

ME 101: MANAGERIAL ECONOMICS

COURSE OVERVIEW

Professor: V. Brian Viard
Email: brianviard@ckgsb.edu.cn
Web page: bb.ckgsb.com

Note that there is an assignment for the first class. In addition, please read this document carefully. It contains important information.

Course Perspective

Managerial Economics applies the principles of microeconomics that are most relevant to managerial decision-making. It focuses on the ideas and methodologies of economics that facilitate analysis of the business environment in which firms operate and managers make decisions. These principles are critical for making decisions on production quantities, price-setting, entry or exit from an industry, capacity expansion, and interacting strategically with competing firms. They are also useful for understanding how non-market forces such as taxes, trade quotas, and externalities affect a firm's ability to compete. The goal is to teach you to think analytically about the basic economic factors that shape an industry and influence the choice of strategy in that industry. The principles will be relevant for many of the subsequent courses in your M.B.A., including marketing, finance, and accounting.

Course Requirements

Textbooks: Mankiw, G. M. *Principles of Economics*. South-Western Cengage Learning, Mason, Ohio.

I have chosen an introductory economics textbook in the hope that it will be accessible to those with and without an economics background. For students who have a background in economics I will be covering some more advanced material in class. The author, Greg Mankiw, is a Harvard University professor who served as Chairman of the Council of Economic Advisors from 2003 to 2005. He is widely considered one of the best authors of economics textbooks. Please note that this same textbook will be used in the Macroeconomics course so please hold onto the book.

Webpage: There is a class website on the CKGSB Blackboard system (bb.ckgsb.com). I will post many of the handouts there and also sometimes list sources for future reading if you are interested.

Grading:

| | |
|----------------------|-----|
| Class Participation: | 25% |
| Written Exercises: | 25% |
| Final Exam: | 50% |

Each of these requirements is discussed in more detail at the end of the syllabus.

Office Hours: In addition to official office hours, I am happy to meet to talk about the course. To set a time, please speak with me after class or contact me by email.

Course Schedule

There are four major components to the course. The first component, market analysis, concerns how firms and consumers interact in an industry to determine prices and to what extent firms can earn profits. We will also examine how government policies, such as taxes, affect these outcomes and the efficiency of markets. Firm behavior, the second component, examines how the cost structure of a firm and its industry are determined and how it optimally sets price and quantity of output. In the third component we examine the range of market structures a firm can face, what determines these structures, and how a firm can compete optimally within each. In this component, we also examine various ways in which a firm can price discriminate. Finally, using game theory, we examine strategic interaction among firms.

The schedule for the course follows. Note that I have not assigned dates to the topics so that we can maintain flexibility on the speed with which we cover them. Some topics may take longer than one class period and others may take less time. I will inform you at least a class in advance of the material that we will be covering so that you can prepare. We may not cover all of these topics or we may cover more depending on the speed of the class. For the first day of class please prepare Topics 1 and 2.

Ia. MARKET ANALYSIS

Topic 1. Introduction to Managerial Economics

Note: Assignment questions for this class are at the end of the syllabus and should be prepared for the first day.

Reading: Mankiw, “The Market Forces of Supply and Demand” (Chapter 4).
The Perfect Competition Game handout (posted on BB system).
This entire document.

Topic 2. Supply and Demand

Note: Assignment questions for this class are at the end of the syllabus and should be prepared for the first day.

Reading: Mankiw, “Elasticity and its Application” (Chapter 5).

II. FIRM BEHAVIOR

Topic 3. Costs and Production I

Reading: Mankiw, “The Costs of Production” (Chapter 13) and “Firms in Competitive Markets” (Chapter 14) – only read up to section “The Firm’s Short-Run Decision to Shut Down.”

Topic 4. Costs and Production II

Reading: Pindyck, R. S. and D. L. Rubinfeld, *Microeconomics*, 6th edition, Pearson Prentice Hall, Upper Saddle River, New Jersey. 2005. (Chapter 7, pages 240 – 247).

Topic 5. Profit Maximization

Reading: Mankiw, “Firms in Competitive Markets” (Chapter 14) – start reading at section “The Firm’s Short-Run Decision to Shut Down.”

Topic 6. Application (Firm Behavior)

Cases: The Aluminum Industry in 1994, HBS Case 9-799-129.
Aluminum Smelting in South Africa: Alusaf’s Hillside Project, HBS Case 9-799-130.

Ib. MARKET ANALYSIS

Topic 7. Government Policies

Reading: Mankiw, “Supply, Demand, and Government Policies” (Chapter 6) and “Consumers, Producers, and the Efficiency of Markets” (Chapter 7).

Topic 8. Application (Externalities)

Reading: Mankiw, “Externalities” (Chapter 10).

Case: Acid Rain: The Southern Company (A), HBS Case 9-792-060.

III. MARKET STRUCTURE

Topic 9. Monopoly & Price Discrimination

Reading: Mankiw, “Monopoly” (Chapter 15).

