Turn-it-in, which produces a similarity report and detects cases of plagiarism. Professors are required to check each student's academic work in order to guarantee its originality. If the originality of the academic work is not clear, the professor will contact the student in order to clarify any doubts. Students using external tutorial support should report it to the professor and the BIR Program from the moment they began receiving this support. In the event that the meeting with the student fails to clarify the originality of the academic work, the professor will inform the Director of the Bachelor Program about the case, who will then decide whether to bring the case forward to the BIR Academic Review Panel. Very high similarity scores will be automatically flagged and forwarded to the Academic Review Panel. Plagiarism constitutes a very serious offense and may carry penalties ranging from getting a zero for the assignment to expulsion from the university depending on the severity of the case and the number of times the student has committed plagiarism in the past.

PROFESSOR BIO

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JAVIER CAPAPÉ AGUILAR

Javier Capapé, Ph.D. is the Director of the Sovereign Wealth Research program at the IE Center for the Governance of Change and an Adjunct Professor at IE University, where he teaches Public Economics, Industrial Organization and Strategy, and History of Economic Thought. Co-author of *Sovereign Wealth Funds* (2022) with Prof. Adam Dixon and Prof. Patrick Schena, Capapé earned his Ph.D. from ESADE Business School and the University of Illinois (USA). Prof. Capapé has been a Consultant at the United Nations Environment Program on Sovereign Wealth Funds and Sustainable Development Goals. Since 2012, he is a SovereignNET Research Affiliate at The Fletcher School (Tufts University) and Co-Editor of the Sovereign Wealth Funds Reports series, an initiative backed by ICEX. He has published in top academic journals such as the *Academy of Management Perspectives* and Oxford University Press. His research has been regularly cited in international media (including Financial Times, The Economist, Wall Street Journal, and Reuters). Capapé also works advising on sovereign wealth strategies to institutional clients including governments, sovereign funds, corporations, tech-based startups, real estate managers, intelligence companies, venture capital and private equity fund managers.

OTHER INFORMATION

OFFICE HOURS

Please, do not hesitate to contact me for Office Hours at jcapape@faculty.ie.edu

CODE OF CONDUCT IN CLASS

1. Be on time. Students arriving more than 5 minutes late will be marked as "Absent". Only students that notify in advance in writing that they will be late for a specific session may be granted an exception (at the discretion of the professor). Students attending online must always have their cameras on during the session or risk being marked absent.
2. If applicable, bring your name card and strictly follow the seating chart. It helps faculty members and fellow students learn your names.

3. Do not leave the room during the lecture: Students are not allowed to leave the room during lectures. If a student leaves the room during lectures, he/she will not be allowed to re-enter and, therefore, will be marked as "Absent". Only students that notify that they have a special reason to leave the session early will be granted an exception (at the discretion of the professor).

4. Do not engage in side conversation. As a sign of respect toward the person presenting the lecture (the teacher as well as fellow students), side conversations are not allowed. If you have a question, raise your hand and ask it. If you do not want to ask it during the lecture, feel free to approach your teacher after class. If a student is disrupting the flow of the lecture, he/she will be asked to leave the classroom and, consequently, will be marked as "Absent".

5. Use your laptop for course-related purposes only. The use of laptops during lectures must be authorized by the professor. The use of Social Media or accessing any type of content not related to the lecture is penalized. The student will be asked to leave the room and, consequently, will be marked as "Absent".

6. No cellular phones: IE University implements a "Phone-free Classroom" policy and, therefore, the use of phones, tablets, etc. is forbidden inside the classroom. Failing to abide by this rule entails expulsion from the room and will be counted as one absence.

7. Escalation policy: 1/3/5. Items 4, 5, and 6 above entail expulsion from the classroom and the consequent marking of the student as "Absent." IE University implements an "escalation policy": The first time a student is asked to leave the room for disciplinary reasons (as per items 4, 5, and 6 above), the student will incur one absence, the second time it will count as three absences, and from the third time onward, any expulsion from the classroom due to disciplinary issues will entail 5 absences.

