

BUSI 681: Managerial Economics and Public Policy
Fall 2004

Track 1 (Section 0101): 3:20pm – 5:10pm (Windle)
Track 2 (Section 0201): 1:20pm – 3:10pm (Bailey)
Track 3 (Section 0301): 10:30am – 12:20pm (Bailey)
Classroom: Van Munching Hall 1511

Instructors

Professor Robert Windle 3409 Van Munching Hall Phone: 301-405-2187 rwindle@rhsmith.umd.edu Office Hours: Thursdays 1pm – 4pm	Professor Joseph Bailey 4315 Van Munching Hall Phone: 301-405-2174 jbailey@rhsmith.umd.edu Office Hours: Tuesdays 10am – noon, 1pm – 5pm	Graduate Assistant Richard Nidel 2 nd year MBA student 3426 Van Munching Hall Richard_Nidel@rhsmith.umd.edu Office Hours: Fridays 1pm – 3pm
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Course Objectives

This course is intended to provide the student with a basic introduction to the microeconomics of the firm. The emphasis will be on the firm decision making process and how that process influences firm performance. Firm performance can have many dimensions, although this course will primarily concern itself with profitability. The course will examine the market environment of the firm and the role of government in the market. Topics to be covered include the basic microeconomic principles that firms utilize in making business decisions, including demand, elasticities, costs, productivity, and pricing. In addition we will examine the industry environment that the firm faces including the concepts of market structure, market conduct and market performance. Finally we will examine various situations where government intervention is justified in the market.

The "managerial" in the course title is taken quite seriously, with primary attention given to applications. This is accomplished primarily by the use of a text that emphasizes the managerial applications of economic concepts and the use of cases. The cases provide practice in applying economic concepts to firm decision-making.

Course Requirements

Midterm Exam: 35%
Final Exam: 35%
Case Write-up: 18%
Problem Sets: 12%

Letter grades will not be assigned to work, only numerical grades. At the end of the semester all numerical grades will be summed based on the percentages stated above. Approximately the top 25-40 percent of students will receive an A. Most of the remaining students will receive the grade of B. Grades of C, D and F will be assigned to those students whose performance is appreciably below the class average. Pluses and minuses will be used when appropriate to designate the tops and bottoms of ranges.

Tests and Final Exam

There will be one midterm exam and a final exam. The midterm will occur on Friday, Sept. 17 from 9am - noon. Track 1 will take the midterm exam in the Rouse Auditorium (Van Munching Hall room 1412). Tracks 2 & 3 will take the midterm exam in LeFrak Hall room 2205. The midterm will be based on material covered up to that day. The course constantly builds upon material covered earlier in the course. This means that the final exam is inevitably cumulative. Although the final exam will focus on material covered since the midterm, there will necessarily be material on the final exam that was covered prior to the midterm. The final exam will be on Wednesday, October 13th from 7pm – 10pm. Track 1 will take the final exam in Rouse Auditorium (Van Munching Hall room 1412). Tracks 2 and 3 will take the final exam in the Frank Auditorium (Van Munching Hall room 1524).

While the exams are problem oriented, they are not intended to see if a student can simply plug numbers into a formula. Rather, exam problems test the student's ability to understand the context and apply the proper analysis for that situation. At this point, formulae may help solve the problem but it is most important to understand the economic concepts underpinning the question.

It is important that your schedules permit you to be free on exam dates. Absence from any exam will result in a grade of zero, unless cleared in advance with the instructor.

Groups

Case reports will be completed as group projects. Each student will be assigned to a group of four or five students in the first class session.

Problem Sets

There are six problem sets in the course. Many problems have been taken from past exams and provide students with a good indication of test questions. All problems are found in the lecture notes distributed in the first day of class.

<i>Problem Set</i>	<i>Questions (from Lecture Notes)</i>	<i>Due Date (by 8pm)</i>
#1	1.2, 2.2, 3.1, 3.2	8/31
#2	4.1, 4.4, 5.1, 5.3	9/12
#3	6.1, 6.2, 6.4, 6.5,	9/14
#4	7.1, 7.2, 8.1, 8.2	9/26
#5	9.1, 9.2, 10.1, 10.2	10/3
#6	11.3, 11.4, 12.2, 12.3	10/10

Students are required to complete the problem sets and submit their answers using the course web site by clicking on the multiple choice answers. After the due date, students will be unable to submit their answers. Solutions to these problem sets will be distributed electronically after the due date. Each problem set is 2% of the final grade.

Case Reports

Each group is required to submit one case report. Since each group is only assigned one case report, the date the report is due varies from group to group. Case reports must be turned in before the class in which the case is discussed. No late reports will be accepted. Each case includes a series of discussion questions. These questions should form the basis for your case report. Groups should address all case questions, as well as any additional issues that the group feels are relevant. In answering the discussion questions groups should link the case with the theories and models covered in the course. Reports will be evaluated on their use of course materials and on the insight provided concerning the case. Students should feel free to utilize outside information and references in their reports. Organization, analysis, and writing style will also enter into the evaluation. The reports must be typewritten, double spaced and no more than ten pages long. The ten page limit applies to text. Figures, charts, tables and references will not count towards the ten page limit. The font size chosen should be no smaller than 12 point.

Groups are required to work independently.

Required Materials

- Managerial Economics and Business Strategy, by Michael R. Baye, McGraw-Hill/Irwin, Fourth Edition, 2002.
- BUSI 681 Course Packet. (Produced by XanEdu) This contains problem sets, case questions, and articles including:
 - Buzzell, R. D., Note on Market Definition and Segmentation, Harvard Business School, #9-579-083, pp. 1-10.

