

**University of Pennsylvania
The Wharton School
BEPP 203
Spring 2013**

BUSINESS IN THE GLOBAL POLITICAL ENVIRONMENT

Prof. Kaj Thomsson & Prof. Shing-Yi Wang

Contact Information

Prof. Thomsson: thomsson@wharton.upenn.edu (Office: 3019 Steinberg Hall–Dietrich Hall)
Prof. Wang: was@wharton.upenn.edu (Office: 1456 Steinberg Hall–Dietrich Hall)
Office hours: Tue, 3:30pm – 5pm (Prof. Thomsson)
Meeting 001: TR 12:00-1:30pm in SHDH 1203
Meeting 001: TR 10:30-12:00pm in SHDH 1203
TA: Eun-young Shim (eunshim@sas.upenn.edu)

Description

The environment of business has market and nonmarket components. The market component is characterized by the economics of an industry and a firm's position in it. The nonmarket component is the broader political, regulatory, legal and civil context in which companies function. This course will focus on various dimensions of the nonmarket context. We will devote considerable attention to market failures (e.g. externalities, public goods, market power, asymmetric information, principal-agent problems) and the theory of policy response. Most lectures will present one or more focal economic concepts and analyze an application in reference to the concepts. The applications will be drawn from around the world.

Reading Material

The following books will be used in the course:

- Viscusi, Harrington, and Vernon: *Economics of Regulation and Antitrust*, 4th Edition, MIT Press, 2005. ("VHV" below)
- Gruber, Jonathan: *Public Finance and Public Policy*, 3rd Edition, Worth Publishers, 2010. ("Gruber" below)
- Sunstein, Cass and Richard Thaler: *Nudge*, Yale University Press, 2008.
- Baron, David: *Business and Its Environment*, Prentice Hall, 2009.

You are strongly recommended to buy the first book (VHV), though several copies of this book have been placed on reserve at the library. The readings from the books by Baron, Gruber and Sunstein & Thaler will be available at the library and included in a course packet, which will also include journal articles and selected cases. The course package will be available at Study.Net; it may be accessed electronically for free or printed by Wharton Reprographics. There will also be supplemental, optional readings, drawn from a range of sources. These optional readings, all of which are available online, are listed as "suggested" in the reading list below. Additional material such as PowerPoint slides from the lectures will be posted on Canvas.

Grades and Assignments

First Exam (Sessions 1-13)	30%
Writing Assignment	15%
Team Presentations	15%
Second Exam (Sessions 15-27)	30%
Class Participation (Cases, Q&A, Peer Feedback, Attendance)	10%

Writing Assignment

There is a mandatory writing assignment for this course. For each assignment you will be given the option of addressing one of several pre-selected questions in 1000 to 1500 words. The purpose of this assignments is to give you practice in making analytical arguments in a clear and succinct manner; this is an attempt to give Wharton undergraduates more writing experience. The schedule below indicates the due dates for the assignment. No credit will be given for late assignments.

First and Second Exam

Closed book exams will focus on the economic concepts and case applications from Sessions 1-13 (first exam) and Sessions 15-27 (second exam). Students will be given a period of one week from the date that the exam is made available to request a regrade. The BEPP Department maintains a photocopy of all exams. All requests must be made in writing to Professor Thomsson or Professor Wang stating the reason for the regrade no later than the close of business on the day which is one week after the exam is made available. Regrades will be returned to the student as soon as available. Note that the entire exam will be reviewed during a regrade, not only the questions/answers requested, and a regrade may be higher or lower than the original grade. We have established this re-grade procedure to ensure fairness for all students. The professors will not discuss specific exam questions until the regrade period is over.

Code of Academic Integrity

All students enrolled in courses in the Business Economics and Public Policy Department are expected to comply with the University of Pennsylvania's Code of Academic Integrity. We encourage all students to read the Code so that they are well aware of all situations that would be considered a violation.

