

UNIVERSITY OF PITTSBURGH
THE JOSEPH M. KATZ GRADUATE SCHOOL OF BUSINESS
SUMMER – 2013

**BECN 2401 - Economic Analysis for Managerial Decisions -
Firms and Markets**

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|------------------|---|----------------------|-----------------------------------|
| TEACHER: | Stanko Racic | OFFICE: | 282 Mervis Hall |
| PLACE: | 104 Mervis Hall | OFFICE HOURS: | W 5:00-6:00 PM |
| TIME: | W 6:15 – 9:15 PM | PHONE: | 412-648-1524 |
| | | | (During office hours only) |
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Required Text

Baye, Michael, Managerial Economics and Business Strategy, 8th or 7th or 6th or 5th Ed., McGraw-Hill.

Recommended Texts

Baye, Michael, Student Workbook for use with Managerial Economics and Business Strategy, McGraw Hill.

Mathematical Appendix from Lila J. Truett and Dale B. Truett, Managerial Economics, 7th Ed., South-Western College Publishing, 2001. (On reserve in Business Library)

Andrew, Blair, *Tariffs and Quotas*, Teaching Note. (On reserve in Business Library)

Chapter 7: Industry Analysis from David, Besanko, David Dranove and Mark Shanley, Economics of Strategy, John Wiley & Sons, Inc. 1996. (On reserve in Business Library)

Adams, Walter and James Brock, The Structure of American Industry, The Latest Ed., Prentice Hall.
(On reserve in Business library)

Course Objective

The objective of the course is to develop economic tools, concepts and principles used to make managerial decisions in a market-based economic system. The course also provides an understanding of the implications of various market structures on production/cost, pricing and profit decisions, as well as the role of regulations.

Studying Strategies (<http://intelicus.com/10-effective-study-habits/>)

I would highly recommend you to work in study groups. Go through the readings before lecture. If lecture does not clear your questions from readings, see me after the class. Past students found the **Study Guide** to be very helpful, especially the solved problems and multiple-choice questions. Make the **help sheet** for the chapter before doing the homework. Update the **help sheet** if it is not sufficient to do the homework problems. Combine updated help sheets for different chapters into help sheet for the exam. Practice exams are placed on the course web page.

Grading

Project: an industry analysis by teams of five members, worth 20% of your grade

Homework: 8 assignments (Note on Equilibrium and Price Regulation and Problem Set are on the course web page), due at the beginning of classes, worth 5% of your grade

Your effort, rather than whether the solution is correct, will be graded. Try to solve the problems, but do not spend too much time on them if you have difficulties. Solutions are placed on the course web page. If you cannot figure out how to solve the problems, given the solutions, please see me and I will help you with the problem.

Quizzes: 7 best of 8, 10 multiple choice questions each, worth 15% of your grade

Questions will be similar to the multiple-choice questions from the **Study Guide**.

Exams: midterm worth 25% and cumulative final 35% of your grade

Exams will have conceptual questions, similar to quizzes, and problems, similar to homework assignments. Final will be weighted more heavily toward material not included on the midterm. You may bring one 8½x11 **help sheet** for each exam. You can put what ever you want on the help sheet. Makeup exams will be provided only due to an unforeseen event. I have to be informed no later than 24 hours after the missed exam. Documented confirmation will be required.

