



C530 Economics for Managers, Fall 2015

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Text

Michael Baye and Jeffrey Prince, *Managerial Economics and Business Strategy*, 8th ed. McGraw-Hill/Irwin.

Course Description

Managers need to make decisions in complex settings that run the gamut from pricing to mergers and acquisitions to entering and leaving markets. Decisions are often responses to changes in the business environment or to decisions by competitors. In turn, internal decisions will be noticed by competitors and may provoke responses. Information is key to these decisions, and, in fact, much of the manager's problem is to know what information to look for.

Managerial economics is the branch of economics that focuses on decision making in firms. It provides powerful tools to aid decision making that are one skill that distinguishes the M.B.A., however inexperienced, from the manager who has just learned on the job. Our task will be to develop familiarity with these tools and acquire the more subtle ability to apply them to real situations.

Economic principles lie behind most business disciplines. Finance is clearly a branch of economics, though one so important that business schools almost always have more financial economists than all other economists combined. Accounting makes clever use of economic principles in meeting the challenge of dealing with practical data limitations. Price setting, often a marketing function, is based on the price theory developed by economists.

We will spend considerable time, in particular, in learning techniques useful for setting prices. This is often complicated because the optimal price will depend on various kinds of costs, on the demand for the product or service, and on the nature of competition in the particular industry, including how competitors and entrants will react. The degrees of vertical and horizontal

integration in a firm is another important strategic choices for management. The theory flows from economics. We will study how to evaluate these choices and also investigate how mergers, acquisitions, and divestitures should be valued, since this is the quickest way to change a firm's degree of horizontal or vertical integration .

Course Structure and Material Coverage

The course follows the ordering of ideas in the course text, which is not only by an Indiana University professor but is the standard textbook in managerial economics (and one reason we wanted to lure him away from Penn State!). We will begin with the basic concepts and definitions used in managerial economics. This will give us a common language with which to discuss the subsequent ideas. We will then turn to the study of supply and demand the two forces which determine market prices, and take a look inside the firm. At this point, the emphasis will be on developing the notions of cost minimization, essential if a manager is to pursue the goal of profit maximization.

We will then turn to a discussion of industry structures. Understanding the structure of their industry is essential for managers. Strategies that work in some industries will fail in others. We will discuss various rules of thumb for managers operating under different industry structures.

Next we take up the study of oligopoly. Many industries are oligopolistic (markets are dominated by a handful of firms) and they are uniquely interesting since the actions and strategies of managers depend on the actions and reactions of individual rival firms, not just of an anonymous market. To fully develop our strategies in an oligopolistic market you will have a short introduction to game theory (one of my own research areas), a powerful tool in decision making that can be widely applied in daily life, not just at work.

Finally, we will look at more complicated selling schemes which substitute for standard unit pricing. In studying all these topics we will use problems and cases to gain practice in using the tools and ideas and online discussions to highlight important points and answer questions.

Detailed assignments will be provided in the weekly folders. These assignments are aimed at helping you deal with the mathematical aspects of managerial economics and they help reinforce the basic concepts.

We will need to develop the practical aspects of economics. Economic theory, more than most business subjects, is useless even if you know the math and diagrams if you can't tell when to apply it.

To this end, several articles from publications such as *The Wall Street Journal* will be posted that highlight the concepts of the topic area we are studying in each particular week. I will post one or two questions in a discussion forum to get discussion going, but it is your input—questions, background, explanation, and argument---that is the key to a productive forum. The intention of the weekly discussions is to talk about the practical and “philosophical” aspects of the course material. Feel free to post whatever thoughts you have on the week's material. You can start your own topics, ask questions, pull in other outside articles, and comment from personal or professional experience)--- and then everyone will build off each other's thoughts. This is one reason why a course is better than self study.

