

International Business and Strategy, Henley Business School

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

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**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
1. **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
1. **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

1. **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
1. **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 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 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 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

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| --- | --- | --- | --- |
| Time | Monday, 30st October | Tuesday, 31st October | Wednesday, 1st November |
| 9.15- 10.15 | Block 1 (Casson) | Block 1 (Casson) | Block 1 (Driffield) |
| 10.15-11.15 | Block 2 (Casson) | Block 2 (Casson) | Block 2 (Driffield) |
| 11.15-11.45 | **Coffee/Tea break** | **Coffee/Tea break** | **Coffee/Tea break** |
| 11.45-12.45 | Block 3 (Casson) | Block 3 (Casson) | Block 3 (Driffield) |
| 12.45-13.45 | **Lunch** | **Lunch** | **Lunch** |
| 13.45-14.45 | Block 4 (Casson) | Block 4 (Driffield) |  |
| 14.45-15.30 | Block 5 (Casson) | Block 5 (Driffield) |  |
| 15.45-16.15 | **Coffee/Tea break** | **Coffee/Tea break** |  |
| 16.15-17.00 | Block 6(Casson) | Block 6 (Driffield) |  |

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.](http://centaur.reading.ac.uk/32391/) *Journal of Supply Chain Management*, 49 (2). 8-13. ISSN 1745-493X doi: [10.1111/jscm.12009](http://dx.doi.org/10.1111/jscm.12009)

[Casson, Mark C.](http://centaur.reading.ac.uk/view/creators/90001345.html) and Nigel Wadeson (2012) [The economic theory of international business: a supply chain perspective.](http://centaur.reading.ac.uk/26628/) *Multinational Business Review*, 20 (2). 114-134. ISSN 1525-383X

Casson, Mark C., Kenneth R. Dark and Mohamed.Azzim Gulamhussen (2009) Extending internalisaton 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.](http://centaur.reading.ac.uk/view/creators/90001345.html) (2014) [The economic theory of the firm as a foundation for international business theory.](http://centaur.reading.ac.uk/38249/)*Multinational Business Review*, 22 (3). pp. 205-226. ISSN 1525-383X doi: [10.1108/MBR-06-2014-0024](http://dx.doi.org/10.1108/MBR-06-2014-0024)

[Casson, Mark C.](http://centaur.reading.ac.uk/view/creators/90001345.html) (2014) [Coase and international business: the origin and development of internalisation theory,](http://centaur.reading.ac.uk/38244/) *Managerial and Decision Economics*, 36 (1). pp. 55-66. ISSN 1099-1468 doi: [10.1002/mde.2706](http://dx.doi.org/10.1002/mde.2706)

Buckley, Peter J. and [Mark](http://centaur.reading.ac.uk/view/creators/90001345.html) C. Casson (2011), [Marketing and the multinational: extending internalisation theory,](http://centaur.reading.ac.uk/17978/) *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**

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

Ambos, T. C., Andersson, U., & Birkinshaw, J. (2010). What are the consequences of initiative-taking in multinational subsidiaries. Journal of International Business Studies, 41(7), 1099-1118.

Andersson, U., Björkman, I., & Forsgren, M. (2005). Managing subsidiary knowledge creation: The effect of control mechanisms on subsidiary local embeddedness. International Business Review, 14(5): 521–538.

Andersson, U., Forsgren, M., & Holm, U. (2001). Subsidiary embeddedness relatedness and competence development in MNCs: A multi-level analysis. Organization Studies, 22(6): 1013–1034.

Andersson, U., Forsgren, M., & Holm, U. (2007). Balancing subsidiary influence in the federative MNC: A business network view. Journal of International Business Studies, 38(5): 802–818.

Birkinshaw, J., & Hood, N. (1998). Multinational subsidiary evolution: Capability and charter change in foreign-owned subsidiary companies. Academy of Management Review, 23(4): 773-795.

Birkinshaw, J. M., & Morrison, A. J. (1995). Configurations of strategy and structure in subsidiaries of multinational corporations. Journal of international business studies, 41(7), 729-753.

Cantwell, J. A., & Mudambi, R. (2005). MNE Competence-Creating Subsidiary Mandates. Strategic Management Journal, 26: 1109–1128.

