

BECN 2401 – FULL TIME MBA FALL 2008

**ECONOMIC ANALYSIS FOR MANAGERIAL
DECISIONS – FIRMS AND MARKETS**

ESTHER GAL-OR

Instructor
PROFESSOR ESTHER GAL-OR
222 Mervis Hall
412-648-1722
esther@katz.pitt.edu

Teaching Assistant
Franky Supriyadi
209 Mervis Hall
412-648-1682
fsupriyadi@katz.pitt.edu

Secretary
Julia Broskey
224 Mervis Hall
412-648-1541
jbroskey@katz.pitt.edu

Full Time MBA - Fall 2008

**UNIVERSITY OF PITTSBURGH
JOSEPH M. KATZ GRADUATE SCHOOL OF BUSINESS**

**BECN 2401 - ECONOMIC ANALYSIS FOR MANAGERIAL DECISIONS-
FIRMS AND MARKETS**

Required Texts

- 1) Baye, Michael, Managerial Economics and Business Strategy, 6th edition, McGraw-Hill Irwin, 2008.
- 2) Problems to be distributed.
- 3) Harvard Business School and other cases.

Course Description

This course develops an understanding of how a market-based economic system reconciles the separate needs of consumers and producers and provides an economic framework for managerial decisions. Additionally, the course provides tools of analysis and concepts which are used in the MBA program's functional fields. Centering on the basic concept of the business firm, it integrates the analysis of domestic and global market structures. Topics include pricing, output and quality decisions; the impact of productivity improvements on costs; quality-cost tradeoffs; market imperfection and the role of regulation.

Student Evaluation

The evaluation will be based on the following factors

- | | |
|---|-----|
| 1. Homework and class participation | 15% |
| 2. Group-Case Discussion and Presentation | 15% |
| 3. Midterm Examination | 35% |
| 4. Final Examination | 35% |

Academic Integrity

With the exception of a single formula sheet that is permitted, the in-class examinations are closed book and notes. All work on the exams must be your own. You may work together on the homework assignments you submit, but all students must make significant contributions.

Written Assignments

- All written assignments can be prepared in groups of 4-5 people. For proper credit assignments must be submitted by the due dates.
- All questions are taken from the Problem Set prepared by the instructor.
- The last assignment is an analysis of four cases as specified in the Problem Set. Groups should be prepared to discuss their analysis.

Classroom Decorum

Please turn off cell phones when you are in the classroom unless you are expecting a call regarding a medical emergency. Also, please come to class on time and try not to leave and enter the classroom while class is in session. Previous students have indicated that they find late arrivals and students coming and going during class to be disruptive. Of course, I recognize that there are times that a student must leave the classroom. If this is the case, please do so with as little disruption as possible.

Course Outline

1. Demand and Supply

Read: Text Chapter 2
Handout Problems 1-3 (due Sept. 3).

Main Concepts: Demand Function and Demand Curves, Supply Functions and Supply Curves, Normal and Inferior goods, Substitutes and Complements, Price Controls, Taxes and Subsidies.

Cases to be used in Class Discussion:

1. "King of Corn Has Tips for Farmers"
2. "Frost Damage at French Vineyards Might Actually Help Glutted Markets"
3. "If Only Most Americans Understood"
4. "Then There's Rent Control"

2. Elasticity and Revenue Concepts

Read: Text, Chapter 3 (optional reading pages 93-109).
Handout Problems 4-10 (due Sept. 17)

Main Concepts: Elasticity of Demand (of Supply), Relationship Between Revenue and Price Elasticity.

Cases to be used in Class Discussion:

1. "Taxes and Antismoking Measures Reduce Smoking Among College Students"
2. "...And Cigarette Revenues Up in Smoke"

3. Cost Analysis

Read: Text Chapter 5: 177-193.
Handout Problems 11-14 (due Sept. 24)

Main Concepts: Production Costs in Short and Long Run, Opportunity Cost, Sunk Cost, Economies of Scope, Economies of Scale.

