

Shiv Nadar Institution of Eminence

UNDERGRADUATE COURSE OUTLINE

COURSE TITLE: ECONOMICS FOR BUSINESS 1

COURSE CODE: MEC1001

COURSE CREDITS (L:T:P): 2.5:0.5:0 = 3

COURSE TYPE: BMS CORE

PREREQUISITE/S (IF ANY): None

COURSE INSTRUCTOR: Rahul Chakraborty

CONTACT HOURS: Tuesday (appointment-based), Thursday (3-4:30pm)

OFFICE: G205E

SCHOOL/ DEPARTMENT: SME/ECONOMICS AND PUBLIC POLICY

DISCIPLINES TO WHICH THE COURSE MAY BE OF INTEREST: All

COURSE OBJECTIVE

The main objective of the course is to bring economic theory and actual business practices together. The idea is to help students become more adept at designing, developing, and analysing business strategies. Students should gain a rigorous understanding of consumer behaviour, producer behaviour, and the functioning of different types of markets.

COURSE CONTENT

This is a course on basic principles of Microeconomics. It introduces you to the essentials of microeconomics with an emphasis on managerial relevance for decision-making. The course is self-contained; no prior knowledge of economics is necessary. The course is divided into two parts. The first part elaborates on the basic issues of resource creation and utilization, and demand-supply. The second part deals with the basic microeconomic issues like consumer preferences, producer behaviour, and different forms of markets.

The course is divided into four modules. The first module discusses the basic issues related to demand and supply, bringing to the fore the basic factors governing the demand by consumers and supply by the producers. The second module delves deeper into demand-side considerations, explicating the choices that consumers make in the market. An understanding of this can help managers design their

own strategies in the market. The mechanisms by which sellers optimise their produce, considering the costs of production, are a part of module 3. The fourth module details the structure of markets. It talks about how the firms behave and optimise their output under different market frameworks.

RECOMMENDED BOOKS

Besanko, D., and Braeutigam, R. *Microeconomics*, 5th Edition, Wiley Publications.

R Lipsey, R., and A Chrystal, A.: *Economics*, 12th edition, OUP, ISBN 0199563381, 9780199563388.

N. Gregory Mankiw, N. G.: *Principles of Microeconomics*, 8th edition (Paperback), Cengage Learning India Pvt Ltd, New Delhi

Perloff, Jaffery M. *Microeconomics*, 6th Edition, Pearson Publications.

Pindyck, Robert S., and Rubinfeld, Daniel L., *Microeconomics*, 8th Edition, Pearson Publications

ASSESSMENT SCHEME

Class participation-10%

Group Assignments- 20%

Mid-term + End-term- 35%

Group Project- 35 %

COURSE TOPICS AND READINGS

MODULE 1: BASIC ISSUES- GOODS MARKET

Session 1-2: Introduction- Demand and Supply

Learning Objectives: How do consumption and production forces interact in the market? How do markets work, and what factors influence the outcomes? Who are the participants in markets, and what motivates them? What are the main factors that influence how much of a product consumers wish to buy? What are the main factors that influence how much producers wish to sell? How do we derive the demand curve of a particular product or service? How is the sensitivity of quantity demanded to a change in price measured by the elasticity of demand, and what factors influence it? How is elasticity measured at a point or over a range? How is income elasticity measured, and how does it vary with different types of goods? How elasticity of supply is measured and what it tells us about conditions of production. What are the difficulties that arise in trying to estimate various elasticities from sales data? What is the relationship between the elasticity of demand of a product and revenue of a firm?

Readings: Chapters 3 and 4, R Lipsey and A Chrystal: Economics, 12th edition, OUP.

MODULE 2: CONSUMER THEORY

Sessions 3-6: Consumer Theory

Learning Objectives: The perspective of the buyers in the commodity market: how do they optimize? Consumers will maximize their overall satisfaction subject to their budget constraints.

Readings: Chapter 5, R Lipsey and A Chrystal: Economics, 12th edition, OUP.

Session 7: Tutorial: Numerical and Graphical Problems

Session 8: Assignment

Mid-Semester

MODULE 3: PRODUCER THEORY

Sessions 9-12: Theory of the Firms- Production and Cost

Learning Objectives: The perspective of the sellers in the commodity market: How do they optimize? There is a difference between economists' measure of profit and accountants' measure of profit. For economists, profit is the difference between total cost and total revenue, where total cost includes the cost of capital. The production function relates physical quantities of inputs to the quantity of output. Cost curves show the cost of producing various levels of output.

Readings: Chapter 6, R Lipsey and A Chrystal: Economics, 12th edition, OUP.

Session 13: Tutorial/Numerical Problems on topics taught in the Module/Project Discussions.

Session 14: Assignment

MODULE 4: MARKETS

Session 15: Perfect Competition

Learning Objectives: The impact of the product market on firms' prices and output choices is determined by the nature of the product and the market structure in which they operate. A benchmark model: in perfect competition firms produce a homogeneous product and are price takers in their output markets. Perfect competition maximizes the benefits that consumers receive from the output of the product in question. The implications of government policies like taxes, subsidies or rationing on equilibrium output would be looked at.

Session 16-17: Monopoly

Learning Objectives: A benchmark model: Single seller in the market. A monopolist sets marginal cost equal to marginal revenue, but marginal cost is less than price. Output is lower under monopoly than under perfect competition. Profit can be increased by a monopolist if it is possible to charge different prices to different customers or in separate markets. Pure profits exist in the long run under a monopoly, so long as there are entry barriers.

Readings: Chapter 8, R Lipsey and A Chrystal: Economics, 12th edition, OUP.

Session 18: Monopolistic Competition

Learning Objectives: In the theory of large-group monopolistic competition, many firms compete to sell differentiated products. Each may make pure profits in the short run. In the long run, freedom of entry shifts its demand curve, leading to excess capacity and production at average costs above the minimum possible level. In industries where there are many producers of different products, free entry will tend to eliminate profits in the long run.

Readings: Chapter 9, R Lipsey and A Chrystal: Economics, 12th edition, OUP.

Session 19: Tutorial/Numerical Problems on topics taught in the Module/Project Discussions

Session 20: Assignment

Session 21: Project Discussion

Session 22-25: Oligopoly

Learning Objectives: When there is a small group of dominant producers (oligopoly), strategic interaction is important because the market form of one is affected by what its rivals do. Insights into the choices available and the nature of outcomes can be achieved using game theory. Oligopoly can be associated with pure profits in the long run if there are barriers to entry. How basic Oligopoly models

can be formulated in game theoretic framework. Some interesting cases: dynamics of oligopolistic industries. Analysis of prisoner's dilemma as a game.

Readings: Chapter 9, R Lipsey and A Chrystal: Economics, 12th edition, OUP.

Session 26: Market Failures

End-Semester