- Porter, M. E., Note on the Structural Analysis of Industries, Harvard Business School, #9-376-054.
- Corts, K. S., The Ready-to-Eat Breakfast Cereal Industry in 1994 (A), Harvard Business School, #9-795-191.
- Verter, G. V. and A. M. McGahan, Coming Soon: A Theater Near You, Harvard Business School, #9-797-011.
- Kou, J. and A. M. McGahan, The U.S. Airline Industry in 1995, Harvard Business School, #9-795-113
- BUSI 681 Lecture Notes (to be distributed the first day of class)

Course Feedback

At the conclusion of the course you will be requested to provide feedback to the instructor regarding various aspects of the course. While this is useful, it obviously comes too late in the semester to correct any problems that are occurring during the semester. In order to address your concerns during the semester, we encourage you to provide feedback throughout the course, either written or oral. There is a link from the course web site for anonymous electronic feedback that students are welcome to use.

Academic Integrity

The University's Code of Academic Integrity is designed to ensure that the principles of academic honesty and integrity are upheld. All students are expected to adhere to this Code. The Smith School does not tolerate academic dishonesty. All acts of academic dishonesty will be dealt with in accordance with the provisions of this code. Please visit the following website for more information on the University's Code of Academic Integrity:

<http://www.studenthonorcouncil.umd.edu/code.html>

On each exam or assignment you will be asked to write out and sign the following pledge. "I pledge on my honor that I have not given or received any unauthorized assistance on this exam/assignment."

Special Needs

Any student with special needs should bring this to the attention of the instructor as soon as possible, but not later than the second week of class.

BUSI681, Managerial Economics and Public Policy, 2004 Course Schedule

Sun	Mon	Tues	Wed	Thurs	Fri
8/22	8/23 Lesson 1: Introduction <u>Reading:</u> Baye Chapter 1, pp. 1-12; “Note on Market Definition” (course packet) <u>Topics:</u> Firms, Markets and Industries; Objective of the Firm; Marginal Analysis <u>Exercise:</u> Analysis of Fortune 500 Companies’ Profits	8/24	8/25 Lesson 2: Industry Analysis <u>Reading:</u> Baye Chapter 7; “Note on the Structural Analysis of Industries” (course packet) <u>Topics:</u> Structure, Conduct and Performance; Porter’s Five Forces <u>Exercise:</u> Amazon.com and Barnes & Noble Simulation	8/26	8/27
8/29	8/30 Lesson 3: Monopoly - Costs <u>Reading:</u> Baye Chapter 5, pp. 173-188 <u>Topics:</u> Long Run versus Short Run Decisions; Costs; Efficiency <u>Exercise:</u> Minimum Efficient Scale Problem	8/31 Problem Set #1	9/1 Lesson 4: Monopoly - Demand <u>Reading:</u> Baye Chapter 2, pp. 33-43; Baye all of Chapter 3 <u>Topics:</u> Demand Curve; Elasticities <u>Exercise:</u> Auction Simulation	9/2	9/3
9/5	9/6 No Class—Labor Day	9/7	9/8 Lesson 5: Monopoly - Profits <u>Reading:</u> Baye Chapter 8, pp. 273-288 <u>Topics:</u> Revenue; One Price for all Consumers <u>Exercise:</u> Maximum Revenue Problem	9/9	9/10
9/12 Problem Set #2	9/13 Lesson 6: Pricing <u>Reading:</u> Baye Chapter 11, pp. 398-413 <u>Topics:</u> Consumer Surplus, Price Discrimination; Bundling; Peak Load Pricing; Two Part Tariffs <u>Exercise:</u> Bundling Simulation	9/14 Problem Set #3	9/15 Review Session <u>Reading:</u> none <u>Topics:</u> All material in Lessons 1-6 <u>Exercise:</u> none	9/16	9/17 Midterm Exam 9am – noon
9/19	9/20 Lesson 7: Game Theory <u>Reading:</u> Baye all of Chapter 10 <u>Topics:</u> One-Period Games; Finitely Repeated Games; Infinitely Repeated Games <u>Exercise:</u> Salespeople Allocation Problem	9/21	9/22 Lesson 8: Duopoly <u>Reading:</u> Baye Chapter 13 <u>Topics:</u> Limit Pricing; Residual Demand <u>Exercise:</u> Competition Simulation	9/23	9/24
9/26 Problem Set #4	9/27 Lesson 9: Oligopoly <u>Reading:</u> Baye Chapter 9, pp. 308-311; Baye Chapter 2, pp. 43-52 and pp. 57-63; “The Ready-to-Eat Breakfast Cereal Industry in 1994” (course packet) <u>Topics:</u> Supply Curve; Shifts in Supply; Producer Surplus <u>Exercise:</u> Breakfast Cereal Case	9/28	9/29 Lesson 10: Perfect Competition <u>Reading:</u> Baye Chapter 8, pp. 259-273; “The U.S. Airline Industry in 1995” (course packet) <u>Topics:</u> Market Equilibrium; Social Welfare <u>Exercise:</u> Airline Industry Case	9/30	10/1
10/3 Problem Set #5	10/4 Lesson 11: Integration <u>Reading:</u> Baye Chapter 6, pp. 198-215; “Coming Soon: A Theater Near You” (course packet) <u>Topics:</u> Horizontal Integration; Vertical Integration <u>Exercise:</u> Movie Theater Case	10/5	10/6 Lesson 12: Government <u>Reading:</u> Baye Chapter 14, pp. 499-521 <u>Topics:</u> Natural Monopoly, Public Goods, Externalities, Taxation <u>Exercise:</u> Public Good Simulation	10/7	10/8
10/10 Problem Set #6	10/11 Review Session <u>Reading:</u> none <u>Topics:</u> All course material with an emphasis on Lessons 7-12 <u>Exercise:</u> none	10/12	10/13 Final Exam, 7pm – 10pm		