ECO 540 Final Project One Milestone Three Rubric (5 pages)

Calculate the HHI (concentration ratio) for the overall domestic airline industry, both before and after the merger. You should demonstrate your full process for calculating the HHI; simply providing the end result is not sufficient for your calculations.

Specifically, the following critical elements must be addressed:

1. **Calculations Before Merger:** Calculate the HHI for the overall domestic airline industry before the merger.
2. **Calculations After Merger:** Calculate the HHI for the overall domestic airline industry after the merger.

Guidelines for Submission: Final Project Part One Milestone Three should follow these formatting guidelines: 5 pages with double spacing, 12-point Times New Roman font, one-inch margins, and citations in APA format.

Instructor Feedback: This activity uses an integrated rubric in Blackboard. Students can view instructor feedback in the Grade Center. For more information, review these instructions.

ECO 540 Final Project Part One Guidelines and Rubric

Overview

The final project for this course consists of two major components. The first component is the creation of a **case study briefing** document that focuses on the American Airlines and US Airways merger case study. You will submit a briefing document that focuses on this merger from the perspective of either American Airlines or US Airways. Within this document, you will address which models from this course are applicable to this study and calculate several ratios surrounding market power, applying game theory concepts from this course.

The body of the briefing document is analytical in nature. In it, you will identify likely outcomes and address how the firm can gain an advantage (e.g., negotiations, product decisions, etc.). The briefing document will focus on how the market structure and the firm's market share influence its ability to price its product (market power), and what decisions it might make to create a stronger strategy for competing efficiently in the market (e.g., compete on price, because it can also get the cost structure down due to size, concentrate on finding niche, concentrate on differentiating its products, concentrate on technological innovations, etc.). The project is divided into **three milestones**, which will be submitted at various points throughout the course to scaffold learning and ensure quality final submissions. These milestones will be submitted in **Modules Two, Four, and Five**. **The final product will be submitted in Module Six.**

In this assignment, you will demonstrate your mastery of the following course outcomes:

- Analyze static and dynamic games to determine their likely outcomes in an applied setting
- Identify opportunities for a firm to maximize profit in strategic business situations through the application of game theory concepts
- Evaluate the implications of imperfect information upon economic decisions and behaviors
- Determine applicable factors of market power and structure for their impact on a firm's strategic behaviors in making price and non-price decisions to maximize profit

Prompt

In game theory terms, Cournot quantity competition and Bertrand price competition are one-shot games. For this reason they are also called static games. In contrast, the Stackelberg model is a two-stage game, and the price war model is a repeated game. These are sometimes referred to as dynamic games. For this project, you should consider each of these models in terms of applicability to the merger and present a data-supported argument for why each model either does not apply or applies under very specific conditions.

Specifically, the following critical elements must be addressed:

I. **Background:** Provide a brief **historical background** on the firm you selected and explain the **key issues** that have led to the merger situation. This is where you will provide context for your applied setting before delving into your analysis.

II. Analysis: **Analyze static and dynamic games** to determine their likely outcomes in an applied setting.
   a) Explain **specific static and/or dynamic models** from this course that may be **applicable** to this case study and their likely outcomes.
   b) Calculate the HHI (concentration ratio) for the overall domestic airline industry, both before and after the merger. **You must correctly demonstrate your full process for calculating the HHI**; simply including the end result is not sufficient.

III. Opportunities: **Identify opportunities** for the firm to profit-maximize in strategic business situations, applying appropriate game theory.
   a) Explain what **opportunities** exist for the firm to profit-maximize.
   b) **Explain which static/dynamic models you identified** as appropriate for achieving profit-maximizing outcomes and why.

IV. Decision Making: Determine applicable factors of market power and structure for their **impact on a firm's strategic behaviors in making price and non-price decisions** to maximize profit.
   a) How are the calculations you made **applicable to the firm's strategic behaviors**?
   b) What type of decisions might the firm make to maximize **profitability**?

V. Implications: Evaluate the **implications of imperfect information** upon economic decisions and behaviors the firm will make, specific to this merger.

Milestones

Milestone One: *Background Submission*
In **Module Two**, you will submit a **brief historical background** of your chosen firm. In addition to providing background information, explain the key issues that have led to the merger situation. This assignment should be formatted as a 2–3-page Microsoft Word document. **This milestone is graded with the Final Project Part One Milestone One Rubric.**

Milestone Two: *Game Theory Analysis and Opportunities*
In **Module Four**, you will submit an **analysis of game theory and profit-maximizing opportunities**. Provide an analysis of static and dynamic game theory models of the final project merger, along with your analysis of opportunities to profit-maximize. This assignment should be formatted as a 3–4-page Microsoft Word document, including properly formatted game diagrams. **This milestone is graded with the Final Project Part One Milestone Two Rubric.**

Milestone Three: *Industry HHI*
In **Module Five**, you will submit your **calculation of the change in HHI** for the domestic airline industry, both before and after the merger. This assignment should be formatted as a 1–2-page Microsoft Word document. **This milestone is graded with the Final Project Part One Milestone Three Rubric.**

Final Submission: *Case Study Briefing*
In **Module Six**, you will submit your **case study briefing document**. It should be a complete, polished artifact containing **all** of the critical elements of the final product. It should reflect the incorporation of feedback gained throughout the course. **This submission is graded with the Final Project Part One Rubric.**

Deliverables