

MBA COURSE SYLLABUS

Course Title	MANAGERIAL ECONOMICS
Professor	Ingo BÖBEL, Dr. rer. pol., Dr. rer. pol. habil.
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Course Number	ECON 611
Credits	3
Course Schedule	FALL 2006 Term 1
Course Length	32 hours
Location	Gildo Pastor Center/MBA 2 Room
Course Description	Sound economic analysis has never been more important - regardless whether the decision-making unit is an individual, household, firm, non-profit organization, or government. We use a modern treatment of economic theory to help students both understand and improve the managerial decision-making process whereby we concentrate on microeconomic topics of particular importance. The integrative approach used in this course demonstrates that important managerial decisions are interdisciplinary as effective management is seen to involve an integration of the accounting, finance, marketing, personnel and production functions as well as the influence of political, social, legal (regulatory), environmental and technological issues. Therefore, the business firm is treated as a unified whole, rather than a series of discrete, unrelated parts
Objectives	<ol style="list-style-type: none">1. Provide a solid foundation of economic understanding and the “economic way of thinking” for use in strategy and managerial decision making.2. Understand the basic forces of supply and demand. We discuss how demand and supply interact to determine the quantity of goods traded in a market and the price paid for those goods, with special attention to the way that external events influence the quantity traded and the price paid.3. Understand market structure analysis, which provides a foundation for studying the business' external landscape and for examining the pricing practices needed for successful management. Discussion of the important benchmark of perfect competition, in which equally matched firms compete so vigorously and market entry is so easy that no firm earns more than its cost of capital.4. Exploration of ways in which real markets depart from perfect competition. These departures lie at the heart of long-run profitability. In this context we concentrate on the extreme case of pure monopoly.5. Examination of the role of government in the market

economy. This requires a careful examination of regulation and antitrust law.

Teaching Philosophy:

The course is taught through a combination of readings, lectures, discussions and exercises.

Attendance:

The participation grade is based on each student's class preparation prior to class, active class participation during class, group assignment participation and attendance. Attendance is compulsory and will be taken at each class.

One point will be deducted from the student's final grade for EACH absence (partial or complete) from a course without the advance clearance of the Professor(s) and MBA Director. It is ultimately the student's responsibility to make sure all of the work for each course is completed.

Grading:

- Case study (individual) 20%
- Class participation (attendance, added value) 20%
- Homework Assignments incl. Quiz 20%

Grade

- Final Exam 40%

Grades are reported at the end of each term.

Grade points are assigned to letter grades for each unit of course credit:

H Clearly superior work

PA Superior work with minor errors;

PB Work that meets the average expectations for the class;

PC Work that meets the average expectations for the class with minor errors;

LP Work that is marginally acceptable;

NP Failure to satisfactorily complete coursework.

Course Materials:

Textbook:

Ivan Png, Managerial Economics, 2nd. ed., Blackwell Publ. 2002

This syllabus can also be found at the author's webpage:

<http://www.comp.nus.edu.sg/~ipng/mecon/adopt.htm>

A good additional source that covers the economic fundamentals is:

M Parkin, Economics, 7th. ed, Boston: Addison Wesley 2005

In addition to the textbook by Parkin you can also use any other standard Economics textbook (such as P. A. Samuelson and W. D. Nordhaus, Economics, 18th. ed, McGraw Hill 2005) or the IVY-Software package "Fundamentals of Economics", 2005 (booklet and CD-Rom) that we used in the PreMBA session.

Course Outline

All chapter numbers refer to the textbook by Ivan Png

Week 1: Sep. 11, 12, 14

Read: Ch. 1, 2, 3

Introduction to Managerial Economics

The Nature and Scope of Managerial Economics: the economic approach to business decisions.

Some qualitative preliminaries in the managerial decision making process:

How to make the right choices?;

Cost, value and price as the major determinants for creating economic profit.

Markets: Competitive markets, market power, imperfect markets.

Foundations of Demand Analysis: A Model of a Competitive Market

Individual Demand: Construction; Slope; Preferences; Law of Demand; Demand Curve; Demand and Income; Income Changes; Normal vs. Inferior Goods; Other Factors in Demand; Complements and Substitutes; Advertising; Durable Goods.

Market Demand: Construction; (Market) Buyer Surplus; Business Demand: Inputs; Demand

The Concept of the Elasticity

Own Price Elasticity of Demand; Construction and Properties; Intuitive Factors; Elasticity and Slope.

Other elasticities: Income and Cross-Price Elasticities; Advertising Elasticity; Adjustment Time: Durables and Non-Durables

Class activity: Discussion of course syllabus (content, goals, requirements). Please make sure that you have the required textbook!

Discussion of examples and cases (contained in the textbook chapters) and end-chapter questions and problems

Homework: Solve problem sheet (to be handed out in class)

Week 2: Sep. 18, 19, 21

Read: Ch. 4

The Firm and the Supply Decision

The Production Function

Inputs and Outputs, marginal products, diminishing returns to an input

From the Production Function to Cost Curves

Supply, Output and Costs: Short Run Costs; Fixed vs. Variable Costs; Other Key Concepts: Marginal Cost and Average Cost;

Technology; Short Run Individual Supply; Production Rate; Break even;

Individual Supply Curve.

