New Course Request

Check Appropriate Boxes:  Undergraduate credit ☐  Graduate credit ☐  Professional credit ☑

1. School/Division  Business  2. Academic Subject Code  BUKD

3. Course Number  C537  (must be cleared with University Enrollment Services)  4. Instructor  Steven Kreft

5. Course Title  Market Power Pricing

Recommended Abbreviation (Optional)  

(Limited to 32 Characters including spaces)

6. First time this course is to be offered (Semester/Year):  Summer 2007

7. Credit Hours: Fixed at _______ or Variable from 1.0 to 5.0 (see attached)

8. Is this course to be graded S-F (only)? Yes No ☑

9. Is variable title approval being requested? Yes No ☑

10. Course description (not to exceed 50 words) for Bulletin publication:  

See attached

11. This course is designated as an Alternate Delivery Course by the Kelley School of Business, and will be delivered to remote learning sites.

12. Non-Lecture Contact Hours: Fixed at _______ or Variable from _______ to _______

13. Estimated enrollment: 150  of which _______ percent are expected to be graduate students.

14. Frequency of scheduling: 2-4 sections per year  Will this course be required for majors? Yes

15. Justification for new course:  See attached.

16. Are the necessary reading materials currently available in the appropriate library? Yes

17. Please append a complete outline of the proposed course, and indicate instructor (if known), textbooks, and other materials. See attached syllabus.

18. If this course overlaps with existing courses, please explain with which courses it overlaps and whether this overlap is necessary, desirable, or unimportant.

19. A copy of every new course proposal must be submitted to departments, schools, or divisions in which there may be overlap of the new course with existing courses or areas of strong concern, with instructions that they send comments directly to the originating Curriculum Committee. Please append a list of departments, schools, or divisions thus consulted.

Submitted by:  Richard Mazie  Date  1-9-07

Department Chairman/Division Director

Approved by:  R. W. Schum  Date  3-7-07

Dean

Chancellor/Vice-President

University Enrollment Services

Dean of Graduate School (when required)

After School/Division approval, forward the last copy (without attachments) to University Enrollment Services for initial processing, and the remaining four copies and attachments to the Campus Chancellor or Vice-President.

University Enrollment Services Final—White; Chancellor/Vice-President—Blue; School/Division—Yellow; Department/Division—Pink; University Enrollment Services Advance—White
Item 7: Credit Hours: Variable from 1.0 to 6.0

This course currently is taught as X574, which is a 3 credit-hour course. We are requesting that the credit hours be variable from 1.0 to 6.0 credit-hours in order to reserve flexibility for future curriculum needs. In particular, if this course were to be taught during an in-residence session, it would be offered as a 1.5 credit version.

Item 10: Course Description

**Market Power Pricing (3 cr.)**

Price is one of the most important weapons a manager has in their strategic tool kit, yet it is often overlooked. Instead, managers tend to focus on sales volume and costs as strategic tools to enhance profitability, and not much energy is spent on optimizing pricing decisions. For example, managers routinely set prices by using historical cost-plus markup rules (X% above costs) that are outdated and have not evolved with the dynamic market characteristics. If managers were to optimize prices based on current market information, their overall profit margin would be greatly enhanced. This course is designed to give you the tools that are needed to effectively use price as a strategic tool. The course will have two components: a theory component coupled with an applied component that will give students hands-on experience quantifying pricing decisions through customized cases with data. Case applications will first cover strategic pricing decisions when competitors’ responses are not central to decision makers. Specifically, students will learn the skills essential to properly conduct optimal markup pricing, price customization, cash flow management, non-linear pricing, and product line pricing. Then we will expand our analysis to pricing strategies that account for competitors’ strategic responses. Applications will include predatory pricing, limit pricing, penetration pricing, and estimating rivals’ strategic responses using various oligopoly models.

Item 15: Justification for new course:

This course—Market Power Pricing—currently is taught in the Kelley Direct MBA program as an experimental course (X574). It is a popular and important part of the KD curriculum. Accordingly, we wish to have the course become a permanent addition to the curriculum. This proposal is supported by the Business Economics and Public Policy department, as evidenced by the attached memo from Dr. John Maxwell, BEPP Department Chairperson.
Dear Eric

This email serves to inform you of the support of the Business Economics Department for the creation of the course C537 Market Power Pricing to replace the experimental X574 Market Power Pricing, which is now offered on a regular basis. As such this proposal is resource neutral for the BEPP department and the KSB.