It is the policy of the Department of Business Economics and Public Policy to immediately fail any student who is to be in violation of the Code. Cheating, in any manner, on a graded assignment or exam will result in failing both the assignment/exam and the course. In addition to the sanctions imposed by the Department of Business Economics and Public Policy, the Office of Student Conduct may impose additional sanctions.

Please review the Code of Academic Integrity on the below link as well as example of violations and possible sanctions: http://www.upenn.edu/provost/PennBook/academic_integrity_code_of

Class Participation

You are expected to come to class prepared. The required readings, and ideally also the additional suggested readings, should be completed before class, and you should be ready to discuss the economic concepts and the details of the cases when you arrive. The instructor may cold-call and solicit classroom comments. Successful participation in class and in your presentation group will reflect positively on your class participation grade, as will regular

attendance and on-time arrival. Submission of student presentation peer feedback forms will also reflect on your class participation grade. In addition, Professor Thomsson and Professor Wang will participate in the student lunch program (dates will be announced on Canvas later). To maintain fairness to all students, if you sign up for a lunch but do not attend this will be reflected in your class participation grade.

Support Functions

BEPP's support staff (bpub@wharton.upenn.edu) will keep a wait-list, if needed, at the beginning of the semester. Please include 'BEPP 203 Wait List' as the subject of any e-mail regarding this. Beth Moskat (emoskat@wharton.upenn.edu) will provide classroom support.

Team Presentations

Overview: Students will self-organize into teams of about 4-5 students per team, depending on class size. Presentations should explore and communicate your research on the topic as it relates to economic concepts from relevant sessions in this course.

Format: You are (essentially) free to choose the format of your presentation. It is acceptable to use a straight-forward Power Point presentation, but you are encouraged to consider other formats, such as:

- A media press interview or game show
- A congressional or regulatory hearing enactment (real or imagined)
- An internal business strategy deliberation among a firm's decision-makers and advisors

You should try to be creative in choosing the format that best communicates the substantive issues involved and how they relate to the topics of BEPP 203. Presentations that emphasize analytical thinking (by you, the firms involved, the policy-makers, opponents to a policy change, etc) are better than factual summaries of the issue. Make sure to clearly explain any course concepts you use as opposed to mentioning but not providing complete explanations. Do not include videos produced by other organizations (it is fine to include videos produced by your presentation group). Try to make it fun, but keep it clean, and keep it professional.

Each group presentation should run twenty-five minutes in total. This includes both time for the presentation and audience participation through either a Q&A session or other means.

You should take advantage of your team assistant (TA). The TA is there to help you at both the formulation phase and the rehearsal phase. Ideally, you should rehearse, reformulate, and rehearse again in the last few days before your presentation. The TA will arrange rehearsal space.

Hand in: Team participants must hand in a one page summary (bullet points are fine) as well as complete PowerPoint slides in class *on the day of the presentation*, and the slides must also be submitted by email.

Topics, Dates, and Sign-up Logistics: Team group assignments are handled through Canvas. Presentation sign up will be announced in class and electronically. *Please note the following:*

- You must sign up individually (Canvas requires this).
- Assignment topic/date options will be available on a **first-come, first choice basis**.
- Students not signed up by the presentation sign-up deadline will be randomly assigned to one of the remaining groups.
- No student will be permitted to change groups after the presentation sign-up deadline. There are no exceptions to this policy (this is to maintain fairness to all students who might want to switch after the deadline and the difficulties in re-organizing groups).

Grades: The professor will grade each team project, using as a guide the feedback of your fellow students, as well as instructor judgment about the relevance of student use of economic concepts and comparison to relevant cases. Each team project will receive one group grade. All students in the team will receive this same grade for their team assignment. Students who fail to participate fully in team presentations will lose credit on their class participation grade.

Non-Wharton Students

To access Canvas, non-Wharton students must first apply for a Wharton Computing account. This can be done online at <http://accounts.wharton.upenn.edu> for students that are already officially registered for the class. If there is any difficulty with doing this online, go to WCIT (F-35 JMHH), and apply there.

