



WORKING PROFESSIONALS MBA - HOUSTON
BA N284S: MANAGERIAL MICROECONOMICS
UNIQUE NOS. 01580 & 01590

SYLLABUS

SPRING 2018

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| Instructor | Michael Sadler, Ph.D. |
| Office | BRB 2.146 |
| Office Hours | M: 11:00 – 12:00; W: 2:30 – 3:30 |
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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.

This is a 2 credit course in microeconomics. Microeconomics is the study of consumer and firm behavior. This course is intended to provide the foundations of a framework that you can utilize to efficiently and competently make your own managerial decisions. It will emphasized marginal analysis, and will introduce such topics as profit maximization, market structures, the economics of information, and game theory and strategy. Although it may at times be difficult to think of direct applications of some of the simple models that we will develop in a class like this, part of our goal is to get you to “think like an economist” in making your managerial decisions. In so doing, your organization will be more efficient and better able to respond to opportunities and competitive threats.

Leadership and this Course

The Texas MBA program is designed to develop influential business leaders. The MBA Program has identified four fundamental and broad pillars of leadership: knowledge and understanding, communication and collaboration, responsibility and integrity, and a worldview of business and society.

In this course, you will enhance your knowledge and understanding of economics and how economic forces impact managerial decision making. Through class discussion, informal study groups and projects, and a formal examination you will enhance your communication and collaboration skills.

Materials

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*, 9th ed. Unless you studied economics as an undergraduate, there will undoubtedly be material in this text that is challenging for you. Do your best to come to terms with this material prior to class, but we will cover everything that you are expected to know either in class or in our video prequels. At the very least, the book will serve as a reference for you to aid you in understanding microeconomic concepts as well as providing guidance for homework problems, many of which will be assigned directly from the textbook. If you are having difficulty with material in the text, just do the best that you can, and hopefully, your confusion will be rectified in class. Note that the book derives many of the results that we need using calculus, but those sections are separate from the main text, making it possible to understand the intuition without using calculus. Calculus is not required for this course, but if you find it easier to understand microeconomic concepts that are derived or illustrated using calculus, by all means you are encouraged to use it.

We will also be conducting three in class “economic experiments,” which are based on chapters from an out-of-print textbook by Bergstrom & Miller, discussed below. Your participation is required in these experiments, and you must come fully prepared in order to make that work.

Experiments

For the middle three weekends of the course, we will be conducting in class “experiments” that will provide more active learning of certain concepts. You need to come prepared to participate by completing in advance the required reading and exercises for each experiment. These experiments are taken from a textbook by Theodore Bergstrom and John Miller that is out-of-print. The three chapters that you will need are posted in Canvas module. These experiments are intended as a fun way to come to terms with certain economic concepts, but they are only effective if students are prepared to participate. Obviously, your participation grade will partially reflect your performance in these sessions.

Course Requirements and Grading

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

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| Participation | 20% |
| Homework Problems | 20% |
| Final Exam | <u>60%</u> |
| | 100% of the course grade |

The final grade distribution for the course will correspond to that recommended by the MBA Policy Committee (except in unusual circumstances).

Description of Requirements

Participation

Participation points should be a slam dunk. Come prepared to participate in class discussion and in experiments, and you will get full credit. Non-attendance, non-participation or disruptive behavior will result in lost participation points. 5 points of the 20 points possible will be based on regular attendance and participation in class. The remainder will be based on participation in the experiments in class. At the end of these, you *may* be asked to turn in your “lab notes” and any other required materials, completion of which will determine part of your score.

Homework

Homework will be due via the Canvas submission portal at the start time to the first cohort session on each respective weekend, with the due dates listed in the course schedule at the end of this syllabus. One further homework will be assigned before the last class weekend, but will not be due (solutions will be posted to allow you to prepare for the exam). Each study group should turn in at least one completed assignment (but you are free to turn in your own if you wish). It will be graded for content by the TA. Some of the problems will be assigned from your textbooks, but occasionally, I may supplement those with my own questions. Once the homework has been turned in, I will post

prepared solutions on Canvas. The homework problems will provide a good indication of the types of “short answer” problems that you will encounter on the final exam, but will often be longer than problems on exams due to the time constraints of the latter. They may also serve to help prepare you for the multiple choice sections on exams. Homework should be completed neatly and professionally. Handwritten answers are fine so long as everything is neat and legible. Please show all your work in deriving your answer.

Homework due dates are given on the Course Schedule. Prepared solutions will be posted on Canvas once the due date has passed.

The Final Exam

The exam will be closed-note and closed-text (you won’t need a formula sheet of your own, and anything else will just get in the way and slow you down). If you need any particular equations that are non-intuitive, you will be given a formula sheet that includes those. The final will be half multiple choice covering concepts and definitions, and half problems, where you will be expected to solve problems similar to those in the homework. Everyone is expected to take the final exam during our last session on Saturday, May 12.

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.

Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

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.

Course Schedule

Saturday, March 24

Topics:

- Supply and Demand
- Elasticities
- Estimating Demand Functions

Text: Baye & Prince: Chapters 2 – 3

Sunday, March 25

Video Prequel: Modeling Firms' Costs: Cost Functions

Topics:

- Modeling costs
- The Demand Curve Facing the Firm and Total Revenue
- Profit Maximization
- Perfect Competition
- The Shut Down Decision
- Imperfect Competition (Monopoly, Monopolistic Competition, Oligopoly)

Text: Baye & Prince: Chapter 5 (pp. 153 – 163) and Chapter 8.

Friday/Saturday, April 6/April 7

Due: Homework 1

Video Prequel: Price Discrimination and Other Pricing Strategies

Topics:

- Price Discrimination
- Other Pricing Principles and Strategies
- Measuring Industry Concentration and Market Power
- Exploiting Market Power: Sutton's Endogenous Sunk Costs

Text: Baye & Prince: Chapters 7 and 11

Experiment: Bergstrom & Miller, Chapter 8 ("Entry and Exit")

Friday/Saturday, April 20/21

Due: Homework 2

Video Prequel: Introduction to Game Theory

Topics:

- One-Shot Games
- Repeated Games

- Collusion and the “Folk Theorem”

Text: Baye & Prince: Chapter 10 (pp. 302 – 324)

Experiment: Bergstrom & Miller, Chapter 7 (“Monopolies and Cartels”)

Saturday, April 28

Due: Homework 3

Video Prequel: Auction Theory

Experiment: Bergstrom & Miller, Chapter 13 (“Auctions”)

Topics:

- Multi-Stage Games
- Applications of Game Theory to Business Strategy
- Auctions

Text: Baye & Prince: Chapter 10 (pp. 325 – 332)

Additional reading:

- Corts, Kenneth S. and Freier, Debbie; Harvard Business School Case, *Judo in Action*, Harvard Case No. 9-703-454 (June 9, 2003)
- Eric J. Van Den Steen and Carin-Isabel Knoop; Harvard Business School Case, *Red Bull*, Harvard Case No. 9-714-401 (Revised June 12, 2014)

Experiment: Bergstrom & Miller, Chapter 13 (“Auctions”)

Saturday, May 12

Homework 4 will be assigned for completion in the two prior weeks, but will not be formally due in class nor graded. It will allow you some practice on extensive form games.

Topics:

- Imperfect Information
- Principal-Agent Problems and Asymmetric Information

Text: Baye & Prince: Chapter 12

Final Exam: First 2 hours of class