

**University of Pennsylvania
The Wharton School
BEPP 203
Spring 2019**

BUSINESS IN THE GLOBAL POLITICAL ENVIRONMENT

Prof. Ayse Kaya & Prof. Shing-Yi Wang

Contact Information

Prof. Kaya: @wharton.upenn.edu (Office: TBD)

Professor Kaya's Office hours: Tuesdays 11.30am-12.30pm

Section 001: TR 1:30-2:50pm, TBD

Section 002: TR 3:00-4:20pm, TBD

TAs: TBD

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.

Given the emphasis of the course on economic and political institutions and market issues in emerging markets, BEPP 203 counts towards the "Global Economy, Business and Society" flex fundamentals.

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.
- De Soto, Hernando: *The Mystery of Capital*, 2003.
- Baron, David: *Business and Its Environment*, Prentice Hall, 2013.

You are recommended to buy the first book (VHV), though several copies of this book have been placed on reserve at the library. It is not necessary to purchase the Thaler, De Soto, or Baron books as these (very short) readings will be available at Lippincott library (on reserve). 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 Canvas course site or

from the web. There will also be optional readings, drawn from a range of sources. These optional readings, all of which are available on Canvas and 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)	35%
Writing Assignment	5%
Team Presentation	15%
Second Exam (Sessions 14-27)	35%
Class Participation (Cases, Q&A, Peer Feedback)	10%

Writing Assignment

There is a mandatory writing assignment for this course. You will be given the option of addressing one of several pre-selected questions in 500 words (or less). The purpose of this assignment 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 date for the assignment. No credit will be given for late assignments. Requests for re-grades of writing assignments must be submitted in writing within one week of the date that the assignments are handed back.

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 as a message sent on Canvas to the Professors stating the specific reasons for the re-grade (i.e. specific questions, and why they believe answer was graded incorrectly) 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, exam, or the presentation 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.

If you are going to miss class for a medical or non-medical reason please do not contact the Professor directly, but instead use the official Course Absence Report system through the UPenn Registrar. We do not recommend attending a section other than your official section. If you choose to do so, this may reflect negatively on your class participation score (even if you let us know us that you will be attending another section).

In addition, Professor Kaya and Professor Wang will participate in the student lunch program (dates will be announced on Canvas later). There is a no cell phone policy at the lunches. To maintain fairness to all students, if you sign up for a lunch but do not attend or arrive extremely late, this will be reflected in your class participation grade.

Support Functions

BEPP's support staff (emoskat@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 be in teams of about 3 to 4 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). We encourage you to integrate insights from other Wharton classes, research, reports, etc. but your slides should be your own work and you should cite all sources you use. 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.

Citations: You are allowed to use figures, graphs, etc. from existing research but you should put a citation on the slide whenever you use such materials to indicate attribution. You should also include a works cited at the end of the presentation. We expect that you will not copy whole slides or longer portions of other presentations for use in this class.

Hand in: Team participants must hand in a print out of the complete PowerPoint (or pdf) slides at the beginning of class *on the day of the presentation*, and the slides must also be submitted by email (cc'ing all teammates) by noon on the day of the presentation. Please name the file with your section and topic.

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

- You will fill out a form indicating your preferences over topics and potential team members, and we will assign you to a group doing our best to accommodate preferences.
- 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 content and structure of the presentation, and in particular the relevance of the economic concepts used and comparison to relevant cases. Each team project will receive one group grade. All students in the team will receive the same grade for their team assignment. Students who fail to participate fully in team presentations will lose credit on their class participation grade.

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 01/17): Overview & Theories of Regulation

+ “Understanding the Non-Market Environment,” VHV, pp. 1-11

+ “The Theory of Regulation”, VHV, pp.375-383 (until “Predicting the Type of Industry.”).

+ “The Regulator Franchise, or the Alan Blinder Problem.” Available at:

http://www.huffingtonpost.com/nassim-nicholas-taleb/the-regulator-franchise-o_b_667967.html

(suggested)

Questions:

1. Indicate three ways in which the non-market environment matters for businesses.
2. What is the “economic theory of regulation”?

