PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIAUDIO
SCHOOL OF BUSINESS AND MANAGEMENT

DR. MARSHALL NICKLES

MBA 591.45

ADVANCE ECONOMICS

FALL 2003

WEEKENDS
September 5-6, 2003 and September 26-27, 2003

FRIDAYS: 6:00 PM – 10:00 PM
SATURDAYS: 8:00 AM – 5:00 PM

ORANGE COUNTY CENTER

SYLLABUS
MBA 591.45 – Advance Economics
Fall 2003

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COURSE PURPOSE AND OBJECTIVES

The purpose of this course is to provide a learning experience that allow you to accomplish the following:

1. To be able to discuss and apply ethical theories, concepts, and philosophies contained in applied contemporary business/economics journals.
2. To be able to apply concepts of international business and economics to internal and external business decision-making.
3. To be able appreciate how technology is a major driver in international business and in particularly the changing capital markets for the 21st Century.
4. To be able to appreciate how culture plays a major role in understanding international relations and business strategies.
5. To be able to appreciate how international business (either directly or indirectly) must be incorporated into the grand strategy of a business.

PEDAGOGICAL APPROACH

The above will be achieved via lectures, films, projects, cases, debates, and other learning tools. It is important that we all openly discuss the issues, concepts and applications of materials contained in this course. It is only through relevant discussion that this subject can be better understood and thus be applicable to our private and profession lives.

CLASS REQUIREMENTS

1. All class assignments should be prepared prior to attending class in order to encourage lively discussion of the subject matter.
2. Attendance is required.
3. There will be an individual paper, simulation, and group projects required for the course.
4. Other assignments may be required but not assigned points.

TOTAL COURSE POINTS:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Points</th>
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<tbody>
<tr>
<td>Individual Paper</td>
<td>100 pts.</td>
</tr>
<tr>
<td>Micro Economic Project</td>
<td>40 pts.</td>
</tr>
<tr>
<td>Macro Economic Project</td>
<td>40 pts.</td>
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<tr>
<td>Economic Simulation</td>
<td>5 pts.</td>
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<tr>
<td><strong>Total Points</strong></td>
<td>185 pts.</td>
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(Example of Grade): 185 x .80% = 148 pts.
REQUIRED READINGS

The Mystery of Capital by deSoto (A)
Lexus and the Olive Tree by Friedman (B)
Economics: Annual Editions (2003-2004 Ed.) by Duskin Press (C)

GRADING SCALE

A   = 91-100%
A-  = 87-90%
B+  = 84-86%
B   = 80-83%
B-  = 77-79%
C+  = 75-76%
C   = 72-74%

Conduct

“"The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.
- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.
Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

- **Dismissal** – separation of the student from the University on a permanent basis.
- **Suspension** – separation of the student from the University for a specified length of time.
- **Probation** – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.” See current GSBM Catalog.

**Policy on Disabilities**

*Assistance for Students with Disabilities*

“Students with disabilities, whether mental or physical, are encouraged to contact the Equal Opportunity Office before the academic year begins or soon after classes are in session. This office will assist each student by providing general information about campus facilities and available resources. The office will assist in providing reasonable accommodation to students with disabilities pursuant to applicable laws. Inquiries should be directed to equal opportunity officer, Lauren Breeding (310) 506-6500. (Students who wish to file a formal grievance should refer to the “Nondiscrimination Policy,” which is listed in the “Legal Notices” section of this catalog.)” See current GSBM Catalog.
MEETINGS, TOPICS, AND ASSIGNMENTS

WEEKEND 1: (September 5-6, 2003)


Assignment: Read (A) and (B). Individual paper is due. See instructions for individual paper below. Also be prepared to discuss (A) and (B) for take-away value. In other words, what are the central messages of these books and why should they be of importance to business managers?

WEEKEND 2: (September 26-27, 2003)

The changing economic environment in South America. Post communism and the effects on global business. Europe’s new social contract and America’s new balance. Competition for world economies.

Assignment: In class debate. Debate material to be handed out during previous class meeting. Discussion of Articles:12, 13, 22, 24, 31, 42, 43, 45, 48, & 50 in (C). Micro and Macro group projects are also to be presented in class.
INDIVIDUAL PAPER REQUIREMENT:

Assume you are part of senior management of a company that is interested in developing business activities in a developing country. You have been specifically asked to write a paper that addresses the significant issues and concerns presented in the reading assignments (A) and (B). Your paper should be directed toward a developing country or region in a particular part of the world (this could include China, Russia, and South America, etc.). Be specific in addressing what the concerns and issues are and why they are important in developing an international marketing plan? In this exercise, we will assume that a marketing plan is addressing the 4P’s (Product, Price, Place or distribution channels, and Promotion). Note: you are not asked to develop a marketing plan, just why the above is important to a marketing plan. The paper is not to exceed 10 double spaced pages.

MICRO/MACRO GROUP PROJECTS:

MICROECONOMIC PROJECT

Thinking strategically about a company’s external situation (industry study) involves probing for answers to the 7 questions below. While the questions below may not be traditional economic analysis per se, they do attempt to address market and industry issues that are economic and do provide for an excellent background for thinking about a firm’s strategic vision, Each team is required to answer the 7 questions below. Groups will be judged on the quality of each answer. That is to say, grounded in background data, theory and application of economics, as well as researched material. A strategic group mapping (bubble map) of competitors is to be included in answering question 4 below.