Schedule

- Week 1 – Introduction to managerial economics (Baye & Prince Chap. 1)
- Week 2 – The forces of supply and demand (Baye & Prince Chap. 2)
- Week 3 – Investigating the demand function (Baye & Prince Chap. 3)
- Week 4 – Investigation of the firm's production process (Baye & Prince Chap. 5)
- Week 5 – Industry structure, conduct and performance (Baye & Prince Chap. 7)
- Week 6 – Midterm exam.
- Week 7 – Managing in different markets (Baye & Prince Chap. 8)
- Week 8 – Managerial behavior in oligopolistic markets (Baye & Prince Chap. 9)
- Week 9 – An introduction to game theory (Baye & Prince Chap. 10)
- Week 10 – Pricing strategies for firms with market power (Baye & Prince Chap. 11)
- Week 11 – Final exam

Live Class Meetings

We will have live class sessions over the core concepts in each weekly book chapter. These class sessions will focus on the core concepts that are essential to master as the foundations of the learning goals of the course and relevant chapter...so the idea is to focus in-depth on the core, so that the rest of the material comes to life more easily as you build on the foundation of the core concepts each week.

The live sessions will be conducted in Adobe Connect, <https://connect.iu.edu/erasmuse1>, on Thursdays at 9:00pm EST. The sessions are NOT mandatory, and will be recorded for all those who cannot attend the live session. To attend the session, you simply click on the link and sign in. You will have the ability to chat in questions, while we present the material via video and powerpoint sharing. The relevant powerpoint slides will be online in Canvas so you can look them over ahead of the sessions.

Course Requirements

Your progress will be assessed through your regular participation in the weekly online discussion forums, your performance on the weekly group memo assignments and two examinations, one at midterm and the final at the end. The weights and descriptions of each graded component are as follows:

Self-Tests (10%)

For each chapter there is a self-test link for you to take a little quiz. You can take it as many times as you want, and only the highest grade will be recorded, so this is essentially a pass/fail item to give you an incentive to self-monitor your progress steadily.

Weekly Discussion Forums (10%)

Each week on Monday I will kick off a new discussion thread on a news article relevant to the week's material. The intention of these discussions will be to give exposure to both practical and philosophical aspects of the course material. Please wait until I have opened the discussion with an initial post before posting your thoughts. Once the discussion is opened you will be expected to talk about the article and its applications throughout the week. I will point the discussion in different directions over the course of the week, but I hope the class's postings will contribute the majority of analysis of the article. You are expected to regularly participate each week by contributing your own thoughts on the discussion topics. Also, you are encouraged to start your own discussion topics within the threads whenever you can). The discussion will stay open to the following Sunday each week so that each of you can find some time into your schedule to get into the discussion.

I'll give a "so-far" grade on the discussion in the middle of the term and a final grade at the end.

Weekly Team Memo Assignments (30%)

At the beginning of the semester, assignment teams will be formed and these teams will be used throughout the quarter. Each week there will be an applied business problem to be solved by each team. You will communicate with your team members, solve the problem set and submit your assignment as a team. Only one member of the team needs to submit the team's finished assignment. The assignments are due each week by 10:00pm EST on Sunday via Canvas. These assignments are intended to reinforce the major concepts of the class material and help you gain exposure to the applied aspects of managerial economics.

At the end of the course, you will peer-evaluate your assignment team members. I will ask that each team member send me an email

rating his other team members' performance (this will be kept completely confidential). You will assign each group member a score of zero to one hundred to represent the effort you think your team member put forth, given the expectations you had for them based on your knowledge of their abilities and circumstances. A score of 100 shows that the group member completely lived up to your expectations. The rating of each team member derived from the average rating of his team members the team will be recorded in the gradebook as the ninth weekly assignment score out of 10 points. If a member averages 70 percent from his fellow members, the eleventh weekly assignment will be 7 out of 10. If you are happy with all team members' contributions, you do not need to send me a peer review. I will treat nonresponse as contentment.

The Midterm Examination (20%)

The midterm exam will occur in week 6 and will consist of a series of multiple choice questions and essay questions. The exam will test you on your knowledge of the material covered in weeks 1-5, and will be completed on an individual basis in a specified period of time within week 6.