Session 2 (Tuesday 01/22): Median Voter Theorem

+ “Why Politics is Stuck in the Middle,” By Cowen, Tyler. *The New York Times*, Feb. 6, 2010. Available at: <http://www.nytimes.com/2010/02/07/business/economy/07view.html>

+ “Where Jobs are Squeezed by Chinese Trade, Voters Seek Extremes,” Nelson d. Schwartz and Quoc Trung Bui, *The New York Times*, April 26, 2016. Available at: <http://www.nytimes.com/2016/04/26/business/economy/where-jobs-are-squeezed-by-chinese-trade-voters-seek-extremes.html>

+ Median Voter Theorem. Congleton, Roger, 2003. In *The Encyclopedia of Public Choice*, C. K. Rowley and F. Schneider, Ed.s Kluwer Academic Press. (suggested)

Questions:

1. What is the primary implication of the MVT for governmental regulation and policy?
2. What are the weaknesses of the MVT?

Session 3 (Thursday 01/24): Lobbying

+ “The Washington Wishing Well”, *The Economist*. June 13, 2015. Available at: <http://www.economist.com/news/business/21654067-unstoppable-rise-lobbying-american-business-bad-business-itself-washington>

+ “Is It Whom You Know or What You Know? An Empirical Assessment of the Lobbying Process,” Bertrand, M., M. Bombardini, F. Trebbi. 2014. *American Economic Review* 104(12): pp. 3885-3920 – Read only until 3914 and *focus on understanding the main points*.

Questions:

1. Based on Bertrand et al's findings (later, you should add lecture discussions also), how does lobbying affect the non-market environment?
2. Imagine yourself as the CEO of a company that would like the US government to enact legislation favorable to your company (what ever that legislation may be), how do you go about it?

Session 4 (Tuesday 01/29): Anti-Trust

+ *Business and Its Environment*, Baron, David: Prentice Hall, 2013. pp. 238 (start at "Antitrust Thought")-251; 253-256 (AT&T Merger Case).

+ VHV, pp. 207-214.

+ "The Merger of American Airlines and U.S. Airways," By Bolte, Timothy. 2013/2014. *Review of Banking and Financial Law*. Available at: https://www.bu.edu/rbfl/files/2014/03/RBFL-Vol-33.2_Bolte.pdf

Questions:

1. Please familiarize yourself with different schools of thought in anti-trust.
2. What are horizontal versus vertical mergers? Why does this distinction matter?
3. What was the main trade-off that lay at the core of the DOJ's consideration of the American and US Airways merger?

Session 5 (Thursday 1/31): Financial Regulation of Regulation

+ Baron, David: *Business and Its Environment*, Prentice Hall, 2013. pp. 291-296; 308-313.

+ "A Macroprudential Approach to Financial Regulation," Hanson, Samuel G., Anil K. Kashyap, and Jeremy C. Stein. 2011. *Journal of Economic Perspectives*, 25 (1): pp. 3-28.

Questions:

1. What are some examples of moral hazard in financial regulation?
2. What are different theories of financial regulation?

Session 6 (Tuesday 2/05): Case Study of Regulation: Environmental Regulation

+ VHV, pp.746-768

+ Baron, David: *Business and Its Environment*, Prentice Hall, 2013. pp. 92-94.

+ Case. Texaco-Chevron lawsuit. Available at: <https://business-humanrights.org/en/texacochevron-lawsuits-re-ecuador>

Questions:

1. To what extent is Coase's Theorem helpful in understanding contracting over environmental problems? (How does it illuminate the issues, what are its weaknesses?)
2. What are the similarities and differences across the two cases (Shell/Brent Spar and Texaco/Ecuador)?