Tutoring Support

Students experiencing difficulty in this course should seek assistance from the Penn Tutoring Resource Center. Refer to the Wharton Undergraduate homepage for the schedule of walk-in tutoring hours. Private tutors from the Tutoring Center can be obtained (without cost) through the recommendation of a professor or professional advisor in the Undergraduate Division. Students who wish to inquire more about tutoring, study skills, learning disabilities, test-taking strategies, time management, or reading/writing coaching should call 215-573-9235 for more information.

Course Outline and Schedule

Session 1 (Jan 10): Introduction

- + VHV: Chapter 1

Session 2 (Jan 15): Market Failure: Market Power; Introduction to Game Theory

- + VHV: Chapter 3 (entire chapter) and Chapter 5 (p. 101-121)
- + Yale Open Courses: Econ159 - Game Theory, Lectures 1 and 4-6. (Suggested)

Session 3 (Jan 17): Collusion

- + VHV: Chapter 5 (p. 122-151)
- + Borenstein, Severin: “Rapid Price Communication and Coordination: The Airline Tariff Publishing Case” in *The Antitrust Revolution*, 4th Edition, Oxford University Press, 2003.
- + Connor, John M: “Global Cartels Redux: The Amino Acid Lysine Antitrust Litigation” in *The Antitrust Revolution*, 4th Edition, Oxford University Press, 2003. (Suggested)
- + The Economist: “The Scam Busters: How Antitrust Economists are Getting Better at Spotting Cartels”, Dec 15, 2012. (Suggested)

Session 4 (Jan 22): Mergers; EU-US Differences

- + VHV: Chapter 7 (entire chapter) and Chapter 8 (suggested only)
- + Elliott, Michael: “The Anatomy of the GE-Honeywell Disaster”, *Time Magazine*, July 8, 2001.
- + Patterson, Donna and Carl Shapiro (2001) “Transatlantic Divergence in GE/Honeywell: Causes and Lessons”, *Antitrust Law Journal*, Vol 16 (1).
- + Baccara, Mariagiovanna, David Backus and Luís Cabral: “The Ill-Fated GE/Honeywell Merger”, Case Study, NYU Stern School of Business, August 28, 2002. (Suggested)
- + Kovacic, William E: “Competition Policy in the EU & US: Convergence or Divergence”, *US Federal Trade Commission*, FIDE Congress Presentation, Madrid, Feb 17, 2009. (Suggested)

Session 5 (Jan 24): Market Structure & Monopolization

- + VHV: Chapter 6 (entire chapter) and Chapter 9 (p. 293-299 and 332-343)
- + Weiss, Todd R: “Google's Antitrust Dance with the FTC: Analysts Weigh In”, *eWeek*, December 20, 2012.
- + The Economist: “Over to you, and hurry: The European Commission puts the ball into Google's court”, May 26, 2012 (Suggested)

+ Wyatt, Edward: “In Victory for Google, US ends Antitrust Investigation”, *The New York Times*, Jan 3, 2013. (Suggested)

Session 6 (Jan 29): Regulation; Market Failure: Natural Monopoly

+ VHV: Chapter 10 (p. 358-362; 375-379), Chapter 11 (entire) and Chapter 15 (suggested only)

+ Pfanner, Eric: “U.S. Rejects Telecommunications Treaty”, *The New York Times*, Dec 13, 2012.

+ Hardesty, Larry: “Why telecom regulation needs to change”, *MIT News*, Oct 5, 2012. (Suggested)

TEAM PRESENTATION

Session 7 (Jan 31): Market Failure: Externalities; Environmental Regulation

+ VHV: Chapter 21

+ Tol, Richard S. J: "The Economic Effects of Climate Change." *Journal of Economic Perspectives*, 23(2): 29–51, 2009.

+ Barrett, Scott: “Self-Enforcing International Environmental Agreements”, *Oxford Economic Papers*, Vol. 46, pages 878-94, 1994.