Long Run Individual Supply: Long Run Costs; Production Rate; Break even

Market Supply: Short Run vs. Long Run

Seller Surplus: Price vs. Marginal Cost

Elasticity of Supply

Price Elasticity; Properties; Intuitive Factors

Class activity: Discussion of examples and cases (contained in the textbook chapters) and end-chapter questions and problems

Homework: Solve problem sheet (to be handed out in class)

Week 3: Sep. 25

Quiz (60 Minutes)

Sep. 26, 28

Read: Ch. 5 and Ch. 6

Competitive Markets

Perfect Competition: Definition and Necessary Conditions: Homogeneous Product; Many Buyers and Sellers Arguments; Free Entry and Exit; Equal Information;

Market Equilibrium: Demand and Supply; Excess Supply and Excess Demand

Class activity: Discussion of examples and cases (contained in the textbook chapters) and end-chapter

questions and problems

Homework: Solve problem sheet (to be handed out in class)

Week 4: Oct. 2, 3, 5

Read: Ch. 5, 6, and 7

Competitive Markets Continued

Shift in Supply: Equilibrium Change; Price Elasticities

Shift in Demand

Adjustment Time: Short-Run vs. Long-Run Analysis;
Price and Quantity over Time

Why Governments Control Prices:

Price Ceilings and Price Floors (read relevant pages in **ch. 6!**): Why Price Ceilings and Price Floors Cause Inefficiency

Market Power

Costs Revisited: Economies of Scale; Fixed and Variable Costs in the Long Run; Marginal and Average Costs; Diseconomies of Scale; Strategic Implications; Economies of Scope: Joint Costs; Strategic Implications; Diseconomies of Scope; Opportunity Cost: Alternative Courses of Action; Definition; Sunk Costs; Sunk vs. Fixed Costs

Class activity: Discussion of examples and cases (contained in the textbook chapters) and end-chapter questions and problems

Homework: Solve problem sheet (to be handed out in class)

Week 5: Oct. 9, 10, 12

Read: Ch. 8

Monopoly

The Meaning of Monopoly: Sources of Market Power; Monopsony

Monopoly Pricing: Revenue; Costs; Profit-Maximization; Demand and Cost Changes; Planning

Horizon;
Advertising: Benefit of Advertising; Profit-Maximizing Advertising.

Market Structure: Effects of Competition; Potential Competition; Lerner Index; Restraining Competition: Cartels; Enforcement; Horizontal and Vertical Integration

Class activity: Discussion of examples and cases (contained in the textbook chapters) and end-chapter questions and problems

Homework: Solve problem sheet (to be handed out in class)

Week 6: Oct. 16, 17, 19

Read: Ch. 14, Article by M. Porter, What is Strategy?

Understanding Oligopoly
Collusion
Strategic Implications: What is Strategy?

Understanding Monopolistic Competition

Regulation of Markets

Introduction; Natural Monopoly; Government Ownership; Price Regulation (Marginal Cost Pricing); Rate of Return Regulation
Potentially Competitive Market
Competition Laws
Structural Regulation

Class activity: Discussion of examples and cases (contained in the textbook chapters) and end-chapter questions and problems

Homework: Solve problem sheet (to be handed out in class)

Revision for final exam

Week 7: Oct. 23 FINAL EXAM (Oct. 23)

I recommend to consult a number of reference books and

Additional Resources

articles which might be of valuable help:

HBS case “A Note on Microeconomics for Strategists”
(case 9-799-128)

M. Hirschey, Fundamentals of Managerial Economics, 7th
ed., Mason: Thomson-South-Western 2003

M. E. Porter, Competitive Strategy, 2nd. ed., New York:
The Free Press 2000

M. E. Porter, What is Strategy?, HB Review Nov./Dec.
1996

L. M. B. Cabral, Industrial Organization, Cambridge,
Mass.: MIT Press, 2002

M. Neumann, Competition Policy: History, Theory and
Practice, Cheltenham: E. Elgar 2001

S. Martin, Industrial Organization - A European
Perspective, Oxford University Press 2001

D. Salvatore, Managerial Economics in a Global
Economy, 4th ed., Ft. Worth: Harcourt College
Publishers, 2002

William F. Samuelson and Stephen G. Marks, Managerial
Economics, 3rd ed., Ft. Worth: The Dryden Press, 1999

Charles W. L. Hill, Global Business Today, Boston:
Irwin McGraw-Hill, 1998

See our IUM librarian, Ms. Lydia Porter, to get the access
password to the EBSCO database of academic journals.

Sept. 2006

Revision Date

Disclaimer: This outline is a guideline and subject to change at the professor's discretion.

*All assignments should be handed in professional manner, with coverpage that includes the
student's name and internet address*

LATE ASSIGNMENTS AND PROJECTS ARE NOT ACCEPTED