3. Based on your readings, assess the merits of different types of environmental regulation.

Session 7 (Thursday 2/07): Corruption

+ “Office-Selling, Corruption, and Long-Term Development in Peru,” Guardado, J. (2018). *American Political Science Review*, 112(4), 971-995.

+ Poverty Action Lab Policy Briefcase #5, Olken. Available at:

<http://www.povertyactionlab.org/publication/routes-reduced-corruption>

Questions:

1. In class, I will introduce the types of corruption discussed by Shleifer and Vishny, make sure you understand these. Does the Guardado article’s descriptions of corruption mesh with the typology introduced by Shleifer and Vishny?
2. What is a policy you would recommend to an emerging market official wanting to combat corruption?

Writing Assignment Due on 2/8, at noon submitted on Canvas.

Session 8 (Tuesday 2/12): Cross-Country Differences in Business-Government Relations

+ “Walmart in Europe,” Trumbull, G. and L. Gay. 2004. Harvard Business School Case Study. 9-704-027. [Walmart ends up leaving Germany in 2006.]

+ “Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide,” Erkens, D.H., Mingyi Hung, and Pedro Matos, 2012. *Journal of Corporate Finance* 18(2): pp. 389-411.

Questions:

1. What were the main factors that led to Walmart’s failure in Germany?
2. How does globalization affect differences in national political-economic systems? Should we expect to see convergence in policy and institutional make-up across different countries due to globalization?
3. Based on the Erkens et al piece, what are three differences you observe in corporate governance across the world? (examine the descriptive statistics)

Session 9 (Thursday 2/14): International Trade

+ Baron, David: *Business and Its Environment*, Prentice Hall, 2013. pp. 519-531.

+ “Today’s trade policy and trade research,” By Bown, Chad P. and Meredith Crowley, June 5, 2016. www.voxeu.org, Available at: <http://www.voxeu.org/article/today-s-trade-policy-and-trade-research>

Questions:

1. How has international trade changed qualitatively and quantitatively in the post-war period?
2. What is a policy implication from the Bown and Crowley piece?
3. Why is understanding the WTO essential to explaining “business in the global political environment”?
4. The lecture will discuss the rise of bilateral and regional trade agreements. How do these affect businesses?

Session 10 (Tuesday 2/19): MNCs and Foreign Direct Investment

+ “Third World Governments and Multinational Corporations: Dynamics of Host's Bargaining Power,” Tarzi, Shah. 1991. *International Relations* 10(3). pp. 237-249.

+ “Why developing host countries sign increasingly strict investment agreements?” Neumayer, Eric, Peter Nunnenkamp, and Martin Roy. 2014. <https://voxeu.org/article/why-developing-host-countries-sign-increasingly-strict-investment-agreements>

Questions:

1. What is the “obsolescing bargain”, and how does it help us understand MNCs and host countries?
2. What explains the rise of BITs (bilateral investment treaties)? And if you were a policy-maker, would you perpetuate their proliferation?
3. Do BITs enhance investment flows?
4. What are the non-economic factors MNCs consider in making an investment? (Lecture will clarify this, but it is implicitly discussed in both readings).

Session 11 (Thursday 2/21): Future of Globalization?

+ “Globalization is Becoming More about Data and Less about Stuff,” Lund, Susan, James Manyika, and Jacques Bughin, 2016. *Harvard Business Review*.

+ Populism and the Economics of Globalization. Rodrik, D. (2018). *Journal of International Business Policy*, 1(1-2),pp. 12-33.

Questions:

1. What is the connection between economic globalization and populism?
2. What is the implication of the Lund et al article for business?

Session 12 (Tuesday 2/26): Review Exam 1

Session 13 (Thursday 2/28): Exam 1

Session 14 (Tuesday 3/12): Presentations I

Team Presentation 1: How, if at all, regulation of business has changed since the 2008 financial crisis? (Please make sure to discuss most recent changes to Dodd-Frank.)

Team Presentation 2: The opioid crisis and how it illuminates about the nexus of business-government.