+ Stern, N: *The Economics of Climate Change: The Stern Review*. Cambridge University Press, 2007. (The Executive Summary, not the whole document, is suggested)

+ Howarth, R.B: "Policy Brief No. 3: Discounting, Uncertainty, and Climate Change". *Economics for Equity and the Environment*, April 2009. (Suggested)

Session 8 (Feb 5): What Determines Regulatory Policy? The Capture Theory of Regulation

+ VHV: Chapter 10 (p. 375-399)

+ Simeon Djankov, Simeon, Rafael La Porta, Florencio Lopez-De-Silanes & Andrei Shleifer, 2002: "The Regulation Of Entry," *The Quarterly Journal of Economics*, vol. 117(1), pages 1-37.

+ Savage, Charlie: "Sex, Drug Use and Graft Cited in Interior Department," *The New York Times*, September 10, 2008. (Suggested)

+ Taleb, Nassim Nicholas: “The Regulator Franchise, or the Alan Blinder Problem”, *Huffington Post*, Feb 8, 2010. (Suggested)

TEAM PRESENTATION

Session 9 (Feb 7): Social Choice and Formal Political Economy

+ Gruber: Chapter 9 (specifically 9.1-9.3)

+ Mickey Kaus: “Fifty-Fifty Forever,” *Slate Magazine*, November 29, 2004.

Session 10 (Feb 12): Interest Groups and Lobbying

- + Gruber: Chapter 9 (specifically the parts on lobbying and farm policy in 9.3)
- + Ansolabehere, Stephen John de Figueiredo, and James Snyder. 2003: "Why is there so little money in US politics?", *Journal of Economic Perspectives*, Vol. 17:105-130.
- + Mian, Atif, Amir Sufi, and Francesco Trebbi. 2010. "The Political Economy of the US Mortgage Default Crisis." *American Economic Review*, 100(5): 1967–98.

Session 11 (Feb 14): Bureaucracies and Corruption

- + Gruber: Chapter 9 (specifically 9.4)
- + Shleifer, Andrei and Robert Vishny: "Corruption," *The Quarterly Journal of Economics*, MIT Press, Vol. 108(3), pages 599-617, 1993.
- + Olken, Benjamin and Rohini Pande: "Corruption in Developing Countries", *Annual Review of Economics*, Vol. 4, pp. 479-505, July 2012.

Session 12 (Feb 19): Political Agency; Business and the Media

- + Brunetti, Aymo, and Beatrice Weder: "A Free Press Is Bad News for Corruption", *Journal of Public Economics*, Vol. 87, p.1801–24, 2003.
- + Djankov, Simeon, Caralee McLiesh, Tatiana Nenova and Andrei Shleifer. "Who Owns The Media?" *Journal of Law and Economics*, 2003, Vol. 46(2,Oct), 341-382.
- + Morin, Richard, 2006. "The Fox News Effect." *Washington Post*.
- + Timothy Besley & Robin Burgess, 2002. "The Political Economy Of Government Responsiveness: Theory And Evidence From India," *The Quarterly Journal of Economics*, MIT Press, vol. 117(4). (Suggested)

Session 13 (Feb 21): Institutions and Economic Development; Review for the Midterm

- + Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi. "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development." *Journal of Economic Growth*, Vol. 9(2), p. 131-165, 2004.

Session 14 (Feb 26): Midterm Exam

Session 15 (Feb 28): History, Institutional Development and State Capacity

- + Acemoglu, Daron, Simon Johnson, and James Robinson (2001). "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5), p. 1369-1401, 2001.

- + Banerjee, Abhijit V. and Lakshmi Iyer (2005). "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review*, 95(4), p. 1190-1213. (Suggested)
- + Nunn, Nathan: "The Importance of History for Economic Development," *Annual Review of Economics*, Vol. 1(1), pages 65-92, 2009. (Suggested)
- + Dincecco, Mark and Mauricio Prado, "Warfare, Fiscal Capacity, and Performance", *Journal of Economic Growth*, vol. 17, pp. 171-203, 2012.
- + Rodrik, Dani: "Who Needs the Nation State?" *Economic Geography*, Vol 89(1), p. 1-19, 2013.

