

Syllabus MBA 501 Managerial Economics Fall 2011

Contact Information

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Office Hours:	Th 9:00 am – 11:00 am
Class Hours:	M/W 9:30 – 10:50 (E1); 11:00 – 12:20 (E2)
Class Location:	3041 BIF
Course Website:	https://compass.illinois.edu
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Course Overview

In this course, we will teach you to increase your company's profitability by applying economic analysis to a wide array of business problems. A problem-solving approach will be used to achieve this objective. This will encourage us to focus on the *application* of economic tools rather than allowing ourselves to settle for a purely theoretical understanding.

Our analytical framework will rest upon two building blocks. The first is that human behavior is aptly characterized by the Rational Actor Paradigm. This fundamental assumption of economic analysis states that people behave rationally, optimally and self-interestedly. Secondly, the art of business is moving assets from lower valued uses to higher valued uses. By applying these two ideas, we will work to achieve a series of course goals as outlined below.

Course Goals

After completing this class you should be able to:

- Use the rational-actor paradigm to predict firm and individual behavior.
- Compute the relevant costs of any decision.
- Use marginal analysis to make extent (how much) decisions.
- Make investment decisions that increase firm value.
- Set optimal prices and price discriminate.
- Predict industry-level changes using demand/supply analysis.
- Develop long-run strategies to increase firm value.
- Use game theory to predict how your actions influence those of others.
- Bargain effectively.
- Make decisions in uncertain environments.
- Solve the problems caused by moral hazard and adverse selection.
- Align individual incentives with the goals of the company.
- Align division incentives with the goals of the company.
- Manage relationships between upstream suppliers or downstream retailers.
- Identify unconsummated wealth-creating transactions and devise ways to profitably consummate them.

Course Materials

- Froeb / McCann, *Managerial Economics: A Problem-Solving Approach*, 2nd Edition. (South-Western, 2010).

REQUIRED. This is the text for the class, and will correspond closely to the lectures. Learn this material well. It may seem simple, but it is powerful.

- *Managerial Economics module of MBA Primer* (<http://v2.MBAPrimer.com/>)

REQUIRED. This is a hands-on “how to” primer that teaches the mechanics of costs, demand, marginal analysis, and benefit-cost analysis. Be sure to select version 2—version 3 was not going to be ready in time for our class, so we get version 2 free of charge. The first time you log-on, you will need an Access Code which will be uploaded in to your compass gradebook, and a Course Code which for our course is: **me01-0462-002**.

Read the material, do the exercises, and take the quiz at the end of each chapter. Repeat the quizzes and review the material until you are comfortable with the concepts and techniques. You are encouraged to discuss the MBA Primer concepts and quizzes with classmates and the Graders. No deliverables are required from the MBA Primer.

When you know the material well, take a similar timed quiz (30 minute limit) on our Illinois Compass website. **DO NOT BEGIN THE QUIZ UNTIL YOU ARE READY TO TAKE IT.** The quizzes count toward your grade and once you log on, you do not get a second chance. The due dates for each quiz are listed in the schedule at the end of this syllabus.

- James Brickley, Clifford Smith, Jerold Zimmerman, “The Economics of Organizational Architecture,” *Journal of Applied Corporate Finance*, Vol. 8:2 (Summer, 1995) pp. 19-31.

REQUIRED. Increasing corporate profitability through the use of economic analysis is the main thrust of this course, however implementing these ideas requires a properly aligned organization. This article provides the basis for our study of behavior within organizations. (See Compass homepage)

- Iclicker.

REQUIRED. You will need to bring your iclicker to class each day. You also need to register it as soon as possible by [clicking here](https://online-s.physics.uiuc.edu/cgi/courses/shell/iclicker.pl) (<https://online-s.physics.uiuc.edu/cgi/courses/shell/iclicker.pl>).

- *Economics Interactive Tutorials* (by Samuel L. Baker). (<http://hadm.sph.sc.edu/courses/econ/tutorials.html>)

RECOMMENDED. These free interactive tutorials are health care focused, but they do an excellent job of introducing basic economic concepts in a hands-on manner. They are a bit easier than the MBA Primer material, so they should be particularly helpful for those of you with little formal economics training.

Course Grading and Deliverables

We will use a +/- scale for grades. All grades will be posted in the Compass Gradebook as the term progresses. The percentage weightings for the grade for this class are:

Iclicker grades by class session (two lowest scores dropped)	5
5 on-line quizzes testing the mechanics of cost/benefit analysis	25
Group Homework	30
Group Presentation (slides and memo) applying class ideas to your companies	10
Final Exam covering readings, lecture notes, MBA Primer	30

Iclicker:

Most classes will include a few iclicker questions covering the readings for the day. These will generally, though not always, be drawn from the multiple choice questions the author provides at the end of each chapter. I am giving you an incentive to read the material and review these questions before class. This will allow us to move our class discussion beyond what is already available to you in the text. Be sure you bring your iclicker every day. I will drop your two lowest iclicker scores at the end of the semester.

Online Quizzes:

The online quizzes are similar in nature to the MBA Primer material and should only be completed after you are comfortable with that material. You can take these at any time prior to the deadline, but can only take each one once for a set 30 minutes. Once you start the quiz, you are committed, so be sure you are ready before you begin. While I encourage you to work together as you learn the material, you are expected to work alone on the quizzes themselves.