Sincerely

John

John W Maxwell
Associate Professor
Business Economics and Public Policy
Kelley School of Business
Indiana University

Telephone: 812 855 9219 (Christina Robertson)
Fax: 812 855 3354

http://www.bus.indiana.edu/jwmax
Item 17: Course Syllabus

X574 12596 Market Power Pricing

Instructor  Steven Kreft
Home Phone  812-345-0861
Office Phone  812-856-4965
E-mail  Please Use the KD/Angle E-mail

Required Text

All course materials will be posted, and made available to you, online at the start of the quarter. The material will be organized in weekly folders, and you should go through them as the quarter progresses.

Please note that there is no assigned text for this course.

Course Description

Price is one of the most important weapons a manager has in her strategic tool kit, yet it is often overlooked. Instead, managers tend to focus on sales volume and costs as strategic tools to enhance profitability, and not much energy is spent on optimizing pricing decisions. For example, managers routinely set prices by using historical cost-plus markup rules (X% above costs) that are outdated and have not evolved with the dynamic market characteristics. If managers were to optimize prices based on current market information, their overall profit margin would be greatly enhanced.

This course is designed to give you the tools that are needed to effectively use price as a strategic tool. The course will have two components: a theory component coupled with an applied component that will give students hands-on experience quantifying pricing decisions through customized cases with data. The theory component will be broken down into two categories: first we will cover strategic pricing decisions when competitors’ responses are not central to decision makers, and second we will expand our analysis to pricing strategies that account for competitors’ strategic responses. Case applications will be given on a weekly basis, and will correspond directly with the theory material being covered each week.

The pricing theory will cover the essential pricing strategies for firms with market power. We will first develop the importance of price as a strategic variable and highlight the relation price has to a manager’s ability to control their firm’s cash flow. We will then move on to develop different strategies for optimal isolated pricing. Specifically, we will take a close look at optimal cost plus pricing that accounts for dynamic market changes. Then, we will discuss price customization, a practice by which customized prices can be utilized by managers to enhance profit margins. Next, we will turn our attention to more complicated pricing strategies, such as non-linear pricing schemes and product-line pricing for firms producing multiple, differentiated, final products. Finally, we will focus on optimal pricing strategies to apply under situations of competitive threat, where price will be treated more as a competitive weapon. We will
look at penetration pricing where an initial low price is set in a market to
gain a critical mass of customers from existing rivals, predatory pricing
where prices are set below marginal costs to drive rivals out of relevant
markets, and limit pricing where an incumbent firm prices below their
optimal isolated price to prevent entry into a relevant market. We will
conclude by analyzing Bertrand oligopoly models that incorporate and
highlight strategic pricing behavior and we will examine how to estimate
optimal responses to rival price changes.

Throughout the course I will give you opportunities to analyze typical
industry data and apply the pricing strategies we develop. You will learn
the skills needed to estimate price response functions and implement the
different pricing theories presented throughout the course. The aim is to
conclude the course with an applied final project in which students will
analyze data and make optimal pricing decisions without specific
guidance and direction.

**Tentative Schedule**

Week 01 -- Introduction to Market Power Pricing.
Week 02 -- Estimating and Analyzing Price Response Functions and Cost
Functions.
Week 03 -- Cash Flow Management and Optimal Isolated Pricing.
Week 04 -- Dynamic Cost Plus Pricing and Price Customization.
Summer Break
Week 05 -- Non-linear Pricing Strategies.
Week 06 -- Product-Line Pricing.
Week 07 -- Competitive Bertrand Oligopoly Pricing.
Week 08 -- Penetration, Predatory, and Limit Pricing.
Week 09 -- Theory Examination.
Week 10 & 11 -- Final Project

In studying all these topics we will use problems and examples to gain
practice in using the tools and ideas. The problems and examples are
intended to help you deal with the various aspects of the pricing theory
and they should help reinforce the basic concepts of the course material.

Also, to aid in developing a discussion component of the course I will
post several relevant business news articles, for example from the Wall
Street Journal, that will help highlight the concepts of the pricing theory
topics we will be studying in each particular week. I will post one or two
questions on the weekly discussion forums to get the discussions started,
but I hope your input will serve to enrich our discussions.

**Course Requirements**

Your progress will be assessed through your participation in online
discussions, a series of team hand-in projects, a theory examination, and a
final project. The weights and descriptions of each graded component are
as follows:
Weekly Discussion Forums (15%):
Each week on Sunday night I will kick off a new discussion thread on a news event (often supported by a news article, for example from the Wall Street Journal) that has relevance to the week’s material. The intention of these discussions will be to give us exposure to the practical (and somewhat more philosophical) aspects of the pricing strategies. Please wait until I have opened the discussion with an initial post before posting your thoughts. Once the discussion is opened you will be expected to talk about the article and its applications throughout the week. I will point the discussion in different directions over the course of the week, but ultimately I hope the class’s postings will contribute the majority of analysis of the articles each week. You are expected to regularly participate in each discussion week, by contributing your thoughts on the discussion topics (also you are encouraged to start your own discussion topics within the threads whenever you can, for example presenting pricing techniques you have used in your business or have seen used in some fashion). The discussion will stay open from Sunday night to the following Sunday afternoon each week, so that each of you can fit some time into your schedule to get into the discussion.

