

TEXAS MSF
BA 380S: MANAGERIAL ECONOMICS - MICROECONOMICS
SYLLABUS

FALL 2015

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Course Objectives

Economics is a misunderstood and, recently, much maligned field. These two factors are not unrelated, as those that disparage the work of economists often do so from a perspective indicating that they do not fully understand the message being delivered. At its core, economics can be characterized as a behavioral science. Economists attempt to understand and predict the behavior of humans, either individually, or collectively in terms of markets, firms, organizations or entire nations. Human behavior is motivated by many divergent factors, and so it should not be too surprising that economists often “get it wrong” with their models or their forecasts – modeling and predicting human behavior is difficult, because the behavior of human beings is often complex and unpredictable!

However, economists have contributed greatly to society’s understanding of the functioning of markets, of the effects of policy, of the applications of incentives, and of many other things. It does so by reducing problems faced by economic actors into generalized “models” of the behavior of economic actors (people, firms and organizations, nations, etc.) down to their essential elements to as to rigorously investigate the environment faced by economic actors. Economists use analytical methods that are often criticized as “oversimplified” and not flexible enough to address the myriad of possibilities faced by economic actors. This criticism is not incorrect, but is misguided. Economists distill broad problems down to their most relevant underlying factors, and develop models that provide tools to analyze otherwise complex phenomenon. No one claimed that every model would be applicable to every circumstance; just that the models provide a foundation by which practitioners may expand and amend the model to fit individual circumstance. Over the course of this semester, you will be introduced to several concepts and models that are intended to assist your own decision-making process.

The course is divided into two discrete sections: macroeconomics and microeconomics, the former of which will also discuss issues in international economics. Macroeconomics is the study of national economies and the broad economic forces that can influence the performance and characteristics of financial markets. For example, unemployment, inflation, monetary policy, fiscal policy, and international trade are important factors in the economies of any nation, and understanding these topics is essential to a complete understanding of financial markets and securities.

Microeconomics is the study of consumer and organizational behavior, primarily businesses (or “firms” as we say in economics). This portion of the course is intended to provide the foundations of a framework that you can utilize to efficiently and competently understand the microeconomic forces that impact financial markets. It will emphasize marginal analysis, and will introduce such topics as profit maximization, utility maximization, the role of information, risk and uncertainty, market structures, and game theory and strategy. Of course, our focus in this program will always be applications of microeconomic principals to topics in finance and the operation of financial markets, and we will consider such applications as we progress. But this course is also intended to bring you up to speed with conventional economic models, and many of our applications will focus accordingly on specific economic examples that are not directly associated with a financial application. However, since financial performance often depends critically on economic performance, an understanding of microeconomics is also extremely useful for understanding the financial implications of economic phenomena.

Materials

For the macroeconomics portion of the course, there is really no suitable textbook. We will instead rely on cases and notes produced by faculty at other business schools, as well as videos that I have created to teach certain topics. For the microeconomics portion of the course, we will use the following textbook: Michael R. Baye and Jeffrey T. Prince,

Managerial Economics and Business Strategy, 8th ed. Unless you studied economics as an undergraduate, there will undoubtedly be material in this text that is difficult for you, which we will obviously deal with in class sessions. But you need to come to class prepared having done all the required reading/video watching for the class to function as planned. I will also on occasion assign supplementary reading to complement the text. When I do, this will be made available to you on Blackboard.

Course Requirements and Grading

Your grade for this portion of the course will be determined as follows:

Quizzes (best 6 of 8)	30%
Microeconomics Exam	30%
Macroeconomics Exam	30%
Participation	10%

Note: there is no provision for “extra credit” in this class.

Description of Requirements

Quizzes

We will have 8 *take-home quizzes* over the course of the semester. These will be problem-based and in addition to allowing continuous assessment of your performance during the semester, will also provide practice for the problems for the problems that will appear on the macro and micro exams. The quiz dates are given in the course schedule below. Quizzes will not be long and should be do-able in about half an hour or less if you are prepared. Preparation will consist of solving the problems that I post on occasion, prepared solutions to which will also be provided. These problem sets are not to be handed in and will not be graded, but are necessary in order to prepare for quizzes and exams.