No extra credit is available. Cumulative scores will be calculated using the appropriate weights for number of homework assignments submitted, and performance on quizzes and exams. Percentage grades, calculated by dividing individual scores by the highest score in the class, will be translated into letter grades as follows:

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|--------------|--------------|--------------|--------------|------------|
| 100 -97 = A+ | 89.9-87 = B+ | 79.9-75 = C+ | 64.9-60 = D+ | 49.9-0 = F |
| 96.9-93 = A | 86.9-83 = B | 74.9-70 = C | 59.9-55 = D | |
| 92.9-90 = A- | 82.9-80 = B- | 69.9-65 = C- | 54.9-50 = D- | |

| Date | Topic | Homework (the 7th Ed.) | Quiz |
|----------------|---|--|----------------------|
| May 8 | Chapter 2: <i>Dr. Blair:</i> Demand and Supply <i>Tariffs and Quotas</i> | <i>Problems in parentheses are for the 6th Ed.</i> | |
| May 15 | Chapter 3: Quantitative Demand Analysis (Up to Elasticity for Nonlin Demand) | Ch 2: 4-8 Problem Set: 1, 2 Equilibrium and Price Regulation Truett & Truett: Redo Figs 1-2 & All Examples | Ch 2 |
| May 22 | Chapter 5: <u><i>Team members' list at the beginning of the class!!!</i></u> The Theory of Production | Ch 3: 2,4,15 (13) Problem Set: 3-11 | Ch 3 |
| May 29 | Chapter 5: Cost Analysis | Ch 5: 1,2,5,13,19 (11,17) Problem Set: 12-17 | Ch 5 (Production) |
| June 5 | Chapter 6: Chapter 7: <i>Review for the Midterm Exam</i> | The Organization of the Firm The Nature of Industry Ch 5: 4, 6, 7 Problem Set: 18-24 <i>Suggested Ch 6: 11,13,17,18 (9,11,15,16)</i> <i>Suggested Ch 7: 2,4,15,18 (13,16)</i> | Ch 5 (Cost) |
| June 12 | MIDTERM (Chapters 2, 3, 5, 6 and 7) | | |
| June 19 | Chapter 8: Competitive Markets & Monopoly (Up to Monopolistic Competition) | | |
| June 26 | Chapter 8: Chapter 9: Monopolistic Competition Oligopolistic Markets | Ch 8: 1-6,15 (13) Problem Set: 25-32 | Ch 8 |
| July 3 | Chapter 10: Game Theory | Ch 8: 7,16 (14) Ch 9: 1,2,4,5,7,18 (16) Problem Set: 33-35 | Chs 8 & 9 |
| July 10 | Chapter 11: Pricing Strategies | Ch 10: 1-6 Problem Set: 36-38 | Ch 10 |
| July 17 | Presentation (15-20 minutes per team) Review for the Final Exam | Ch 11: 2,4-6,13,17 (11,15) Problem Set: 39-41 | Ch 11 |
| July 24 | FINAL Cumulative | | |

Some guidelines for an industry analysis:

Assume that you are an analyst employed by a company in a particular industry or by a consulting firm. You are asked to prepare an analysis of the industry for the purpose of advising your company or other clients whether they should undertake major expansion of existing capacities or build production facilities in new industry. Definition of the industry is left to you, e.g. computer hardware, or graphic card, or hard drive. Be aware that finding data becomes more difficult as the definition of industry becomes narrower. We are talking about investment in real, not financial assets. You do not have to find an industry for which you would recommend staying or entering. Negative decision is perfectly fine as long as you convince us in its validity. Make sure that there is no conflict between statements made in different parts of the report/presentation. Your recommendation, and our decision whether to follow it or not, depends on the quality of data, analytical methodology and your presentation. Hence, the source of data is very important and has to be included in references. It is highly recommended that you select an industry in which you have a strong professional interest either because you are employed in this industry or wish to seek employment in this industry. Stay away from brave statements (e.g. this industry is very profitable) that are not quantified, supported by data and compared against other industries or economy as a whole. Include in analysis a brief history and any anticipated changes in:

- The forces driving the demand for the product.
- The nature of technology and the likelihood of major technological change.
- The nature of competition in the industry.
- The nature of the barriers to entry into the market and the implication of these for your client.
- Recent and likely changes in the size distribution of firms through mergers or divestitures.
- The profitability of the industry.
- The impact of government policy or regulations on the industry.
- Implication of the analysis for the desirability of expanding your presence or investing in this industry.