Zhou, Y.M. (2014). Supervising across Borders: The Case of Multinational Hierarchies. Organization Science, 26(1): 277-292.

Rugman, A. M. & Verbeke, A. (2001). Subsidiary-specific advantages in multinational enterprises, Strategic Management Journal, 22: 237-250.

1. **Ownership structure and its evolution**

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.

Bishop, K., Filatotchev, I., & Mickiewicz, T. (2002). Endogenous Ownership Structure. Acta Oeconomica, 52(4): 443-471.

Chang, S. J., Chung, J., & Moon, J. J. (2013). When do wholly owned subsidiaries perform better than joint ventures?. Strategic Management Journal, 34(3), 317-337.

Delios, A., & Beamish, P. W. 1999. Ownership strategy of Japanese firms: Transactional, institutional, and experience influences. Strategic Management Journal, 20: 915-933.

Dikova, D. & van Witteloostuijn, A. (2007). Foreign direct investment mode choice: entry and establishment modes in transition economies. Journal of International Business Studies, 38: 1013-1033.

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.

Mani, S. Antia, K., & Rindfleisch, A. (2007). Entry mode and equity level: a multilevel examination of foreign direct investment ownership structure. Strategic Management Journal, 28: 857-866.

Driffield, N., Mickiewicz, T., & Temouri, Y. (2016). Ownership control of foreign affiliates: A property rights theory perspective. *Journal of World Business*, *51*(6), 965-976.

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

Aghion, P., & Holden, R. (2011). Incomplete contracts and the theory of the firm: What have we learned over the past 25 years?. The Journal of Economic Perspectives, 25(2): 181-197.

Antràs, P. (2005). Incomplete contracts and the product cycle. American Economic Review, 95(4): 1054-1073.

Antràs, P. (2014). Grossman-Hart (1986) Goes Global: Incomplete Contracts, Property Rights, and the International Organization of Production. Journal of Law, Economics, and Organization 30, supplement 1: i118–i175.

Brouthers, K. D. (2002). Institutional, cultural and transaction cost influences on entry mode choice and performance. Journal of International Business Studies, 33(2): 223-231.

Brouthers, K. D. (2013). A retrospective on: Institutional, cultural and transaction cost influences on entry mode choice and performance. Journal of International Business Studies, 44(1): 14-22.

Carson, S. J., & John, G. (2013). A theoretical and empirical investigation of property rights sharing in outsourced research, development, and engineering relationships. Strategic Management Journal, 34(9), 1065-1085.

Feenstra, R.C., and Hanson, G.H. (2005) Ownership and control in outsourcing to China: Estimating the property-rights theory of the firm. The Quarterly Journal of Economics 120(1): 729-761.

Grossman, S. & Hart, O. (1986). The Costs and Benefits of Ownership. Journal of Political Economy, 94(4): 691-719.

Hennart, J.F., & Slangen, A.H.L. (2014) Yes, we really do need more entry mode studies. Journal of International Business Studies, 46, 114-122.

1. **The role of institutions**

Belderbos, R., & Zou, J. (2007). On the growth of foreign affiliates: multinational plant networks, joint ventures, and flexibility. Journal of International Business Studies, 38(7): 1095-1112.

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

Cuervo-Cazurra A. (2006). Who cares about corruption? Journal of International Business Studies, 37: 807 – 822.

Cuervo-Cazzura, A., & Dau, L. A. (2009). Promarket reforms and firm profitability in developing countries. Academy of Management Journal, 52(6): 1348–1368.

Driffield, N., Mickiewicz, T. & Temouri, Y. (2013). Institutional reforms, productivity and profitability: From rents to competition?, Journal of Comparative Economics, 41(2): 583-600.

Driffield, N., Mickiewicz, T., & Temouri, Y. (2014). Institutions and Equity Structure of Foreign Affiliates, Corporate Governance: An International Review, 22(3): 216-229.

Eden, L. & Miller, S.R. (2004). Distance matters: Liability of foreignness, institutional distance and ownership strategy. In: M. Hitt and J. Cheng (eds.), Advance in International Management, Emerald, 16, 187-221.

