

TEXAS MSF
BA 380S: MANAGERIAL ECONOMICS
UNIQUE No.: 02195

SYLLABUS

FALL 2017

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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. Note that this is not the most recent edition, and the 9th edition has been released. There is no real need for the new, more expensive version, and so the 8th edition is fine. 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.

As noted above, traditional economics textbooks such as those used for undergraduate courses are not suitable for a course like this. Those textbooks are designed for 3-credit courses, and use notation and ideas that is built up from the beginning of the book. I is often difficult to just open the book to the topic that you are interested in and understand the treatment, because the treatment is often based on material covered earlier in the book. Having said that, there is certainly something to be gained from these other sources if you are interesting in using them. Here are a few suggestions (it is not necessary to get the most recent edition, although the most recent edition will have the most up-to-date treatment of contemporary events).

Principles of Macroeconomics texts (Freshman/Sophomore level)

- Mankiw, *Principles of Macroeconomics* (currently in 8th edition)
- Acemoglu, List and Laibson, *Macroeconomics*
- Parkin, *Macroeconomics* (currently in 12th edition)

Macroeconomic Theory (Upper Division – more math and sometimes calculus)

- Mankiw, *Macroeconomics* (currently in 9th edition)
- Abel, Bernanke and Croushore, *Macroeconomics* (currently in 9th edition)
- Dornbusch, Fisher and Starts, *Macroeconomics* (currently in 12th edition)

Course Requirements and Grading

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

Homework	30%
Microeconomics Exam	30%
Macroeconomics/International Exam	30%
Participation	10%

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

Description of Requirements

Homework

There will be periodic homework assigned that will be turned in for a grade. These will be problem-based and will provide practice for the problems for the problems that will appear on the macro and micro exams. Exact due dates for homework are still to be determined. All students must turn in their own homework, even if you work with other students. Homework must be completed neatly and professionally. Handwritten answers are fine within that criterion. Pages must be stapled or fastened some other way. Homework with folded corners in lieu of staples, that has been torn from a spiral notebook or is in any other way too sloppy to be considered professional will not be turned in. Any homework turned in later than the beginning of class will lose 10 percentage points. Any homework turned in after the prepared solutions are posted on Canvas will not be accepted.

Homework will be graded fairly leniently to give you an incentive to try the assignments on your own, but you will certainly lose points for turning in incomplete homework or homework that indicates that the problems were not taken seriously. You must show that you worked systematically through the problem in an attempt to arrive at a logical answer, even if that answer is not correct. Following the due date, I will post prepared solutions to each homework on Canvas.

Macroeconomics and Microeconomics Exam

There will be an exam for both the macroeconomics and microeconomics segments of the course, the latter of which will also include certain topics related to international economics. 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. Exams 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. Currently, the macro exam is scheduled for Thursday, October 6.

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. On occasion, I may circulate sign-in sheets in order to gauge attendance. If you are not in class that day, then you will be counted absent, and an accumulation of such absences will result in a reduction in your participation grade.

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 MBA experience hinges on this.

You should treat the Texas MBA classroom as you would a corporate boardroom.

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 MBA 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 are fully prepared for each class.** Much of the learning in the Texas MBA 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.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Students do not confuse the classroom for the cafeteria.** The classroom (boardroom) is not the place to eat your breakfast tacos, wraps, sweet potato fries, or otherwise set up for a picnic. Please plan accordingly. Recognizing that back-to-back classes sometimes take place over the lunch hour, energy bars and similar snacks are permitted. Please be respectful of your fellow students and faculty in your choices.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Technology is used to enhance the class experience.** 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 technology in class. Faculty will let you know when it is appropriate.

- **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

<i>Date</i>	<i>Topics</i>	<i>Readings</i>
Mon 8/28	<ul style="list-style-type: none"> • Course Introduction • Current Debates: The Global Savings Glut vs. Secular Stagnation 	
Wed 8/30	<ul style="list-style-type: none"> • No class 	
Wed 9/6	<ul style="list-style-type: none"> • National Income Accounting • Measuring Labor Market Performance • Measuring the Cost of Living 	<ol style="list-style-type: none"> 1. Video: <i>National Income Accounting</i> 2. The Economist, <i>The Trouble With GDP</i> (April 30, 2016) 3. Video: <i>Labor Market Performance</i> 4. Video: <i>The Price Level and Inflation</i>
Mon 9/11	<ul style="list-style-type: none"> • Business Cycles, Aggregate Demand and Stabilization Policy 	
Wed 9/13	<ul style="list-style-type: none"> • The Phillips Curve 	
Mon 9/18	<ul style="list-style-type: none"> • Fiscal Policy • The Austerity Debate • Corporate Tax Policy in the U.S. and the World 	
Wed 9/20	<ul style="list-style-type: none"> • Monetary Theory • Monetary Aggregates 	
Mon 9/25	<ul style="list-style-type: none"> • The Structure and Functions of the Federal Reserve • Goals, Mandates and Targets for Fed Policy 	
Wed 9/27	<ul style="list-style-type: none"> • Monetary Policy: The Deposit Expansion Process and the Money Multiplier 	
Mon 10/2	<ul style="list-style-type: none"> • The Monetary Transmission Mechanism • Monetary Policy Response to the Financial Crisis 	
Wed 10/4	<ul style="list-style-type: none"> • Determinants of Interest Rates 	
Mon 10/9	<ul style="list-style-type: none"> • Determinants of Exchange Rates 	1. Video: <i>Exchange Rates</i>
Wed 10/11	<ul style="list-style-type: none"> • Catch up and Review 	

Course Schedule – Microeconomics

<i>Date</i>	<i>Topics</i>	<i>Readings</i>
Mon 10/23	• Topics in International Economics	
Wed 10/25	• Supply & Demand/Elasticities	1. Baye & Prince, Chapter 2 - 3
Mon 10/30	• Supply & Demand/Elasticities	
Wed 11/1	• Profit Maximization	1. Video: <i>Revenue and Cost Functions</i>
Mon 11/6	• Perfect Competition, Monopolistic Competition, Oligopoly & Monopoly	1. Baye & Prince, Chapter 5 (pp. 183 – 199) & Chapter 8 - 9
Wed 11/8	• Analyzing Market Structure and Competition	1. Baye & Prince, Chapter 7
Mon 11/13	• Pricing Strategies	1. Baye & Prince, Chapters 11 & 13 (pp. 507-512) 2. Video: <i>Price Discrimination and Other Pricing Strategies</i>
Wed 11/15	• Economics of Information and Uncertainty	1. Baye & Prince, Chapter 12 (pp. 447 – 461)
Mon 11/20	• Asymmetric Information	1. Baye & Prince, Chapter 12 (pp. 462 – 468)
Mon 11/27	• Game Theory: Normal Form Games	1. Baye & Prince, Chapter 10 (pp. 364 – 390)
Wed 11/29	• Game Theory: Extensive Form Games	1. Baye & Prince, Chapter 10 (pp. 390 – 398)
Mon 12/4	• Game Theory (cont'd)	
Wed 12/6	• Auctions	1. Baye & Prince, Chapter 12 (pp. 468 – 479) 2. Bergstrom & Miller, Experiment 13 (available on Canvas)
Mon 12/11	• Catch up and Review	