Weekly Group Hand-In Projects (15%):
At the beginning of the quarter, homework teams will be assigned and these teams will remain throughout the quarter. Each week there will be an assigned homework that consists of applied pricing problems to be solved by each homework group. You will be given a data set and a task to complete. You will communicate with your group members, conduct your analysis, and submit your pricing recommendation as a group (only one assignment submission is needed from each group). The assignments are due each week by 10:00pm EST on Sunday. These assignments are intended to re-enforce the major pricing theories and help you practice applying the different pricing strategies. These assignments will be graded as pass/fail and will be used more as a learning tool than anything else.

Theory Examination (35%):
The theory exam will occur in week 9 of the quarter and will consist of a series of multiple choice questions and essay questions. The exam will test you on your knowledge of the pricing theories covered in weeks 1-8, and will be completed on an individual basis in a specified period of time within week 9.

Final Project (35%):
The final project will be group-based and will assess your ability to apply the pricing theory that you have learned throughout the course. You will be given multiple data sets to analyze and various pricing aspects to consider, and your group’s ability to recommend optimal pricing strategies under the given scenarios will be evaluated. To ensure full participation in the final project I will implement a peer evaluation system that is described in detail in the week 10-11 folder.
Grading Policy

I will follow the Kelley School of Business MBA grading policy.

Study Suggestions for the Term:

People learn in various ways and the best approach for one student may not be the best for another. I will suggest a strategy that seems to be applicable to this course structure. Try it and then modify it to suit your study habits the best.

Start by looking over the PowerPoint slides for the week. The slides are meant to be viewed in a slide show and are detailed enough that you will get all the information that you would normally receive in a lecture setting. Also, these slides are detailed enough that they serve as the text book of the course. After viewing them in slide show form, you should print them out for future reference. The remainder of information will be your questions and group interactions, which will come out in the discussion forums or through direct e-mail communications.

Next, work through the hand-in projects in your groups. Feel free to check back to the slides as needed to solve the problems. Then after the projects have been collected, solutions will be given. You should look at the solutions and make sure you understand any mistakes you made, and fully grasp all aspects of the suggested answers. The hand-in projects are intended to be good tools to prepare you for the test material and also the final project. You may then want to review the slides after you have gone through the problem solutions.

Finally, make sure that you are monitoring the weekly online discussion and that you contribute to them regularly. This is a good opportunity for you to further your understanding of the class material by interacting with your peers and myself. Feel free to pose questions about the material and the related topics within this forum to hear other student’s views on the subject matter. Also, this forum will afford us the opportunity to develop more of the psychological side of pricing issues.

Note about E-MAIL

I teach to an average of 600 land based students each semester, which have a tendency to fill up my normal Indiana university e-mail. This slows down my ability to respond to all questions promptly using the Indiana mail services, and can sometimes cause some messages to slip through the cracks. HOWEVER, we have a course mail system with KD/Angel that will solely be accessible by this class (Through the In Touch tab). So I will give priority to that e-mail and will be able to respond in a more organized and timely manner.

SO, please send all e-mail correspondences through the KD/Angel course mail provider.

KD Handin System
All assignments in this course will be turned in using the "KD Handin System." To access this function go to the "In Touch" tab located in the tool bar section, and click on it. Then click on the "KD Handin System" link in the "In Touch" page, you will then be in the Handin system.

The first page displays all assignment names, number of files you should turn in and the EST due time. You can select your timezone to find out the exact due time in your area. Click "Submit Assignment" link on the side navigation bar to select an assignment to submit. You can submit files as many times as you want but your early submission will be overwritten by your later submission and the time you make the last submission will be recorded as your handin time. After you submit the files you will be brought to a page where all the files you submitted are displayed. You can click the file name to have a look at the file. For each assignment, only one file will be accepted.

Pick up graded files. After the instructor finishes the grading and has uploaded the graded files, you can view them by clicking the "View Grade File" link. On this page, both the files you hand in and the files graded by the instructor will be displayed, and you can download them by clicking the file name.

Use the "Download File" link to download files that your instructor uploads for you. It has nothing to do with the assignment files. It will be empty if the instructor does not upload anything. Please read the help file on each page if you have further questions.

More to Come in the First Week of Class:

I will introduce more about myself during the first week of class, and you will have the opportunity to do the same. I encourage you to get to know me over the course of the term and use me as a learning resource. Furthermore, I encourage you to get to know your classmates, as they can also be a vital learning tool through discussions and group interactions.