Macroeconomics and Microeconomics Exam

The final exam will be held during the final exam period. It will be closed-note and closed-text, but to the extent that you need complicated equations that are not intuitive, you will be provided with a formula sheet. The final exam will consist of both multiple choice and problems, the latter based on homework problems that you have solved during the semester. We will discuss the exams in more detail in class. The macroeconomics exam is currently scheduled for 2 – 5pm, October. The final exam is tentatively scheduled for Saturday, December 12, 2:00-5:00 pm.

NO EARLY EXAMS will be given for any reason.

Participation

Participation counts for 10 percent of your grade and should be a “slam dunk.” Come prepared and stay engaged, and participate in any in-class exercises and discussions, and you will receive full credit. Non-attendance, non-participation or disruptive behavior will result in lost participation points.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MFA experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MFA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.

- **Students are fully prepared for each class.** Much of the learning in the Texas MFA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students respect the views and opinions of their colleagues.**
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Academic Dishonesty

There is no tolerance for acts of academic dishonesty in this class. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should consider the *writing* of all examinations to be an individual effort. Do not consult your classmates during the completion of this exam. Group *preparation* for examinations is acceptable and encouraged. Group projects are designed to encourage teamwork and collegiality. Take care not to plagiarize the work of others when preparing your group projects.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) are housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Accommodation for Religious Holidays

“By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.”

Course Schedule – Macroeconomics

Class No.	Date	Topics	Readings
1	Mon 8/17	<ul style="list-style-type: none"> Course Introduction Intro to Macroeconomics and Macrofinance 	
2	Wed 8/19	<ul style="list-style-type: none"> National Income Accounting 	<ol style="list-style-type: none"> David Moss and Sarah Brennan, <i>National Economic Accounting: Past, Present, and Future</i>. HBS Case 9-703-026 (December 4, 2002). Video: <i>National Income Accounting</i>
3	Mon 8/24	<ul style="list-style-type: none"> Measuring Labor Market Performance 	<ol style="list-style-type: none"> Video: <i>Labor Market Performance</i>
4	Wed 8/26	<ul style="list-style-type: none"> Measuring the Price Level and Inflation 	<ol style="list-style-type: none"> Video: <i>The Price Level and Inflation</i>
5	Mon 8/31	<ul style="list-style-type: none"> Aggregate Supply and Demand <p style="text-align: center;">QUIZ 1</p>	<ol style="list-style-type: none"> Robert E. Kennedy, “Fiscal Policy: Managing Aggregate Demand,” HBS Note 9-797-076 (March 30, 1998).
6	Wed 9/2	<ul style="list-style-type: none"> Fiscal Policy 	<ol style="list-style-type: none"> Matthew Weinzierl and Eric Werker, “Barack Obama and the Bush Tax Cuts (A),” and “...(B),” HBS Case 9-709-037 (February 23, 2009) and HBS Case 9-712-012 (October 24, 2011)
7	Wed 9/9*	<ul style="list-style-type: none"> Monetary Policy 	<ol style="list-style-type: none"> Wyatt Wells and David Moss, “Note on Money and Monetary Policy,” Harvard Note 9-797-094 (March 18, 1997)
8	Mon 9/14	<ul style="list-style-type: none"> Monetary Policy, cont’d <p style="text-align: center;">QUIZ 2</p>	<ol style="list-style-type: none"> Francis Warnock, “Geithner and Bernanke Amid the Global Financial Crisis,” Darden Business Publishing UV3957 (November 10, 2009). Francis Warnock, “Greenspan’s Conundrum and Bernanke’s Nightmare,” Darden Business Publishing UV3951 (March 18, 2011).
9	Wed 9/16	<ul style="list-style-type: none"> The Phillips Curve 	
10	Mon 9/21	<ul style="list-style-type: none"> Determinants of Interest Rates <p style="text-align: center;">QUIZ 3</p>	
11	Wed 9/23	<ul style="list-style-type: none"> Theories of Exchange Rate Determination 	<ol style="list-style-type: none"> Francis Warnock, “Exchange Rate Models” (Darden Business Publishing UV4252 (Revised June 4, 2014).
12	Mon 9/28	<ul style="list-style-type: none"> International Economics 	<ol style="list-style-type: none"> Francis Warnock, “Prospective Capital Flows and Currency Movements: U.S. Dollar Versus Euro” (Darden Business Publishing UV3936 (Revised Nov. 13, 2014).
14	Wed 9/30	<ul style="list-style-type: none"> Review and Catch up <p style="text-align: center;">QUIZ 4</p>	