Homework:

You will be assigned a number of the “Individual Problems” from the back of each chapter after we have discussed the material in class. You will turn in this homework by group at the beginning of the next Monday class session. You should separate your homework by the day it was assigned and turn them in as separate assignments. For example, in a typical week, you will have an assignment from Monday’s class and an assignment from Wednesday’s class. Both will be turned in the following Monday, but should be bound separately. Please be sure your group designation and all group member names are on every assignment. The homework questions will be similar to final exam questions, so it is in your best interest to contribute meaningfully to your group’s efforts and completely understand your submittals. At the end of the semester, I may ask you to evaluate your team member’s contribution to this effort. This may count toward each individual’s homework score.

Group Presentation:

Each group will make a short presentation to the class. The presentations will be based off one of the Group Problems at the end of an assigned chapter. You may select a question from any of the chapters that are scheduled to be covered, even if we have not yet covered that chapter in class when you make your presentation. You select the question you want to answer based on the experience from one of your companies and answer it by assuming the role of a consultant hired by the company to fix the problem. Your analysis should implicitly answer 3 questions:

1. What’s wrong?;
2. How do we fix it?; and
3. How much will the company save by fixing it, compared to either the status quo or another alternative solution. I want a number and backup support for the number.

Your submittal will be a brief 1-2 page memo summarizing your presentation along with hard copies of your PowerPoint slides used for the presentation. These will be submitted in hard-copy immediately before your presentation.

You may be given a chance to review your group members' contribution to the projects during the last class. I would encourage you to actively manage this process. You should decide on an appropriate division of duties during the projects (and homework) and solicit input from your group members as the term progresses. Open communication with your group members will minimize the chances of a negative surprise at the end of the course.

Final Exam:

The final exam will cover all of the material from the course, including the readings, MBA Primer and class discussion. It will be closed book, closed notes. You will be given 3 hours to complete the exam.

Communication:

We will make liberal use of Illinois Compass Discussion Board and Announcement capabilities. You are expected to check this site before each class and when questions arise. The CFAs for the course will monitor the Discussion Board regularly and respond to questions a couple of times a day from Tuesday—Sunday. Topic strings will be set up to allow you to check if others have already asked and received feedback on questions that you have. You should verify that your question has not already been asked before posting a new question. You are strongly encouraged to help out your fellow classmates by posting responses to questions. The best way to learn economics in my experience is to help others to understand it. If you are able to clearly explain to others the concepts we will be discussing, you are well on your way to understanding them yourself.

Class	Date	Required—coverage is approximate and may be changed	Recommended
1	8/22	Managerial Economics: Preface. Teaching Students to Solve Problems 1. What this Book is About MBA Primer: Intro: What is Managerial Economics?	Doti, <u>Capitalism & Greed</u> (see compass homepage)
2	8/24	Managerial Economics: 2. The One Lesson of Business 3. Benefits, Costs, and Decisions MBA Primer: 1. Using Economics in Management Decisions, 2. Understanding the Seller's Costs	
8/28 11:59pm Online Quizzes 1 & 2 must be completed			
3	8/29	Managerial Economics: 4. Extent (How Much) Decisions MBA Primer: 3. Understanding the Buyer's Demand	Interactive Tutorials: 1. Total Cost, Variable Cost . . . 2. Average Cost . . .
4	8/31	Managerial Economics: 5. Investment Decisions: Look Ahead & Reason Back MBA Primer: 4. Understanding Markets and Profit Maximizing	
9/6 11:59pm Online Quizzes 3 & 4 must be completed			
Caution—quizzes 3 and 4 are tougher than 1 and 2			

5	9/7	Managerial Economics: 6. Simple Pricing	Interactive Tutorials: 3. Marginal Cost . . . 4. Demand 5. Elasticity 6. Elasticity II
9/11 11:59pm Online Quiz 5 must be completed			
6	9/12	Managerial Economics: 7. Economies of Scale and Scope	
7	9/14	Managerial Economics: 8. Understanding Markets and Industry Changes	Interactive Tutorials: 7. Supply, Demand . . . 8. Monopoly . . .
8	9/19	Managerial Economics: 9. Relationships Between Industries: The Forces Moving Us Towards Long Run Equilibrium Presentation. Groups 1, 12	
9	9/21	Managerial Economics: 10. Strategy--the Quest to Slow Profit Erosion Presentation. Groups 2, 11	
10	9/26	Managerial Economics: 11. Using Supply and Demand; Foreign Exchange, Trade, and Bubbles Presentation. Groups 3, 10	
11	9/28	Managerial Economics 12. More Realistic and Complex Pricing Presentation. Groups 4, 9	
12	10/3	Managerial Economics 13. Direct Price Discrimination Presentation. Groups 5, 8	
13	10/5	Managerial Economics 14. Indirect Price Discrimination Presentation. Groups 6, 7	Managerial Economics: 15. – 23. Interactive Tutorials: 12. Risk 13. Risk Aversion . . .
		Final Exam: Tuesday, 10/11. 1:00-4:00 BIF Auditorium.	