TEAM PRESENTATION

Session 16, 17 (March 12, 14): Market Failure: Lack of Property Rights; Charter Cities

- + De Tella, Galiani and Schargrodsky, "The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters," *Quarterly Journal of Economics*, February 2007.
- + "The Politically Incorrect Guide End To Poverty," *The Atlantic*, July/Aug 2010
- + <http://www.chartercities.org>
- + Field, Erica (2005). "Property Rights and Investment in Urban Slums." *Journal of the European Economic Association Papers and Proceedings*, 3(2-3), p. 279-290.
- + www.adb.org/Documents/Handbooks/Impact-Analysis/default.asp (Click on "View the Entire Document")

TEAM PRESENTATION

Sessions 18, 19 (March 19, 21): Asymmetric Information: Moral Hazard & Adverse Selection

- + Akerlof, George: "The Market for Lemons: Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, Vol. 84, No. 3 (Aug., 1970), pp. 488-500.
- + Bebchuck and Fried, "Executive Compensation as an Agency Problem," *Journal of Economic Perspectives*, 2003.
- + Dewan, "Moral Hazard: A Tempest-Tossed Idea," *New York Times* Feb. 26, 2012.
- + Prendergast, Carice: "The Motivation and Bias of Bureaucrats," *American Economic Review*, 2007.

TEAM PRESENTATION

Session 20 (March 26): Asymmetric Information: Limited Liability and Microfinance

- + Gine and Karlan, "Peer Monitoring and Enforcement: Long Term Evidence from Microcredit Lending Groups With and Without Group Liability," 2008.

+ Morduch, Jonathan, 1999, "The Microfinance Promise," *Journal of Economic Literature*.

Session 21 (March 28): Market Failure: Inequality

+ Porter and Kramer, "Strategy and Society," *Harvard Business Review*, December 2006, 1-14.

Session 22 (April 2): Market Failure: Biases in Decision-Making

+ Thaler and Sunstein, *Nudge*, Ch1 pp. 1-14, Ch 4-5 pp. 72-100

+ Glaeser, "Paternalism and Psychology," 2005.

Session 23, 24 (April 4, 9): Non-Government Forces and Business: Social Activism

+ Case: Shell, Greenpeace, and Brent Spar, *Business and Its Environment*: 115-119, 781-782

Examples: 4 I's, TOCIAS, Wilson-Lowi Matrix

+ Case: Microfinance India, State of the Sector Report 2009, N. Srinivasan, Chapter 4: "The Tough Classrooms in Karnataka: Lessons on Consumer Protection and Competition."

+ Harrison, Ann and Jason Scorse, 2010, "Multinationals and Anti-Sweatshop Activism," *American Economic Review*.

TEAM PRESENTATION

WRITING ASSIGNMENT DUE (APRIL 4 AT NOON)

Session 25 (April 11): Financial and Labor Regulation

+ Udry, Christopher, 2004. "Child Labor," *Understanding Poverty*.

+ Besley Timothy and Robin Burgess (2004). "Can Labor Regulation Hinder Economic Performance? Evidence from India," *Quarterly Journal of Economics*, 119(1), p. 91-134.

+ WSJ, "Six Charged in Vast Insider-Trading Ring," OCTOBER 17, 2009

+ WSJ, "Learning to Love Insider Trading-- Here's a hot tip: Want to keep companies honest, make the markets work more efficiently and encourage investors to diversify? Let insiders buy and sell," Donald J. Boudreaux, OCTOBER 24, 2009.

Session 26 (April 16): Team Presentations

TEAM PRESENTATIONS

Session 27 (April 21): Synthesis

Session 28 (April 23): Second Exam