1. **What are the industry’s dominant economic traits?** Industries differ significantly on such factors as market size and growth rate, the scope of competitive rivalry, the number and relative sizes of both buyers and sellers, ease of entry and exit, whether sellers are vertically integrated, how fast basic technology is changing, the extent of sale economies and experience curve effects, whether the products of rival sellers are standardized or differentiated, and overall profitability. An industry’s economic characteristics are important because of the implications they have for crafting strategy.

2. **What is competition like and how strong is each of the 5 competitive forces?** The strength of competition is a composite of 5 forces: the rivalry among competing sellers, the presence of attractive substitutes, the potential for new entry, the leverage major suppliers have, and the bargaining power of customers. The task of competition analysis is to assess each force, determine whether it produces strong or weak competitive pressures, and then think strategically about what sort of competitive strategy, given the “rules” of competition in the industry, the company will need to employ to (a) insulate the firm as much as possible from the 5 competitive forces, (b) influence the industry’s competitive rules in the company’s favor, and (c) gain a competitive edge.

3. **What is causing the industry’s competitive structure and business environment to change?** Industry and competitive conditions change because forces are in motion that create incentives or pressures for change. The most common driving forces are changes in the long-term industry growth rate, changes in buyer composition, product innovations, entry or exit of major firms, globalization, changes in cost and efficiency, changing buyer preferences for standardized versus differentiated products or services, regulatory
influences and government policy changes, changing societal and lifestyle factors, and reductions in uncertainty and business risk. Sound analysis of driving forces and their implications for the industry is a prerequisite to sound strategy-making.

4. **Which companies are in the strongest/ weakest competitive positions?** Strategic group mapping is a valuable and necessary tool for understanding the similarities, differences, strengths, and weaknesses inherent in the market positions of rival companies. Rivals in the same or nearby strategic group(s) are close competitors whereas companies in distant strategic groups usually pose little or no immediate threat.

5. **What strategic moves are rivals likely to make next?** This analytical step involves identifying competitors’ strategies, deciding which rivals are likely competitive options, and predicting what moves they are likely to make next. Scouting competitors well enough to anticipate their actions helps prepare effective countermoves (perhaps even beat a rival to the punch) and allows managers to take rivals’ probable actions into account in designing their own company’s best course of actions. Managers who fail to study competitors closely risk being blindsided by “surprise” actions on the part of rivals. A company can’t expect to outmaneuver its rivals without monitoring their actions and anticipating what moves they may make next.

6. **What are the key factors for competitive success?** Key success factors are the strategy-related action approaches, competitive capabilities, and business outcomes which all firms in an industry must be competent at doing or must concentrate on achieving in order to be competitively and financially successful. Determining the industry’s key factors, in light of industry and competitive conditions, is a top-priority analytical consideration. Frequently, a company can gain sustainable competitive advantage by training its strategy on industry Key Success Factors and devoting its energies to being distinctively better than rivals at succeeding on these factors. Companies that only dimly perceive what factors are truly crucial to long-term competitive success are less likely to have winning strategies.

7. **Is the industry attractive and what are its prospects for above-average profitability?** The answer to this question is a major driver of company strategy. An assessment that the industry and competitive environment is fundamentally attractive typically suggests employing an aggressive strategy to build a strong competitive position in the business, expanding sales efforts and investing in additional facilities and equipment as needed. If the industry is relatively unattractive, outsiders considering entry may decide against it and look elsewhere for opportunities, weak companies in the industry may merge with or be acquired by a rival, and strong companies may restrict further investments and employ cost-reduction strategies and/or product innovation strategies to boost long-term competitiveness and protect their profitability. On occasion, an industry that is unattractive overall is still very attractive to a favorably situated company with the skill and resources to take business away from weaker rivals.

Good industry and competitive analysis is crucial to good strategy-making. A competently done industry and competitive analysis provides the keen understanding of the company’s macro environment that managers need to craft a strategy that fits the company’s external situation.

Each group needs to select a company and industry that allows the above thinking process to be applied and analyzed in an effort to complete the assignment.
MACROECONOMIC PROJECT

1. Based on the group’s selection of a company within a specific industry, identify relevant macroeconomic indicators that the group feels could “drive” the selected company’s sales in (dollars or units). An example using General Motors Car Division might be that: GNP, Unemployment, Housing Starts, Retail Sales, Personal Income, Consumer Sentiment, Interest Rates, Plant Utilization and Capacity, S&P 500 Index, Corporate Profits, etc, are assumed to be important “drivers” of GM’s auto sales.

2. Based on the company (and industry) that the group selected and general business knowledge, develop a LIST of assumed economic “drivers” for the firm selected for study. The group’s list may look like that of GM’s above or modified. Be sure the economic indicators selected are forecasted in the UCLA quarterly economic forecast, (See the reference desk at the Center Library for the UCLA’s forecast).

3. Using EXCEL, or another “spreadsheet”, run a correlation (“R” Value) to determine the statistical relationship between (economic indicators - “X” independent variable) and (sales - “Y” dependent variable). An “R” value of .75 or more is usually necessary for a strong statistical relationship.

4. Go to the UCLA economic forecast and note the 1-2 year forecast of the economic indicators that had a .75 or greater correlation to the company sales. Remember, a relationship may be a negative -.75 or >. This is fine too. It is just an inverse relationship.

5. Your group needs to orally present the findings up to this point and then address the following: (a) should the company have increased profits for the next 12 months? (b) will the company have sufficient cash (liquidity) to pay its bills for the next 12 months, without a need to borrow? (c) should the company operate efficiently for the next 12 months? (d) is the company positioned to compete within the industry? (e) is the company an attractive investment (fundamentally) for the next year? would the group recommend it as a stock purchase? (f) finally, add any other questions that the group thinks are relevant.