Topic 10. Oligopoly

Reading: Mankiw, “Oligopoly” (Chapter 17 in 5th edition, Chapter 16 in 4th edition) – only read up to section “Public Policy toward Oligopolies.”
Pindyck, R. S. and D. L. Rubinfeld, *Microeconomics*, 6th edition, Pearson Prentice Hall, Upper Saddle River, New Jersey. 2005. (Chapter 13, pages 473 – 480).

IV. GAME THEORY

Topic 11. Strategic Interaction

Reading: Pindyck, R. S. and D. L. Rubinfeld, *Microeconomics*, 6th edition, Pearson Prentice Hall, Upper Saddle River, New Jersey. 2005. (Chapter 13, pages 480 – 502).

Topic 12. Application (Game Theory)

Case: General Electric vs. Westinghouse in Large Turbine Generators (A), HBS Case 9-380-128.

Evaluation

Class Participation: (individual)

Developing your ability to speak in class is an important component of your business education. It is good preparation for expressing your ideas in business meetings you attend in your future careers. You are responsible for coming to class prepared to discuss the assigned material for that class. Many students find it helpful – and I encourage you – to discuss the material with your classmates prior to the class.

I will often ask for volunteers to speak in class but I will also “cold call” students to get their input. The purpose of cold-calling is not only to provide an incentive for you to prepare for class but also to ensure that the discussion is spread across the students in the class. If you are apprehensive about speaking in class I will provide some recommendations on the first day of class to help.

Quality of class participation is more important than quantity. Trying to maximize “air-time” is not the best strategy. Consider the following questions when assessing the quality of your participation:

1. Are the points relevant to the discussion? Are they linked to the comments of others and to the themes of the class? Do they significantly advance the discussion?
2. Do the comments add to our understanding of the situation rather than simply repeating facts?
3. Is there a willingness to challenge, in a constructive way, the ideas that are being expressed? Such contributions are particularly valued.

I do not require attendance; however if you are not in class you obviously cannot gain any participation credit for that class. I do not allow or require “make-up” work for a missed class. If you must miss class, most handouts will be available at the class website. Also, please arrive on time and stay from beginning to end. It is extremely disruptive to your classmates (and me) if you arrive late or leave while the class is in session.

Written Exercises: (groups of three)

There will be a few written exercises to be submitted during the course. These will be short case write-ups or problem sets. I will inform you at least one class in advance of their due date. Please work in groups of three members on these. The groups need not be the same for each of the exercises. The exercises are due at the beginning of class on the due date.

Final Exam: (individual)

The exam will cover all the material in the course. I will provide more details on the exam later in the course.

Honor Code

Since some of the assignments in this course are accomplished in groups, here is my policy on group work for my class:

1. I encourage you to discuss the material in preparing for class with any student. However, I expect you to present in class analyses that you personally participated in preparing.
2. For the written exercises, it is important that you demonstrate how well you and your group members understand the course concepts. For this reason, do not consult with anyone outside of your group for these.
3. No student's name should appear on a written exercise if the student has not substantively contributed to the production of the project. The contribution of all students need not be exactly equal for each assignment, but all students should have participated in a significant way to the production of the written exercise.

In preparing the written exercises, if you obtain analysis or information from any outside sources you should properly attribute this through references. Note that obtaining outside information should not be necessary for any of the exercises.

Assignments for First Day of Class

Here are the assignments for the first two topics which we will cover on the first day of class. You will not be required to hand these in but should come prepared to discuss them in class. You are welcome to prepare the assignments either on your own or in groups.

Topic 1. Introduction to Managerial Economics

Read the “Perfect Competition Game” handout (posted on BB). Come to class prepared to play the game as either an X- or Y-card holder (I will choose people randomly in class to play the game).

Topic 2. Supply and Demand

Read the articles “Price of Pu’er to ‘Remain Stable’” and “The Rewards of a ‘Drinkable Antique’” (posted on BB). Prepare the following questions about the articles to discuss in class. Where appropriate, graphically illustrate the answer in a supply and demand framework:

1. What factors do you think have caused the price for the same amount of pu’er tea to rise from 6 yuan to 100 yuan in 10 years?
2. What effect, if any, do you think the increase in the price of pu’er tea has had on the prices of other kinds of teas?
3. How does the increase in fake, or pirated, pu’er tea affect price levels?
4. How do you think the standards set by the Yunnan provincial government are likely to affect the price of pu’er tea?
5. What do you think will happen to the price of pu’er tea in the future?

Your firm sells its product for 8 yuan a piece and sells 5,000 units per month at that price. Your marketing manager informs you that her department estimates that for small changes in price, a 1% change in price results in a 4% change in the quantity sold (in the opposite direction):

1. What would you predict will happen to your total revenues if you lower price by 0.1 yuan?
2. What would you predict will happen to your total revenues if you lower the quantity you sell by 100 units?