Where is the Boundary?

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The Boundary of a Business School

http://launch.stern.nyu.edu/

http://vimeo.com/43254588
“[T]he economic system is a whole for which the parts are connected and react on each other. An increase in the incomes of the producers of commodity A will affect the demand for commodities B, C, etc., and the incomes of their producers, and, by its reaction will change the demand for commodity A.”

What Does Game Theory Have to Say …

Prisoner’s Dilemma?

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<tr>
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<th>Strategy A</th>
<th>Strategy B</th>
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<tbody>
<tr>
<td>Strategy A</td>
<td>3, 3</td>
<td>1, 4</td>
</tr>
<tr>
<td>Strategy B</td>
<td>4, 1</td>
<td>2, 2</td>
</tr>
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Stick figure image from http://commons.wikimedia.org/wiki/User:Obsidian_Soul
What Does Game Theory Have to Say …

Dr. Pangloss?

Strategy A

Strategy B

2, 2

1, 1

3, 3

2, 2

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What Does Game Theory Have to Say …

Coordination!

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Example of a Coordination Problem

“To find several hundred different [automobile] manufacturers … benevolently engaged in co-operative competition, justifies … the optimism which sees the world as growing better.”

-- H.L. Barber, Story of the Automobile: Its History and Development from 1760 to 1917, A.J. Munson & Co., 1917

http://quod.lib.umich.edu/l/linchigh/x-lhc2828/lhc2828
The Value Net

Customers

Competitors

Business

Suppliers

Complementors

Reference: *Co-opetition*, by Adam Brandenburger and Barry Nalebuff, Doubleday 1996
If a game exhibits

- no coordination problems
- no externality problems
- no bargaining problems

then individual actions lead to the creation of the largest overall pie

The Invisible Man

“Students of law, economics, and politics lack the tools to look at their own society with any objectivity. What are they going to compare it with? They rarely, if ever, consult the vast knowledge of human behavior accumulated in anthropology, psychology, biology, or neuroscience. The short answer derived from the latter disciplines is that we are group animals: highly cooperative, sensitive to injustice, sometimes warmongering, but mostly peace loving. A society that ignores these tendencies can’t be optimal. True, we are also incentive-driven animals, focused on status, territory, and food security, so that any society that ignores those tendencies can’t be optimal, either. There is both a social and a selfish side to our species.”