

Economics of International Business

Course Syllabus

7 November – 9 November 2018

by Mark Casson and Gabriel R.G. Benito

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

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Gabriel Robertstad Garcia Benito (PhD, Norwegian School of Economics NHH) is Professor of International Strategy at BI Norwegian Business School, Oslo, Norway.

<https://www.bi.edu/about-bi/employees/department-of-strategy-and-entrepreneurship2/gabriel-robertstad-garcia-benito/>

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
- Endogenous 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
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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 – Governance Issues in International Business (Gabriel R.G. Benito)

The sessions in this part build on Prof Casson's lectures on the economics of international business, but focus on examining aspects of business behaviour that are dealt with in less detail in internalisation and transaction cost theories. While keeping an internalisation theory foundation, it also draws on additional, largely complementary approaches such as agency theory, institutional theory, and knowledge/process perspectives on firms' internationalisation.

1. Discrete versus interdependent choices of foreign operation modes

- Reasons for multiple modes
- Trade-offs in mode combinations

2. Foreign operation dynamics

- Changing modes
- Exiting markets

3. The roles of ownership in international strategies

- Are family firms and state-owned companies different?
- The role of institutional context

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 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

- It digs deeper into foreign operation (entry) mode choices. Specifically, it discusses discrete versus interdependent choices, multiple modes, and mode dynamics such as mode changes and exits.
- It gives a brief introduction to governance issues in international business, with a focus on the role of ownership in shaping international strategy choices.

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 **1 February 2019** 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 Benito 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 gabriel.r.g.benito@bi.no

Class schedule

Time	Wednesday, 7 th November	Thursday, 8 th November	Friday, 9 th November
9.15- 10.15		Block 1 (Casson)	Block 1 (Benito)
10.15-11.15		Block 2 (Casson)	Block 2 (Benito)
11.15-11.45		Coffee/Tea break	Coffee/Tea break
11.45-12.45		Block 3 (Casson)	Block 3 (Benito)
12.45-13.45	Lunch	Lunch	Lunch
13.45-14.45	Block 1 (Casson)	Block 4 (Casson)	Block 4 (Benito)
14.45-15.45	Block 2 (Casson)	Block 5 (Casson)	Block 5 (Benito)
15.45-16.00	Coffee/Tea break	Coffee/Tea break	Coffee/Tea break
16.00-17.00	Block 3 (Casson)	Block 6(Casson)	Block 6 (Benito)

Reading List

Part I

Methodology (Pre-class reading)

Casson, Mark C. (2016) *The Theory of International Business: Economic Models and Methods*, Switzerland: Palgrave Macmillan, Hardback, 978-3-319-32296-4, E-book 978 -3-319-32297-1

Casson, Mark C. (2105) Alan Rugman's methodology, Paper presented to AIB UK Conference, Manchester, April, unpublished, submitted to *International Business Review* Special issue

Buckley, Peter J. and Mark C. Casson (2009) The internalisation theory of the multinational enterprise: A review of the progress of a research agenda after 30 years, *Journal of International Business Studies*, 40, 1563-1580

Casson, Mark C. (2005) Visions of International Business, in Peter J. Buckley (ed.) *What is International Business?*, Basingstoke: Palgrave Macmillan

Casson, Mark C. and Peter J. Buckley (1993) Economics as an imperialistic social science, *Human Relations*, 46, 1035-1052.

Modelling

Internalisation theory: An unfinished agenda, *International Business Review*, 25(6), pp.1223-34. ISSN 0969-5931, doi: 10.1016/j.ibusrev.2016.03.007

Casson, Mark C., Lynda Porter and Nigel Wadeson (2015) *Internalisation Theory: An Unfinished Agenda*, Unpublished, to be submitted to *International Business Review*

Casson, Mark C. (2013) *Economic analysis of international supply chains: an internalization perspective*. *Journal of Supply Chain Management*, 49 (2). 8-13. ISSN 1745-493X doi: [10.1111/jscm.12009](https://doi.org/10.1111/jscm.12009)

Casson, Mark C. and Nigel Wadeson (2012) *The economic theory of international business: a supply chain perspective*. *Multinational Business Review*, 20 (2). 114-134. ISSN 1525-383X

Casson, Mark C., Kenneth R. Dark and Mohamed.Azzim Gulamhussen (2009) Extending internalisation theory: From the multinational enterprise to the knowledge-based empire, *International Business Review*, 18, 236-256

Casson, Mark C. (2007) Multinational enterprises: Their private and social benefits and costs, *World Economy*, 30 (2) 308-28

Peter J. Buckley and Mark C. Casson (1998) Analyzing foreign market entry strategies: Extending the internalization approach, *Journal of International Business Studies*, 29 (3), 539-562.

Peter J. Buckley and Mark C. Casson (1998) Models of the multinational enterprise, *Journal of International Business Studies*, 29 (1), 21-44.

Casson, Mark C. (1995) Internationalization of the firm as a learning process: A model of corporate growth and geographical diversification, *Revue d'Economie Industrielle*, Special issue, 109-134
Buckley, Peter J. and Mark C. Casson (1981) The Optimal Timing of a Foreign Direct Investment, *Economic Journal*, 91, 75-87.

