

**National University of Singapore
NUS Business School
Term I, 2008-2009**

BMA5001 - MANAGERIAL ECONOMICS

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COURSE OVERVIEW

Managerial Economics is concerned with thoroughly exposing the students a rigorous foundation in microeconomics which becomes the basis for a way of thinking about managerial problems.

The course aims to develop students' capacity to analyze the economic environment in which business entities operate and understand how managerial decisions can vary under different constraints that each economic environment places on a manager's pursuit of its goals, focusing on analyzing the functioning of markets and the economic behavior of firms and other economic agents. In addition to increasing their understanding of economic reasoning which can inform and develop useful insights for practicing business decision makers, the course equally aims to help students better recognize how to apply modern principles and methods of microeconomics to real-world business problems in different contexts and eventually better deal with problems of practical relevance to managers.

Enhancing the students' appreciation of the analytic power and practical applicability of microeconomic theory being the main objective, the course accordingly is concerned with both theory and practice: the theory serves to sharpen analytical skills in a rigorous microeconomics perspective, and the practice will give experience in the application of principles and techniques.

To bring real aspects of managerial decision making process to the classroom, a large portion of the coursework will be devoted to discussing multiple practical cases and examples from various sources. Students are encouraged and expected to develop intuitions behind each economic concept, the theory to formalize it and, more importantly, the ability to apply the fundamental economic concepts to the complex business realities. Some related concepts and issues in international trade and macroeconomic area are also introduced. Knowledge of basic algebra and calculus skills are assumed throughout the course.

TEACHING/LEARNING MATERIALS

1. Lecture Notes prepared by the instructors

The lecture notes will be uploaded in the IVLE site before each class. Students are expected to visit the site on regularly, download and preview the materials before they come to the classes.

2. Textbooks

- Recommended : *Microeconomics*, 6th ed., Robert S. Pindyck & Daniel L. Rubinfeld, Prentice Hall, 2004.(Referenced as PR)

3. Homework Assignments

Homework assignments are concerned with providing self-testing opportunities of your knowledge after your learning. However, these problem sets are not solely for an assessing of your knowledge but rather a challenging set of comprehensive questions which will require a solid understanding of the course materials and an ability to reshape them. As such, homework assignments should be taken as an independent learning vehicle per se, and students are expected to devote a lion's share of their time to doing the homework. At four points of the semester students will submit homework sets that will be graded. Once homework is submitted, the instructor will post solutions on IVLE website.

4. Case Discussion

Students are expected to apply their learning to the real situations through the case studies. Cases – one for each topic – based on the real economic/business practices from various sources will also be made available through the IVLE site. Articles can come from academic journals, newspapers, professional magazines, internet sites and others. Each article comes with a set of discussion questions prepared by the instructor to fit with each of the course topics. Students will be asked to challenge these cases as a team and present their work during the very next class after each corresponding topic is covered. The teams will be the same as those for the homework assignments. Each team will present twice during the term. The first presentation will be from the case studies provided by the lecturer. Each team will also make a second presentation which is a topic that they come up. This topic will be a common empirical occurrence that the team will analyze using the tools learned in this course. Students will select a topic, and the lecturer will provide guidance and help in finding source articles.

Students will be asked to challenge the cases as a team for in-class discussions. Although everyone is expected to come to the classes being prepared for discussion, each team is to formally present its analysis and lead the discussion for one case during the course. After presentation, each team is asked to upload its presentation materials on 'Case Discussion' folder off the IVLE site.

5. Class Participation

Students are expected to regularly instigate and participate in classroom lectures through asking questions to develop understanding and to also bring insights from their practical experience. IN addition, students will also participate in several classroom experiments. These experiments are designed to highlight and give insight into the behavioral and empirical relevance of the managerial economic models presented in the course. Students who perform better in these experiments will receive greater marks for this activity.

ASSESSMENT

1. Homework Assignments: 10%
2. Case Discussion 15%
3. Class Participation: 10 %
4. Midterm Test: 25 %
5. Final Exam: 40 %

Note on the Assessment Category 1 & 2:

The assessment categories 1 and 2 in the above – homework and case discussion – will be based on group-work within each study-team. For these, each student is expected to choose her/his own partners and make up a study/project team. **Each team is to comprise 7-8 members. (The best practice would be: each starts by sub-teaming in three or four and combine with the other sub-team to make a solid study/project team of seven or eight members.) Each team's leader is asked to email me about who the team members are.**

All the team members are expected to work cooperatively as a group, all of whom receive the same evaluation for their work regardless of the individual variation in their contribution. You all are possibly subject to a 'Morally Hazardous' situation and will be practicing how to overcome such economic problem as well.

Course Outline

Temporary and subject to Change

Lecture 1: Introduction to Managerial Economics, and the Basics of Supply and Demand

Introduction (Chapter 1)

Key themes of the course

Basic microeconomic themes

Economic decision makers; objectives and constraints

Definition of Markets and Prices

Supply and Demand, and Market Equilibrium (Chapters 2 sections 1-3, 7 and Chapter 9)

Definition of Supply and Demand

Market Equilibrium and Comparative Statics

Analysis of Market Distortions

Lectures 2 and 3: Mathematical Review and Theory of Consumer Behavior

Mathematical Review (Notes provided by Lecturer)

Elasticities (Chapters 2 sections 3 and 4)

Consumer Behavior (Chapters 3 and 4)

Lecture 4: The Production and Cost of the Firm Theory (Chapters 6 – 7)

Lecture 5: Profit Maximization and Competitive Supply

Characteristics of Perfect Competition

Profit Maximization and Optimal Output Decision

Long Run Competitive Outcomes

Lecture 6: Monopoly Power and Simple Pricing Strategies (Chapter 10)

Monopolist's Output Decision and Pricing Rule

Single-Plant Monopoly

Multi-Plant Monopoly

Note: This lecture contains less material in case we fall behind

Lecture 7: Sophisticated Pricing Strategies with Market Power (Chapter 11)

First-, Second-, and Third-Degree Price Discrimination and Applications

Two-Part Tariffs

Bundling

Lecture 8: Product Differentiation and Monopolistic Competition (Chapter 12)

Characteristics of Monopolistic Competition

Short Run and Long Run Equilibrium in a Monopolistic Competition

Lecture 9 and 10: Introduction to Game Theory (Chapters 12 and 13)

Simultaneous Move: Cournot Model

Sequential Move: Stackelberg Model (First Mover Advantage)

Solution Concepts

Managerial Economic Applications

Lectures 11 and 12: Game Theory and Competitive Strategy (Chapters 12 and 13)

Oligopoly Markets

Price and Quantity Competition

Collusion and Cooperation

Lecture 13: Uncertainty and Information (if time allows) (Chapters 5 and 14)

Risk and Expected Utility

Insurance Problem

Moral Hazard Problem (Hidden Actions)

Principal-Agent Problem and Value of Information

Adverse Selection Problem (Hidden Information)

- Lemon Markets

- Insurance