Habib, M, & Zurawicki, L. (2002). Corruption and Foreign Direct Investment. Journal of International Business Studies, 33(2): 291-307.

Henisz, W. (2000). The institutional environment for multinational investment. Journal of Law, Economics and Organization, 16: 334–364.

Hernández, V., & Nieto, M. J. (2015). The effect of the magnitude and direction of institutional distance on the choice of international entry modes. Journal of World Business, 50(1): 122-132.

Hong, S. J., & Lee, S. H. (2014). Reducing cultural uncertainty through experience gained in the domestic market. Journal of World Business. http://dx.doi.org/10.1016/j.jwb.2014.06.002

Li, S. & Filer, L. (2007). The effects of the governance environment on the choice of investment mode and the strategic implications. Journal of World Business, 42(1): 80-98.

Temouri, Y., Driffield, N., & Bhaumik, S. K. (2016). A strategic perspective of cross-listing by emerging market firms: Evidence from Indonesia, Mexico, Poland and South Africa. *Journal of International Management*, 22(3), 265-279.

Rodriguez P., Siegel D., Hillman A., & Eden L. (2006). Three lenses on the multinational enterprise: politics, corruption and corporate social responsibility. Journal of International Business Studies, 37(6): 733-746.

Tanzi, V. (1998). Corruption Around the World: Causes, Consequences, Scope, and Cures, IMF Staff Papers, 45(4): 559-594.

Zhao, J.H., Kim, S.H. & Du. J. (2003). The Impact of Corruption and Transparency on Foreign Direct Investment: An Empirical Analysis. Management International Review, 43(1): 41-62.

1. **Challenges with modelling and estimation**

Crotty, J. Driffield, N and Jones, C. (2016) Regulation as Country‐Specific (Dis‐) Advantage: Smoking Bans and the Location of Foreign Direct Investment in the Tobacco Industry. *British Journal Of Management,* forthcoming.

Driffield, N.L., Mickiewicz,T. and Temouri,Y. (2013) Institutional reforms, productivity and profitability: From rents to competition?, *Journal of Comparative Economics*, Volume 41, Issue 2, May 2013, pp 583-600

1. **Knowledge transfer between parent and affiliate**

Bhaumik, S., Driffield, N.L. and Ying Zhou ( 2016) Country Specific Advantage, Firm Specific Advantage and multinationality - sources of competitive advantage in emerging markets: Evidence from the electronics industry in China. International Business Review, Vol. 25 (1), Part A, pp. 165–176

Driffield, N., Love, J.H. & Menghinello, S. (2010) The multinational enterprise as a source of international knowledge flows: Direct evidence from Italy. Journal of International Business Studies, 41(2): 350-359.

Mudambi, R. (2002). Knowledge management in multinational firms. Journal of Management Studies, 8: 1-9.

Mudambi, R., & Navarra, P. (2004). Is knowledge power? Knowledge flows, subsidiary power and rent–seeking within MNCs. Journal of International Business Studies, 35: 385-406.

Oddou, G., Osland, J.S. & Blakeney, R.N. (2009). Repatriating knowledge: variables influencing the “transfer” process. Journal of International Business Studies, 40: 181-199.

1. **Modelling knowledge flows and firm performance**

Defever, F., & Toubal, F. (2013). Productivity, relationship-specific inputs and the sourcing modes of multinationals. Journal of Economic Behavior and Organization, 94, 345-357.

Fang, Y., Wade, M., Delios, A., & Beamish, P. W. (2013). An exploration of multinational enterprise knowledge resources and foreign subsidiary performance. Journal of World Business, 48(1), 30-38.

Driffield, N., Love, J. H., & Yang, Y. (2016). Reverse international knowledge transfer in the MNE:(Where) does affiliate performance boost parent performance?. *Research Policy*, 45(2), 491-506.

Yong Yang Martins, P.S. and Nigel Driffield (2013) Multinational Performance and the Geography of FDI：Evidence from 46 Countries *Management International Review*, Vol. 53, No. 6. pp 763-794

Driffield, N Love, J.H. and Menghinello, S. (2010) The Multinational Enterprise as a Source of International Knowledge Flows: Direct Evidence from Italy. *Journal of International Business Studies,*. 41 (2) pp. 350-359