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Lecture 1 - Introduction (Strategy and economics) & Economics primer (Basic principles)

1. What is strategy?

The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary to carrying out these goals

2. Economics models must carefully identify what four things?

- Decision-makers
- Goals
- Choices
- Relationships between choices and outcomes

3. What are the “big issues” firms must confront to formulate and implement a successful strategy?

- Boundaries of the firm: what should the firm do; how large it should be; and what business should it be in?
- Market and competitive analysis: what is the nature of the market in which the firm competes?
- Position and dynamics: how should the firm position itself to compete (on costs or via a differentiated product) and how should it adjust over time?
- Internal organisation: how should the firm organise its structure and systems internally?

4. What are the four basic microeconomic tools for business strategy?

- costs
- demand and revenues
- theory of the firm: pricing and output decisions
- perfect competition

5. What is the formula for average cost?

Total cost/quantity

6. What is minimum efficient scale (MES)?

The scale of production where the economies of scale have been fully exploited. It is the output level at which (long-run) average cost is minimised

7. What is the formula for marginal cost?

Change in total cost/change in quantity

8. What is the law of diminishing returns?

A concept that if one factor of production is increased while other factors are held constant, the output per unit of the variable factor will eventually diminish

9. What are three reasons that justify long-run average cost curves L-shaped instead of U-shaped?

- Specialisation
- Learning by doing
- Improvement in technology

10. What is a normal profit?

A firm that makes zero economic profit is said to be making a normal profit

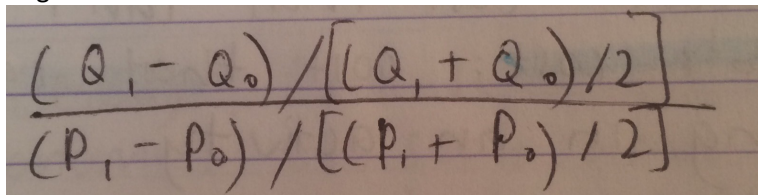
11. What is price elasticity of demand and what is the formula?

The percentage change in the quantity demanded in response to a given percentage change in price

$$-\frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}} = -\frac{\text{change in } Q \text{ divided by } Q \text{ initial}}{\text{change in } P \text{ divided by } P \text{ initial}}$$

12. What is the formula for the midpoint method?

negative


$$\frac{(Q_1 - Q_0) / [(Q_1 + Q_0) / 2]}{(P_1 - P_0) / [(P_1 + P_0) / 2]}$$

13. What are the numbers for perfectly elastic, unit elastic and perfectly inelastic?

Perfectly elastic = infinity

Unit elastic = 1

Perfectly inelastic = 0