

BPUB 250

Undergraduate Managerial Economics

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This course introduces students to “managerial economics,” the application of microeconomic theory to management problems. Microeconomic theory is a remarkably useful body of ideas for understanding and analyzing human behavior in a variety of contexts. My goal in this course is to get you to internalize this body of theory well enough so that you can analyze management – as well as other - problems. While this is a “tools” course, we will be mindful of applications, particularly business applications, throughout the course. We will depart from usual microeconomic theory courses with a greater-than-usual emphasis on prescription, as opposed to description. For example, we will focus on profit maximization as a management goal rather than simply a foregone conclusion.

The first major task in the course is the development of the theory of supply and demand underlying the competitive model. This serves two purposes. First, the competitive model serves as a benchmark for evaluating other market structures (monopoly, oligopoly, monopolistic competition). Second, understanding the components of the competitive model (demand and supply) is extremely useful to managers. Outside of the purely competitive context, an understanding of demand is essential to pricing and product positioning decisions. The concept of supply, and the supply curve, provides an invaluable framework for thinking about firm costs. After presenting the competitive model we turn to other market structures more like those encountered by typical firms (monopoly, oligopoly, monopolistic competition). We will spend some time on microeconomic lessons on the development and use of market power, as well as strategic interaction among firms. Finally, we will spend some time on the theory of market failure. Even – especially? – managers need to understand the limits of markets.

Prerequisites: students need to have taken or waived economics 1. Students must also be familiar with derivatives, which – believe it or not – make this course much easier. Don’t worry if your math is rusty, because we’ll spend a session reviewing relevant math.

Readings: The textbook for this course is Microeconomics, by Robert S. Pindyck and Daniel L. Rubinfeld, fifth edition, as well as a few additional readings.

Requirements: Grades in this course depend on problem sets (10%), a midterm (30%), a paper (10%), and a final (50%). Each student is allowed one late problem set. Beyond this I will accept no late problem sets, nor will I give make-up exams. **The midterm is in class on Monday, February 25th.** The paper may be handed in as early as **Monday April 1st**, but you have an automatic extension until the last day of class, **Wednesday, April 17th**. The problem sets are due at the **start** on selected dates roughly every two weeks (see the schedule below). They are designed to give you practice working with the material. Accordingly, they are graded (pass/fail) based on apparent effort, not accomplishment.

Course Outline

INTRODUCTION

Required Readings

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| 1. Introduction to Microeconomics | Chapter 1 |
| 2. Lightning Review of Supply and Demand | 2.1-2.6 |
| 3. Mathematics of Optimization | class notes |

THE COMPETITIVE MODEL & CONCEPTUAL TOOLS

Utility and Demand

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|---------------------------------|---------|
| 4. Theory of the Consumer | 3.1-3.5 |
| 5. Individual and Market Demand | 4.1-4.5 |

Cost and Supply

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|---|---------|
| 6. Theory of the Producer | 6.1-6.5 |
| 7. The Cost of Production | 7.1-7.4 |
| 8. Profit Maximization and Competitive Supply | 8.1-8.8 |

PUTTING IT TOGETHER

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| 9. Analysis of Competitive Markets | 9.1-9.6 |
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INTERMEDIATE MARKET STRUCTURES & COMPETITIVE STRATEGY

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| 10. Monopoly and Monopsony | 10.1-10.7 |
| 11. Pricing with Market Power | 11.1-11.6 |
| 12. Intermediate Market Structures | 12.1-12.7 |
| 13. Game Theory & Competitive Strategy | 13.1-13.8 |

MARKET SUCCESS AND MARKET FAILURE

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|----------------------------------|-----------------|
| 15. Efficiency | 16.2-16.6 |
| 16. Externalities & Public Goods | 16.7, 18.1-18.5 |
| 17. Uncertainty | 5.1-5.3 |
| 18. Asymmetric Information | 17.1-17.4 |

I recommend that you read the relevant sections of the textbook before the lecture.

BPUB 250 Course Schedule and Key Dates

(The topic schedule is approximate and will be updated at the instructor's website during the term)

<i>session</i>	<i>date</i>	<i>action</i>	<i>session topic(s)</i>
1	Monday, Jan. 7		Introduction to Microeconomics;
2	Wednesday, Jan. 9		Lightning Review of Supply and Demand
3	Monday, Jan. 14		Mathematics of Optimization, +
4	Monday, Jan. 21	MLK day – no class	Theory of the Consumer
5	Wednesday, Jan. 23	Problem set 1 due	
6	Monday, Jan. 28		Individual and Market Demand;
7	Wednesday, Jan. 30		Discuss supplemental reading 1
8	Monday, Feb. 4		Theory of the Producer
9	Wednesday, Feb. 6	Problem set 2 due	
10	Monday, Feb. 11		The Cost of Production
11	Wednesday, Feb. 13		
12	Monday, Feb. 18		Profit Maximization and Competitive Supply
13	Wednesday, Feb. 20	Problem set 3 due	
14	Monday, Feb. 25	Midterm in class	Analysis of Competitive Markets
15	Wednesday, Feb. 27		
16	Monday, Mar. 4		Pricing with Market Power
17	Wednesday, Mar. 6		Monopoly
18	Monday, Mar. 18		Price Discrimination
19	Wednesday, Mar. 20	Problem set 4 due	Monopolistic Competition
20	Monday, Mar. 25		Discuss supplemental reading 2
21	Wednesday, Mar. 27		Oligopoly
22	Monday, Apr. 1	May hand in paper	Game Theory & Competitive Strategy
23	Wednesday, Apr. 3	Problem set 5 due	Discuss supplemental reading 3
24	Monday, Apr. 8		Discuss Supplemental Reading 4
25	Wednesday, Apr. 10		Efficiency
26	Monday, Apr. 15		Externalities & Public Goods
27	Wednesday, Apr. 17		Asymmetric Information
28	Monday, Apr. 22		Discuss supplemental reading 5
29	Wednesday, Apr. 24	Problem set 6 due;	Uncertainty
30	Monday, Apr. 29	Must hand in paper	

Additional Readings

1. Joel Waldfogel, "The Deadweight Loss of Christmas." *American Economic Review*, 1993 [available at www.jstor.org]
2. A.M. Spence, "Product Differentiation and Welfare. *The American Economic Review*, Vol. 66, (May, 1976), pp. 407-414. [available at www.jstor.org]
3. Jeffrey Milyo and Joel Waldfogel, "The Effect of Price Advertising on Prices: Evidence in the Wake of 44 *Liquormart*." *American Economic Review*, December 1999.
4. Steven T. Berry and Joel Waldfogel, "Do Mergers Increase Product Variety? Evidence from Radio Broadcasting." *Quarterly Journal of Economics*, 2001.
5. Milton Friedman, "The Role of Government in a Free Society."