* - 8:30 – 10:00 am, 3.202.

Course Schedule - Microeconomics

Class No.	Date	Topics	Readings
1	Mon 10/12	<ul style="list-style-type: none"> • Course Introduction • Introduction to Supply & Demand 	1. Baye & Prince, Chapter 2 (pp. 37 – 48)
2	Wed 10/14	<ul style="list-style-type: none"> • Supply & Demand/Elasticities 	1. Baye & Prince, Chapter 2 (pp. 48 – 68), Baye & Prince, Chapter 3
3	Mon 10/19	<ul style="list-style-type: none"> • Supply & Demand/Elasticities, cont'd 	
4	Wed 10/21	<ul style="list-style-type: none"> • Empirical Supply & Demand Functions 	1. Baye & Prince, Chapter 3 (cont'd)
5	Mon 10/26	<ul style="list-style-type: none"> • Utility Maximization <p style="text-align: center;">QUIZ 5</p>	1. Baye & Prince, Chapter 4
6	Wed 10/28	<ul style="list-style-type: none"> • Modeling Firms' Costs 	1. Baye & Prince, Chapter 5 (pp. 183 – 199)
7	Mon 11/2	<ul style="list-style-type: none"> • Perfect Competition 	1. Baye & Prince, Chapter 8 (pp. 274 – 287)
8	Wed 11/4	<ul style="list-style-type: none"> • Monopoly and Monopolistic Competition 	1. Baye & Prince, Chapter 8 (pp. 287 – 313)
9	Mon 11/9	<ul style="list-style-type: none"> • Market Structure and Concentration <p style="text-align: center;">QUIZ 6</p>	1. Baye & Prince, Chapter 7
	Wed 11/11	<ul style="list-style-type: none"> • Traditional Models of Oligopoly: Sweezy, Cournot, Stackelberg and Bertrand 	1. Baye & Prince, Chapter 9
11	Mon 11/16	<ul style="list-style-type: none"> • Game Theory: Normal Form Games and Oligopoly 	1. Baye & Prince, Chapter 10 (pp. 364 – 390)
12	Wed 11/18	<ul style="list-style-type: none"> • Game Theory: Extensive Form Games and Oligopoly 	1. Baye & Prince, Chapter 10 (pp. 390 – 398)
13	Fri 11/20**	<ul style="list-style-type: none"> • The Economics of Risk and Uncertainty <p style="text-align: center;">QUIZ 7</p>	
13	Mon 11/23	<ul style="list-style-type: none"> • The Economics of Information 	1. Baye & Prince, Chapter 12 (pp. 447 – 468)
14	Mon 12/1	<ul style="list-style-type: none"> • Auctions 	1. Baye & Prince, Chapter 12 (pp. 468 – 479) 2. Bergstrom & Miller, Experiment 13 (available on Canvas)
15	Wed 12/3	<ul style="list-style-type: none"> • Catch-up and Review <p style="text-align: center;">QUIZ 8</p>	

**** This class replaces our session on Thanksgiving Wednesday, which is called off. It will be held from 12:30 to 2:00pm in CBA 4.328.**