As a possible template for your analysis you could consult any edition of "The Structure of American Industry" by Adams and Brock. However, you should update this analysis with the latest developments affecting the industry as reported in the *Wall Street Journal*, *The Economist*, *Business Week*, *The Financial Times* and other similar publications. Data from the web should be from a reliable source. A rich source of data is a planning and analysis department in your firm. For additional guidance on how to conduct an industry study you may want to consult *Chapter 7: Industry Analysis* from "The Economics of Strategy" by Besanko, Dranove and Shanley. **Try not to simply follow the template since you want to distinguish your presentation from those made by other teams.**

You should work in teams of up to five members. The report should not be longer than five pages of double spaced text in 12 pt fonts, not including tables of data and graphs, placed in the appendix. It should be professionally written, including a brief executive summary (not longer than a quarter of a page). References for used material, especially numerical data, has to be listed at the end of the project and tied to the relevant place in the text using footnotes. Teams should make 15 minutes presentation of their findings and recommendations using overheads or computer projector. Hard copy of your presentation and report should be submitted to me before presentation.

Team grade will be based on content as well as form of both the report and the presentation.

Questions To Ponder

How much do you know about economics?

If you're like most Americans, the answer is not much. It doesn't have to be that way.

To get a better sense of what you know, try the following test. It's a short version of a test used by the Federal Reserve Bank of Minneapolis in a national survey of economic literacy.

1. Which of the following occurs when one country trades wheat to another country in exchange for oil?

a) Both countries gain, b) Both countries lose, c) The country that trades wheat gains; the country that trades oil loses, d) The country that trades oil gains; the country that trades wheat loses.

2. What is the most important task of economics?

a) To balance imports and exports, b) To balance the government's budget, c) To make the best use of scarce resources, d) To save money to cut the national debt.

3. When industries or countries specialize in certain goods or services, it results in... ?

a) Increased price inflation, b) Less output per hour worked, c) Greater economic interdependence, d) More equal distribution of income.

4. In a market economy, people pursue their own self-interest. This "serves the public interest because of the... ?

a) Operation of competitive markets, b) Social responsibility of business leaders, c) Careful planning and coordination of market activity, d) Understanding people have of the public interest.

5. What would happen if the government mandated a minimum wage above what employers currently pay?

a) Employment would go up, b) Employment would go down, c) Employment would stay the same.

6) Why do pro sports players usually earn more than farmers and steelworkers?

a) Team owners are monopolists, b) Sports players are really entertainers, not producers, c) There are fewer professional sports players than farmers or steelworkers. d) Good sports players are more scarce, given the demand for their services.

7. Which of the following approaches to pollution control makes the best use of a country's resources?

a) Abolishing the use of toxic chemicals, b) Using resources to reduce all pollution damage, c) Controlling pollution as long as the extra benefits are greater than the extra costs, d) Prohibiting economic activities that cause pollution or harm the environment.

8. If your annual income rises by 5% while prices of the things you buy rise by 10%... ?

a) You are better off. b) You are worse off. c) You are unaffected.

9. What must the government do to reduce high inflation?

a) Increase both spending and the money supply, b) Decrease both spending and the money supply, c) Decrease spending and increase the money supply, d) Increase spending and decrease the money supply.

10. Why are private businesses not likely to operate a lighthouse?

a) Ship owners buy insurance policies to protect themselves from losses, so they won't pay for lighthouses, b) The light from the lighthouse can be used even by ships that do not pay a fee for the service, c) It would cost private businesses more to operate a lighthouse than it costs the government, d) The cost of operating a lighthouse is too high.

If you got at least five questions right, you know more about economics than the typical American.

If you got at least nine questions right, you ought to think about a career as an economist.

If you got none right, it's back to econ 101.

To see the full results of the survey, including explanations of the correct answers, go to

www.minneapolisfed.org.

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