

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

BUSINESS IN THE GLOBAL POLITICAL ENVIRONMENT

Prof. Santosh Anagol & Prof. Shing-Yi Wang

Contact Information

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Office hours: Thursday 1:30 – 2:30 pm (Prof. Anagol)
Meeting 001: TR 10:30-11:50pm in SHDH 109
Meeting 002: TR 12:00-1:20pm in SHDH 109

TA: Eun-young Shim (eunshim@sas.upenn.edu)
TA Office Hours: Wednesday 5 – 6 pm JMHH G92
Wednesday 6 – 7pm by appointment for team presentations only

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 understanding where economic policy comes from, and how economic policy addresses important market failures. 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)
- Thaler, Richard and Cass Sunstein: *Nudge*, Yale University Press, 2008.
- Baron, David: *Business and Its Environment*, Prentice Hall, 2013.
- Riordan, William: *Plunkitt of Tammany Hall*, Signet Classics.

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 and Sunstein & Thaler will be available at Lippincott library (on reserve) and included in a course packet, which will also include journal articles and selected cases. The Plunkitt book is available at the bookstore or on reserve at the library. When a web link is provided for an article in the syllabus you should directly download the article for that link. All of the other articles can be obtained

either from the course pack or from the web. The course packet will be available at Study.Net or can be printed by Wharton Reprographics for a fee; alternatively, most of the journal articles are also available online for free (if you access the articles on campus or through Penn VPN). There will also be 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 1	5%
Writing Assignment 2	5%
Team Presentation	20%
Second Exam (Sessions 15-27)	30%
Class Participation (Cases, Q&A, Peer Feedback)	10%

Writing Assignments

There are two mandatory writing assignments for this course. For each assignment you will be given the option of addressing one of several pre-selected questions in 500 words (or less). The purpose of these 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 re-grade. The BEPP Department maintains a photocopy of all exams. All requests must be made in writing to Professor Anagol or Professor Wang stating the reason for the re-grade no later than the close of business on the day which is one week after the exam is made available. Re-grades will be returned to the student as soon as available. Note that the entire exam will be reviewed during a re-grade, not only the questions/answers requested, and a re-grade 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 re-grade 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://provost.upenn.edu/policies/pennbook/2013/02/13/code-of-academic-integrity>

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 Anagol 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 3-5 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 provide feedback 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.

Hand in: Team participants must hand in a print out of the complete PowerPoint slides at the beginning of class *on the day of the presentation*, and the slides must also be submitted by email by the start of class.

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 (Thursday 8/29): Overview

+ VHV Ch 1 pages 1-11

+ “Estimating the Value of Political Connections” Ray Fisman, *American Economic Review*, 91(4), 2001, pp. 1095-1102 (suggested).

Session 2 (Tuesday 9/3) Median Voter Theorem

+ “Fifty-Fifty Forever,” By Mickey Kaus, Slate Magazine, November 29, 2004. Available at: <http://www.slate.com/id/2073262/>

+ “Thanks to finely tuned focus groups...”, By Robert David Sullivan, November 16, 2000. Available at: <http://www.bostonphoenix.com/archives/2000/documents/00520743.htm>

Session 3 (Thursday 9/5) Does Politician Identity Matter?

+ Besley, Timothy, 2005. “Political Selection”, *Journal of Economic Perspectives*, Summer 2005.

+ “Women as Policy Makers,” Poverty Action Lab Briefcase #1, <http://www.povertyactionlab.org/publication/women-policy-makers>

+ Washington, Ebonya, 2008. “Female Socialization: How Daughters Affect Their Legislator Fathers’ Voting on Women’s Issues.” *American Economic Review*, 98(1), pp. 311-332.(suggested)

+ “The Fairer Sex” by Ray Fisman, available at: http://www.slate.com/articles/business/the_dismal_science/2012/03/women_in_the_boardroom_what_happens_after_women_break_through_the_glass_ceiling.html (suggested)

Session 4 (Tuesday 9/10) Political Contributions, Lobbying and Political Behavior

+ “Why Is There so Little Money in U.S. Politics?”, Stephen Ansolabehere, John M. de Figueiredo and James M. Snyder Jr. *The Journal of Economic Perspectives*, Vol. 17, No. 1 (Winter, 2003), pp. 105-130

+ “Revolving Door Lobbyists” Jordi Blanes I Vidal, Mirko Draca, and Christian Fons-Rosen. *American Economic Review*, 102(7), 2012, pp. 3731-3748. (suggested)

Session 5 (Thursday 9/12) Capture Theory of Regulation

+ VHV pp. 39-51, 381-385

+ New York Times, "Sex, Drug Use and Graft Cited in Interior Department," By Charlie Savage, September 10, 2008.

+ "The Regulator Franchise, or the Alan Blinder Problem." Available at:
http://www.huffingtonpost.com/nassim-nicholas-taleb/the-regulator-franchise-o_b_667967.html

Session 6 (Tuesday 9/17) Airlines Regulation

+ VHV 355-368, 609-625

+ Bailey, "Air Transportation Deregulation," 2008, 1-12

Session 7 (Thursday 9/19) Corruption

+ Shleifer and Vishny, "Corruption", *Quarterly Journal of Economics*, 1993.

