

MBA5001: Managerial Economics: Course Outline

Academic Year: 2007/08
Instructor: Professor Lim Chin

*Tentative course outline
Based on previous
semester*

Aims & Objectives

The aim of this core course is show that microeconomic analysis of the firm and the markets is a powerful tool in bring clarity to managerial decision.

Topics include

- theory of consumer behavior
- choice under uncertainty
- theory of the firm
- costs of production
- analysis of competitive markets
- Market power: its implication on pricing behavior
- monopolistic competition
- oligopoly
- game theory and applications (Managing risk & uncertainty, managing conflict & cooperation, managing risk & uncertainty, managing asymmetric information)
- externalities and public goods

MODES OF TEACHING AND LEARNING

TOP

Instruction in the course is through lectures. Textbooks are assigned, but the lectures are crucial to provide clarity to show how tools of economic analysis could be powerfully applied to real world problems.

Another important mode of learning, especially in the area of economic analysis, is to do several problem sets. Weekly problem sets will be distributed and they contribute to continual assessment for the module in addition to mid term test and the final exam.

SYLLABUS

TOP

Topics to be discussed

1. Markets and Prices

- Use and limitation of microeconomic theory
- Positive and normative analysis
- What is a market: competitive vs non-competitive markets
- Market mechanism
- Supply and demand
- Elasticities of supply and demand
- Government intervention in markets

2. Consumer Behaviour

- Consumer preferences
- Budget constraints
- Consumer choice
- Revealed preferences
- Individual demand
- Market demand
- Consumer surplus
- Choice under uncertainty: diversification, insurance, and value of information
- Demand for risky assets: trade-off between risk and return

3. Production and Costs of Production

- Technology: returns to scale, law of diminishing returns
- Short run cost functions
- Long run cost functions

4. Profit Maximization & Competitive Supply

- Marginal Revenue and Marginal Costs
- Profit Maximizing output and supply curve
- Market supply curve
- Long run output and long run supply
- Contestable Market

5. Analysis of Competitive Markets

- Consumer Surplus
- Producer Surplus
- Measure of Market efficiency
- Government intervention and impact on market efficiency

6. Market Power: Monopoly and Monopsony

- Monopoly and monopoly power
- Sources of monopoly power
- Social costs of monopoly power
- Monopsony and monopsony power
- Antitrust laws and market regulation

7. Pricing with Market Power

- Capturing consumer surplus
- Price discrimination
- Advertising
- Auctions

Monopolistic Competition and Oligopoly

- Monopolistic competition
- Oligopoly
- First mover advantage
- Price competition with homogenous and differentiated products
- Competition vs Collusion

8. Game Theory & Applications

- Managing conflict and cooperation
- Managing risk and uncertainty
- Managing asymmetric information
 1. Adverse selection
 2. Screening
 3. Signalling
 4. Moral Hazard
 5. Principal Agent problems and contract design

9. Externalities and Public Goods

- Externalities
- Externalities and property rights
- Externality and market failures
- Correcting market failures
- Common Property resource
- Public goods
-

- Assignments/quizzes= 20%
- mid-term test= 30%
- final examination= 50%

| TEXT AND READINGS | | | TOP |
|--|--|-----------|-----|
| Title/Author | Edn/Year/ISBN | Publisher | |
| COMPULSORY READINGS | | | |
| 1. <u>Microeconomics</u> by Robert S. Pindyck & Daniel L. Rubinfeld | Edition: 6 th Year: 2005 (or latest edition) | Prentice | |
| Other Reference Books | | Norton | |
| 2. <u>Microeconomics for Managers</u> by David M Kreps, Norton, 2004 | Edition: 1st Year: 2004 | | |