Required Texts

1) Baye, Michael, Managerial Economics and Business Strategy, Irwin, Inc., 1997 (B&B)

2) Problems to be distributed.

3) Harvard Business School and other cases.

Course Description

This course develops an understanding of how a market-based economic system reconciles the separate needs of consumers and producers and provides an economic framework for managerial decisions. Additionally, the course provides tools of analysis and concepts which are used in the MBA program's functional fields. Centering on the basic concept of the business firm, it integrates the analysis of domestic and global market structures. Topics include pricing, output and quality decisions; the impact of productivity improvements on costs; quality-cost tradeoffs; market imperfection and the role of regulation.

Student Evaluation

The evaluation will be based on the following factors:

1. Mid-Term Examination 35%
2. Final Examination 40%
3. Project 15%
4. Homework and Class Participation 10%

For proper credit, homework assignments must be submitted by the dates specified by the instructor.
SYLLABUS

In reading the syllabus, please note that B&B refers to the text, Q refers to questions, and TP refers to Technical Problems in the Study Guide.

August 31  Introduction; Demand and Supply Analysis
Ç   Read: B&B, Chapter 1, 2
Ç   Problems: Handout #1, Study Guide, Chapter 2: TP #1, 2, 3, 4a

Individual and Market Demand
The Demand Curve, Elasticity of Demand, Implication of Price and Income Changes.
Ç   Read B&B, Chapter 3 (pp.92-105 optional)

Sept. 11  Relationship Between Demand and Revenue
Make-up Revenue Functions and Price Elasticity.
Labor day Ç   Read: B&B, Chapter 3
Ç   Handout Problems:  #2-10, Study Guide, Chapter 3: TP #1, 3
Case: "Pricing Color Xerox Copying Services."

Sept. 14  The Theory of Production
The Technology of Production, The Law of Diminishing Returns, Economies of Scale and Economies of Scope.
Ç   Read: B&B, Chapter 5
Ç   Handout Problems:  11-15, Study Guide, Chapter 5: Q #1, 2, 4; TP #1, 2.

Friday, Sept.25  Cost Analysis
1:00-2:45 The Relationship Between Production and Cost, Short Run vs. Long Run
Make-Up for Analysis, and Dynamic Changes in Costs, Transaction Costs and Firm
Ç   Read: B&B, Chapter 5
Ç   Handout Problems:  16-21, Study Guide, Chapter 5: Q#5, 6; TP #3, 5.
Case: "The Choice of Technologies."

Sept.28  The Internal Organization of the Firm and the Nature of Industries
Transaction Cost Analysis, Make or Buy Decisions, Principal-Agent Problems.
Ç   Read B&B, Chapters 6, 7
Ç   Problems: Study Guide, Chapter 6: Q #3, 4, 5; TP #1,2, Chapter 7: TP #1,2

Oct. 5
Oct. 12  MID-TERM EXAMINATION

Oct. 19, 26  Competitive Markets, Domestic and Global Market Performance
Competitive Markets, Supply and Demand Analysis, Exchange Rate
Determination, Tariffs and Quotas, Taxes and Subsidies, Ethical Implications of
Government Intervention.
Ç  Read: B&B, Chapters 2, 8 pages 272-286
Ç  Handout Problems: 22-26, Study Guide, Chapter 8: Q #2; TP #1
Ç  Teaching Notes: "Exchange Rate Determination" and "Tariffs and Quotas"

Nov. 2  Imperfectly Competitive Markets and Monopoly Power
Monopoly Pricing and Public Utility Regulation.
Ç  Read: B&B, Chapter 8, pages 286-313
Ç  Handout Problems: 27-31, Study Guide, Chapter 8: Q #3; TP #2, 3, 4

Nov. 9  Oligopolistic Markets
Game Theory and Competitive Strategy, Competition vs. Collusion, the
Prisoner's Dilemma.
Ç  Read: B&B, Chapters 9 pp. 321-331, Chapter 10 (pp. 373-390 optional)
Ç  Handout Problems: 32-36, Study guide, Chapter 9: TP #1, Chapter 10: Q #
1, 4; TP # 1, 2, 3, 4, 5
Teaching Note: The Right Game: Use Game Theory to shape a strategy.
Cases: Entry Barriers (A): Deep Pockets

Nov. 16  Special Topics in Pricing
Price Discrimination, Pricing of Durable Goods
Ç  Read: B&B, Chapter 11

Nov. 30  Presentation of Industry Studies
Some guidelines for an industry analysis.

Assume that you are an analyst employed by a company in a particular industry or by a consulting firm. You are asked to prepare an analysis of the industry for the purpose of advising your company or other clients whether they should undertake major investments or enter the industry. It is highly recommended that you select an industry in which you have a strong professional interest either because you are employed by this industry or wish to seek employment in this industry. Include in your analysis the recent history and any anticipated changes in:

- The forces driving the demand for the product.
- The nature of technology and the likelihood of major technological change.
- The nature of competition in the industry.
- The nature of the barriers to entry into the market and the implication of these for your client.
- Recent and likely changes in the size distribution of firms through merger or divestiture activity.
- The profitability of the industry.
- The impact of government policy or regulations on the industry.
- Implication of the analysis for the desirability of expanding your presence or investing in this industry.

As a primary source of information you should consult “The Structure of American Industry” by Walter Adams and James Brock, seventh and eighth editions. However, you should update this analysis with the latest developments affecting the industry as reported in the Wall Street Journal, The Economist, Business Week, The Financial Times and other similar publications. For additional guidance as to how to conduct an industry study you may want to consult Besanko, Dranove and Shanley “The Economics of Strategy” Chapter 7. The Adams book is on reserve in the library and a copy of Chapter 7 is also on reserve.

Your should work in teams consisting of five members each. The report should not be longer than five pages of text, not including tables of data or graphs. It should be professionally written and include a brief abstract. One or two members of your group will be expected to make a fifteen minute class presentation.