+ Plunkitt of Tammany Hall

Session 8 (Tuesday 9/24): Remediating Corruption

Olken, Poverty Action Lab Policy Briefcase #5,
http://www.povertyactionlab.org/papers/70_Policy_Briefcase_5.pdf

Writing Assignment Due on 9/24 at Noon, Beth Moskat's Office, SH-DH 1400

Session 9 (Thursday 9/26): Market Failure: Externalities

+ VHV Ch 21, pp. 745-786

+ Scrubbers and Environmental Politics, BIE 194-195

Session 10 (Tuesday 10/1): Presentations on First Topics

Presentation 1: Should Public Servants Be Paid More?

+Introduction and Background Sections of Dal Bo, Finan, and Rossi "Strengthening State Capabilities: The Role of Financial Incentives in the Call to Public Services." Available at:
http://emlab.berkeley.edu/~ffinan/Finan_StateCap.pdf

Presentation 2: Did Interest Groups Drive the Political Response to the Financial Crisis?

+ Mian, Atif, Amir Sufi, and Francesco Trebbi. 2010. *"The Political Economy of the US Mortgage Default Crisis."* *American Economic Review*, 100(5): 1967–98.

Presentation 3: Why Do We Have Corporate Average Fuel Efficiency (CAFÉ) Standards, and Are they Good Environmental Policy?

+ Crandall, Robert. 1992. "Policy Watch: Corporate Average Fuel Economy Standards." *Journal of Economic Perspectives*, 6(2), 171-180.

Session 11 (Thursday 10/3): Market Failure: Biases in Decision-Making

Presentation 4: Behaviorally Inspired Solutions to Improve Savings for Retirement

+ VHV Ch 19, pp. 689-716; Ch 22 pp. 789-793

+ Genesove, David, and Christopher Mayer. 2001. "Loss Aversion and Seller Behavior: Evidence from the Housing Market." *Quarterly Journal of Economics*, 116(4), 1233-1260. (suggested)

+Video Presentation of "Scarcity: Why Having Too Little Means So Much" available at: <http://www.aspenideas.org/session/scarcity-why-having-too-little-means-so-much> (suggested)

Session 12 (Tuesday 10/8): Economic Regulation to Combat Biases in Decision-Making

Presentation 5: Illegal Drugs

+ "An Open Letter to Bill Bennett," by Milton Friedman, April 1990

+ Statement Of The Honorable Karen P. Tandy, Administrator Drug Enforcement Administration Before The United States House Of Representatives Committee On Appropriations Subcommittee On Commerce, Justice, Science And Related Agencies, 3/22/2007. [Available in the course pack or online]

+ Thaler and Sunstein, *Nudge*, Ch1 pp. 1-14, Ch 4-5 pp. 72-100 [Available in the course pack or on reserve at the library]

+ Glaeser, "Paternalism and Psychology," 2005.

Session 13 (Tuesday 10/15): Catch-Up and Review for the Midterm

Session 14 (Thursday 10/17): First Exam

Session 15, 16 (10/22, 10/24): Market Failure: Lack of Property Rights

+ De Soto, Hernando, 2000. *The Mystery of Capital*, Chapter 1.

+ 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

+ 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.

+ Differences-In-Differences Handout

Session 17 (10/29) Charter Cities and Millennium Villages

+ <http://www.chartercities.org>

TEAM PRESENTATION: Charter Cities Business Plan

Sessions 18, 19 (10/31, 11/5): 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.

+ Levitt, Steven and Chad Syverson, "Market Distortions When Agents are Better Informed: the Value of Information in Real Estate Transactions," *Review of Economics and Statistics*, 2008. (Suggested)

TEAM PRESENTATION: Moral Hazard and Executive Compensation

Session 20, 21 (11/7, 11/12): Asymmetric Information: Limited Liability and Microfinance

+ www.adb.org/Documents/Handbooks/Impact-Analysis/default.asp (Click below "Download for free")

+ 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*. (Suggested)

Session 22 (11/14): Market Failure: Inequality

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

+ Card, David, "Immigration and Inequality," *American Economic Review: Papers and Proceedings*, 2009. (Suggested)

+ HighScope Perry Preschool Study at <http://www.highscope.org/content.asp?contentid=219> (Suggested)

+ Jensen, Robert, "The (Perceived) Returns to Education and the Demand for Schooling," *Quarterly Journal of Economics*, 2010. (Suggested)

+ Shiller, Robert, "Don't Resent the Rich; Fix the Tax Code," *Bloomberg*, March 6, 2012.

Writing Assignment Due on 11/14 at Noon, Beth Moskat's Office, SH-DH 1400

Session 23, 24 (11/19, 11/21): Non-Government Forces and Business: Social Activism and Media

+ Case: Shell, Greenpeace, and Brent Spar, in Baron, David, *Business and Its Environment*, 2013: p. 92-95. [Available in the course pack or on reserve at the library]

+ The Four I's in Baron, David, *Business and Its Environment*, 2013: p. 4-10. [Available in the course pack or on reserve at the library] (Suggested)

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

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

+ <http://pogue.blogs.nytimes.com/2011/07/14/why-netflix-raised-its-prices/>

+ http://slatest.slate.com/posts/2011/09/29/bank_of_america_announces_5_debit_card_fee.html

TEAM PRESENTATION: Consumer Indignation at Price Rises and Firm Responses

Session 25, 26 (11/26, 12/3): 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.

+ Federal Reserve Press Release, 12/18/2008. <http://www.federalreserve.gov/newsevents/press/bcreg/20081218a.htm>

TEAM PRESENTATION: Financial Regulation

TEAM PRESENTATION: Labor Regulation

Session 27 (12/5): Synthesis

Session 28 (12/10): Second Exam