The Final Examination (30%)

The final examination will occur in week 11 of the quarter and will consist of multiple choice and essay questions. The examination will test you on your knowledge of the material covered in weeks 7-10, and will be completed on an individual basis in a specified period of time within week 11.

Grading Policy

We will follow the Kelley School of Business MBA Grading Policy, which is a targeted distribution. The highest grade is an A, which is considered 'distinguished' and is earned by the highest 10% to 15% of the class. The grade of A- is considered to be 'excellent' and is earned by the next highest 25% to 35%. The grade of B+, which is considered to be a 'high pass' and is earned by the next highest 0% to 50%. The grade of B is considered 'passing' and is earned by the remainder of the class that did not earn the marks above. Grades of B- or C+ are considered 'marginal performance' and given only if a student's performance is well below the class average. In some quarters, nobody earns a B- or C+.

A Note on Email

We will use the KD/Canvas course mail system. Like most of us, I get overwhelmed with email in my normal email account and I

often get behind. I will give priority to KD/Canvas email and will be able to respond to it in a more organized and timely manner than email in my erasmuse@indiana.edu. So please send all emails through KD/Canvas.

Study Suggestions

People learn in various ways and the best approach for one student may not be the best for another. Let me suggest a strategy that seems good to me. Try it and then modify it to suit your own learning style. One thing I will emphasize for everybody: economics is not a good study-alone topic. Use our various electronic resources to “talk” with each other.

1. Start by looking over the weekly overview as it will tell you the relevant chapter to read and give you a general idea of the topics to be covered. Then look over the previous week’s discussion forum and vote for the “people’s choice” best comment.
2. Continue by looking over the PowerPoint slides for the week. Note: I’ve augmented these slides according to what I say in class when I teach the course on campus. The slides should provide you with almost everything you would get out of attending one of my lectures. (The remainder will be your questions, which you can ask on the discussion forums or via email).
3. Go over the assigned reading paying special emphasis to the concepts highlighted in the slides.
4. Work the problems without looking at the solutions. Check back to the readings and slides as needed to solve the problems.
5. Look at the solutions and make sure you understand any mistakes you made. E-mail any questions to me or to fellow students, or both.
6. Monitor the online discussion and contribute to it.
7. Review the reading and slides in light of the problem solutions and online discussion.
8. Take the online self-test quizzes.

Course Learning Objective

By the end of this course, students should be able to

- 1) identify a given firm's industry setting and/or oligopoly structure based on their integration of fundamental economic tools and analytics,
- 2) understand how market forces, including but not limited to consumer expectations, rivals actions, and internal cost structures, affect optimal decisions pertaining to price and production targets,
- 3) assess and evaluate different pricing strategies based on their effectiveness at achieving stated goals of the firm, be it profit maximization, achieving market share dominance, or other competitive advantage.

This learning objective supports learning goals 1 (Internal Structures and Operations), and 3 (Integration of Tools and Techniques of Business) of the Kelley Direct MBA Program.

Kelley Direct MBA Program Learning Goals

Goal 1: Internal Structures and Operations

Demonstrate a thorough understanding of the internal structures and operations of businesses ranging in size from small to multinational.

Goal 2: External Environments

Demonstrate a thorough understanding of how the interplay between business and various external forces, both domestic and international (e.g., regulatory, competitive, environmental and non-governmental interest groups) shape management decisions, strategies and outcomes.

Goal 3: Integration of Tools and Techniques of Business

Integrate and apply the tools and techniques of business, drawing on a broad-based knowledge of the major functions (accounting, economics, finance, information systems, marketing, operations management, and strategy) to solve complex business problems and make sound business decisions in both the domestic and the global arenas.

Goal 4: Professional Skills

Utilize various human relation skills effectively, both within and across cultures, including 1. leadership; 2. oral and written communication; 3. teamwork and collaboration; and 5. reflective self assessment.

Goal 5: Legal and Ethical Considerations

Recognize legal and ethical problems that arise in the domestic and international environment and choose and defend solutions to those problems.

Goal 6: Internationalization

Recognize and reconcile cultural differences when solving complex business problems.