Cases to be used in Class Discussion

1. "Productivity and Labor Costs in Newly Industrialized Countries"

4. Competitive Markets, Domestic and Global Market Performance

Read: Text Chapters 2 & 8: pages 265-278.
Handout Problems 15-16 (due Oct. 1)

Main Concepts: Competitive Markets, Supply and Demand Analysis, Short and Long Run, Tariffs and Quotas, Exchange Rate Determination.

Cases to be used in Class Discussion

1. "A Supply/Demand Analysis of Import Restrictions"
2. "Exchange Rate Determination"
3. "Big Mac Index"
4. "China loses Some Allure as World's Factory"
5. "The U.S. Build a Fishy Case Against Chilean Salmon"
6. The Folly of 'Fair Trade'

October 13 Mid-Term Examination

5. Monopoly Power

Read: Text Chapter 8: 278-294.
Handout Problems 17-20 (due Oct. 22)

Main Concepts: Monopoly Pricing and Public Utility Regulation

6. Oligopoly and Game Theory

Read: Text Chapter 9: 315-332. Chapter 10 (optional reading 365-387).
Handout Problems 21-24 (due Nov.3)

Main Concepts: Game Theory and Competitive Strategy, Competition vs. Collusion, The Prisoner's Dilemma, Maximin and Dominant Strategies, Cournot and Bertrand Equilibria

Cases to be used in Class Discussion

1. "The Right Game: Use Game Theory to Shape Strategy"
2. "OPEC Isn't the Only Cartel the Couldn't"
3. "Let's Play Oligopoly!"

7. Special Issues in Pricing

Read: Text Chapter 11
Handout Problems 25-27 (due Nov. 10)

Main Concepts: Price Discrimination, Two Part Tariff, Product Bundling

Cases to be used in Class Discussion

1. "Sheep Drug Halts Colon Cancer; Doctors Say Humans are Fleeced"
2. "Differences in Drug Prices"

8. Group-Case Class Presentations – November 12, 17, 19 (Problems 28-31)

Each group (4-5 members) submits a short written analysis of the following 4 cases:

1. "Judo Economics"
2. "Entry Barriers (A): Deep Pockets"
3. "Signaling Cost"
4. "The Free-Rider Problem: Airline Frequent-Flyer Programs"

9. Auctions

Read: Text Chapter 12: 3rd Ed., pages 456-467.

Main Concepts: Open and Sealed-bid Auctions, Private and Common Value Auctions

Cases to be used in Class Discussion:

1. "FCC's Auction of the Airwaves Proves Success as Offers Reach \$500 Million"

December 8 Final Examination

Esther Gal-Or

Glenn Stinson Chair in Competitiveness and Professor of Business Administration and of Economics

Office Room: 222 Mervis Hall

Office Phone: 412-648-1722

Electronic Mail: esther@katz.pitt.edu

Degrees:

B.Sc. in Economics, Technion-Israel Inst. of Technology

M.Sc. in Economics, Technion-Israel Inst. of Technology

Ph.D. in Managerial Economics and Decision Sciences, Northwestern University.

Areas of Interest:

Theory of Industrial Organization, Applied Game Theory, Industrial Organization of Health Care, Online and Media Markets.

Courses Recently Taught

Economic Analysis for Managerial Decisions (Required course in MBA and IEMBA programs)

Applications of Game Theory in Managerial Decision Making (elective course in MBA program)

Seminar in the Theory of Industrial Organization (PhD program)

Seminar in Microeconomics (PhD program)

Profile

Esther Gal-Or joined the Katz School in 1980. She has also taught as a visiting professor at the Technion-Israel Institute of Technology and the Kellogg Graduate School of Management at Northwestern University. Gal-Or's research and teaching interests are in microeconomics, industrial organization, game theory, and the industrial structure of the healthcare, online and media markets. Her work has been sponsored by the National Science Foundation and other government agencies. It has been published in economics and management journals such as *Econometrica*, *Review of Economic Studies*, *Journal of Economic Theory*, *Bell (Rand) Journal of Economics*, *Journal of Economics and Management Strategy*, *Journal of Business*, *Management Science*, and *Marketing Science*. She serves on the editorial boards of a variety of economics and management journals.