Team Presentation 3: Discuss the Trump Administration's "trade wars." Who are beneficiaries? Who are the losers?

Sessions 15 + 16 (Thursday 3/14+ Tuesday 3/19): Institutions

+ Acemoglu, Johnson and Robinson. (2001) "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review*, Vol. 91, No. 5. (Sections Introduction, I-III, VI).

+ Acemoglu, Johnson and Robinson. (2002) "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *Quarterly Journal of Economics*. Vol 117, No 4. (Section I)

+ "Why the World Needs Charter Cities" Ted Talk by Paul Romer - https://www.ted.com/talks/paul_romer

Session 17 (Thursday 3/21): Culture

+ Guiso, Sapienza and Zingales, "Cultural Biases in Economic Exchange," *Quarterly Journal of Economics*, Vol. 124, No. 3 (2009). (pages 1095-1118, 1121-1122, 1124-1126, 1128-1129)

+ Fernandez, Raquel and Alessandra Fogli, "Culture: An Empirical Investigation of Beliefs, Work, and Fertility," *American Economic Journal: Macroeconomics*, Vol. 1, No. 1 (2009). (Sections Introduction, II-III (before III.A, i.e. not including III.A), IV, VII)

+ Regression Handout (Suggested) [Available on Canvas.]

Session 18 (Tuesday 3/26): Adverse Selection

+ Akerlof, George: "The Market for Lemons: Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, Vol. 84, No. 3 (Aug., 1970).

Session 19 (Thursday 3/28): Adverse Selection and Moral Hazard

+ Gneezy, Uri, John List and Michael Price, "Toward an Understanding of Why People Discriminate: Evidence from a Series of Natural Experiments," NBER Working paper, 2012. (Introduction + Study I only, Pages 1-13)

+ 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)

Session 20 (Tuesday 4/02): Adverse Selection and Moral Hazard

+ "Peer Monitoring and Enforcement: Long Term Evidence from Microcredit Lending Groups With and Without Group Liability" [Available on Canvas] (pages 1-6, 9-17, 20-23, 25-28)

Team Presentation 4: Moral Hazard and Executive Compensation

Session 21 + 22 (Thursday 4/04+ Tuesday 4/09): Inequality

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

+ Schweinhart, Montie, Xiang, Barnett, Belfield, Nores, “High/Scope Perry Preschool Study Through Age 40” [Available on Canvas]

Session 23 (Thursday 4/11): Low Wages and Labor Issues

+ Guilbert, Kieran, “Adidas, Nike urged to ensure fair wages for Asian workers making World Cup kits,” *Reuter*, June 22, 2018.

+ Brown, Drusilla, Alan Deardorff, Robert Stern, “The Effects of Multinational Production on Wages and Working Conditions in Developing Countries,” NBER Working Paper, April 2003 (Sections I + II are suggested)

Session 24 (Tuesday 4/16): Migration, Labor and Revealed Preference

+ Kaminer, Ariel and Sean O’Driscoll, “Workers at NYU’s Abu Dhabi Site Face Harsh Conditions,” *New York Times*, May 18, 2014.

+ Posner, Eric and Glen Weyl, “A Radical Solution to Global Income Inequality: Make the U.S. More like Qatar,” *New Republic*, November 6, 2014.

+ “Wages of Chagrin,” *Economist*, April 9, 2016.

Session 25 (Thursday 4/18): Presentations II Labor Regulation

Team Presentation 5: Minimum Wage Laws

Team Presentation 6: Non-Compete Contracts

Team Presentation 7: International Regulations for Labor Manufacturing

Session 26 (Tuesday 4/23): Presentations III

Team Presentation 8: Should Public Servants in Developing Countries Be Paid More?

Team Presentation 9: Are Driving Restrictions Good Public Policy?

Team Presentation 10: Consumer Indignation over Price Increases and Firm Responses

Session 27 (Thursday 4/25): Synthesis

Session 28 (Tuesday 4/30): Second Exam in Class