Economics of International Business

Course Syllabus

30 October – 1 November 2017

by Mark Casson and Nigel Driffield
About the course instructors:

Mark Casson is Professor of Economics and Director of the Centre for Institutional Performance at Henley Business School, University of Reading
http://www.henley.ac.uk/people/person/mark-casson/

Nigel Driffield is Professor of International Business and Warwick Business School, and Deputy pro Vice Chancellor, Warwick University
https://www.wbs.ac.uk/about/person/nigel-driffield

Course Content

Part I – Economics of International Business core module (Mark Casson)

1. How economists think and what they do

Introduction

- Economics as a discipline and not just a field of study
- Schools of thought in the history of the discipline: from Adam Smith to the Nobel Laureates
- Methodology of this course: positivism and methodological individualism
- Policy evaluation: social welfare functions; equity and efficiency trade-offs

Methods of analysis

- Economic modelling: a craft
- Mathematics: a language that economists have learned to speak
- Open and closed systems
- Endogeneous and exogenous variables; parameters
- Reduced forms and statistical estimation

Key concepts

- Rational action
  - sets: possibilities and feasibilities
  - continuous and discrete choice
  - utility, preferences and rankings
  - optimisation: maxima and minima
- Perfect information
  - correct expectations
  - uncertainty
  - risk and insurance
- Substitution
  - marginal conditions (equalities and inequalities)
- Equilibrium: partial and general
- Short-run/long-run, adjustment lags
- What is observed?: equilibrium or adjustment to equilibrium?
Applications to international business

- Location decisions
- Cost structure of international business activities
  - Unit of account
  - Fixed/variable
  - Sunk/recoverable
  - Marginal cost and unit (average) cost

2. The international business environment

Institutions
- The political economy of the national state
- Property rights

Technology and production
- The international division of labour
- Modularisation of production
- Knowledge as a public good

Space and distance
- Comparative advantage, specialisation and trade
- Transport costs and tariffs
- Economies of scale and agglomeration

International competition: the ‘competitiveness’ debate

Applications to international business
- Global supply chains
- Offshoring and reshoring

3. Coordination

Coordination and Pareto improvement
- Communication costs
- Agency problems and transaction costs
  - Conflicting objectives
  - Formal and informal contracts
  - Monitoring and quality control
  - Hold-up problems
  - Price discrimination

Coase on the nature of the firm
- Comparative institutional analysis: markets, firms, social networks and states
  - The multi-plant firm
  - The knowledge-intensive firm
  - Entrepreneurship and innovation
  - Markets and market regulation

Internalisation theory in international business: an unfinished research agenda

4. Rivalry

Market structure: the theory of industrial organisation
Oligopoly theory
Non-co-operative game theory
Simultaneous, sequential and repeated plays: Nash equilibrium
Applications to international business
- R&D gaming
- Regionalisation through competitive pressure
- Concentration in global markets

5. Special topics

The nature of ownership and firm-specific advantage: Brands, patents and uncodified knowledge
Supply chain coordination
Joint ventures and alliances
Government-business relations
Welfare implications of foreign direct investment and the multinational enterprise: social cost-benefit analysis

Part II – Ownership Structures and International Knowledge Transfer (Nigel Driffield)

- Parent - Affiliate Relationships
- Ownership Structures
- Possible Theoretical Frameworks
- The importance of institutions
- Alternative forms of internationalisation
- Knowledge transfer between parents and affiliates
- Modelling the knowledge transfer process
- Spillovers and policy implications
- How this helps with understanding firm performance

Course objectives

This course provides a state-of-the-art account of how economic principles are used to gain insight into international business issues.

In part I
- It examines the trade-offs that underlie key strategic decisions such as foreign market entry, outsourcing, off-shoring, location of headquarters, and investment in R&D. It links firm-level analysis to industry-level analysis.
- It shows how changes in strategy are driven by changes in the global business environment caused by globalization, privatization and market regulation.
- It explains what is involved in ‘thinking like an economist’, and show how to ‘decode’ technical literature that would otherwise be hard to understand.

In Part II
- The focus will be on the relationship between the parent and its affiliate as the unit of analysis. We will explore the drivers that determine how parents choose ownership structures in their firms.
affiliates, and why these may vary within the same firm. This will explore both theoretical and empirical problems in this literature

- Building on this we then go on to explore the importance of these relationships for knowledge transfer, why there is so much focus on this in International Business, and the common mistakes that people make – and how to avoid them.
- To help with understanding of the data and modelling limitations in this area.

The course is intended for doctoral and post-doctoral researchers, and established faculty, who have open minds and intellectual curiosity; no prior knowledge of economic theory is assumed. The course will help researchers to make full use of economic concepts in planning and executing their research projects.

**Course structure**

The course will be taught over two days in six 50-minutes blocks per day. While the core syllabus is fixed, there is scope for incorporating additional material on special topics at the request of individual participants. These requests can be made either before or during the course. Copies of the slides and accompanying notes on the core syllabus will be distributed at the commencement of the course. Plenty of time will be allowed for informal interaction over coffee, lunch and tea breaks. Course participants will be encouraged to participate in discussions, but will not be required to make formal presentations.

Participants wishing to obtain formal credits should submit a 5,000 word assessed report on how they plan to incorporate relevant economic concepts in their own research. The report should be submitted via Turnitin in Blackboard Learn (instructions on assignment submission will be provided), at any time up to **25 February 2018** and the assessment process will be completed within 3-4 weeks of submission.
Contact with your instructors

Class participants requiring assistance are encouraged to speak to Prof Casson and Prof Driffield during class. Should you wish to contact them before the course or after the end of the course, please email them at m.c.casson@reading.ac.uk and nigel.driffield@wbs.ac.uk

Class schedule

<table>
<thead>
<tr>
<th>Time</th>
<th>Monday, 30th October</th>
<th>Tuesday, 31st October</th>
<th>Wednesday, 1st November</th>
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<tbody>
<tr>
<td>9.15-10.15</td>
<td>Block 1 (Casson)</td>
<td>Block 1 (Casson)</td>
<td>Block 1 (Driffield)</td>
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<td>10.15-11.15</td>
<td>Block 2 (Casson)</td>
<td>Block 2 (Casson)</td>
<td>Block 2 (Driffield)</td>
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<td>11.15-11.45</td>
<td>Coffee/Tea break</td>
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<td>11.45-12.15</td>
<td>Block 3 (Casson)</td>
<td>Block 3 (Casson)</td>
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<td>12.45-13.15</td>
<td>Lunch</td>
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<td>13.45-14.45</td>
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<td>Block 4 (Driffield)</td>
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<td>14.45-15.30</td>
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<td>15.45-16.15</td>
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<td>Coffee/Tea break</td>
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<td>16.15-17.00</td>
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<td>Block 6 (Driffield)</td>
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Reading List

Part I

Methodology (Pre-class reading)


**Modelling**


**Nature of the firm**


**Books**

Selections of the above articles, together with other papers, can be found in the following books:


**Background books on economic theory:**


**How economists think: A novel**


**Part II**

1. **The relationship between Parents and Affiliates**


2. **Ownership structure and its evolution**


3. **The importance of (property Rights) Theory**


4. **The role of institutions**


5. Challenges with modelling and estimation


6 Knowledge transfer between parent and affiliate


7 Modelling knowledge flows and firm performance