Nature of the firm

Casson, Mark C. (2014) *The economic theory of the firm as a foundation for international business theory*, *Multinational Business Review*, 22 (3). pp. 205-226. ISSN 1525-383X doi: [10.1108/MBR-06-2014-0024](https://doi.org/10.1108/MBR-06-2014-0024)

Casson, Mark C. (2014) *Coase and international business: the origin and development of internalisation theory*, *Managerial and Decision Economics*, 36 (1). pp. 55-66. ISSN 1099-1468 doi: [10.1002/mde.2706](https://doi.org/10.1002/mde.2706)

Buckley, Peter J. and Mark C. Casson (2011), *Marketing and the multinational: extending internalisation theory*, *Journal of the Academy of Marketing Science*, 39 (4). 492-508. ISSN 1552-7824

Casson, Mark C. (1996) The nature of the firm reconsidered: Information synthesis and entrepreneurial organization, *Management International Review*, 36 (1), 55-94

Casson, Mark C. (1986) Contractual Arrangements for Technology Transfer: Evidence from Business History, *Business History*, 28, 1-35.

Casson, Mark C. (1984) Theory of Vertical Integration: A Survey and Synthesis, *Journal of Economic Studies*, 11, Part 2, 3-43.

Books

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

Peter J. Buckley and Mark C. Casson (2010) *The Multinational Enterprise Revisited*, Basingstoke: Palgrave Macmillan

Casson, Mark C. (2000) *Economics of International Business: A New Research Agenda*, Cheltenham: Edward Elgar

Casson, Mark C. (1995) *The Organization of International Business*, Cheltenham: Edward Elgar

Peter J. Buckley and Mark C. Casson (1985) *Economic Theory of the Multinational Enterprise: Selected Papers*, Basingstoke: Macmillan

Background books on economic theory:

Samuelson, Paul A. (1947) *Foundations of Economic Analysis*, Cambridge, MA: Harvard University Press

Richardson, George B. (1964) *Economic Theory*, London: Hutchison (reprinted Routledge, 2003)

Richardson (1998) *The Economics of Imperfect Knowledge: Collected Papers*, Cheltenham: Edward Elgar

How economists think: A novel

Jevons, Marshall [pseudonym] (1985) *The Fatal Equilibrium*, Cambridge, MA: MIT Press

Part II – Governance Issues in International Business (Gabriel R.G. Benito)

Background reading

Welch, L.S., Benito, G.R.G. and Petersen, B. (2018). *Foreign Operation Methods: Theory, Analysis, Strategy* (2nd edition). Cheltenham, UK: Edward Elgar.

Discrete versus interdependent choices of foreign operation modes

Asmussen, C.G., Benito, G.R.G. and Petersen, B. (2009). Organizing foreign market activities: From entry mode choice to configuration decisions. *International Business Review*, 18(2): 145-155.

Benito, G.R.G., Petersen, B. and Welch, L.S. (2009). Towards more realistic conceptualisations of foreign operation modes. *Journal of International Business Studies*, 40(9): 1455-1470.

Benito, G.R.G., Petersen, B. and Welch, L.S. (2011). Mode combinations and international operations: Theoretical issues and an empirical investigation. *Management International Review*, 51(6): 803-820.

Benito, G.R.G., Petersen, B. and Welch, L.S. (2018). Understanding mode dynamics and flexibility. Mimeo.

Clark, T., Pugh, D.S. & Mallory, G. (1997). The process of internationalization in the operating firm. *International Business Review*, 6(6): 605-623.

Hashai, N., Asmussen, C.G., Benito, G.R.G. and Petersen, B. (2010). Technological knowledge intensity and entry mode diversity. *Management International Review*, 50(6): 659-681.

Shaver, J.M. (2013). Do we really need more entry mode studies? *Journal of International Business Studies*, 44(1): 23–27.

Foreign operation dynamics

Benito, G.R.G. (2005). Divestment and international business strategy, *Journal of Economic Geography*, 5(2): 235-251.

Benito, G.R.G., Dovgan, O., Petersen, B., & Welch, L.S. (2013). Offshore outsourcing: A dynamic operation mode perspective. *Industrial Marketing Management*, 42(2): 211-222.

Benito, G.R.G., Pedersen, T. and Petersen, B. (2005). Export channel dynamics: An empirical examination. *Managerial and Decision Economics*, 26(3): 159-173.

Berry, H. (2013). When do firms divest foreign operations? *Organization Science*, 24(1): 246-61.

Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of Management*, 33(1): 84-110.

Lurkov, D. & Benito, G.R.G. (2017). Domestic alliance formation and the foreign divestment decisions of firms. *Progress in International Business Research*, 12: 517-538.

Mata, J. & Freitas, E. (2012). Foreignness and exit over the life cycle of firms. *Journal of International Business Studies*, 43(7): 615-30.

Puck, J., Holtbrügge, D., & Mohr, A. (2009). Beyond entry mode choice: Explaining the conversion of joint ventures into wholly owned subsidiaries in the People's Republic of China. *Journal of International Business Studies*, 40(3): 388–404.

Putzhammer, M., Fainshmidt, S., Puck, J., & Slangen, A. (2018). To elevate or to duplicate? Experiential learning, host-country institutions, and MNE post-entry commitment increase. *Journal of World Business*, 53(4): 568-580.

The roles of ownership in international strategies

Aguilera, R. V., & Crespi-Cladera, R. (2016). Global corporate governance: On the relevance of firms' ownership structure. *Journal of World Business*, 51(1): 50-57.

Benito, G.R.G., Rygh, A. and Lunnan, R. (2016). The benefits of internationalization for state owned enterprises", *Global Strategy Journal*, 6(4): 269-288.

Grøgaard, B., Rygh, A. and Benito, G.R.G. Bringing corporate governance into internalization theory: State ownership and foreign entry strategies. Conditional accept, *Journal of International Business Studies*.

Hennart, J.-F., Majocchi, A., & Forlani, E. (forthcoming). The myth of the stay-at-home family firm: How family-managed SMEs can overcome their internationalization limitations. *Journal of International Business Studies*.

Strange, R. (2018). Corporate ownership and the theory of the multinational enterprise. *International Business Review*, 27(6): 1229-1237.