

A brief and useful outline to ECON 3121 – Managerial Economics (Semester 1, 2010)

Summary of Course

The course is designed to equip prospective managers with some of the tools of economics for the purpose of decision-making. In designing it, I attempted to answer the question: “*If I were a manager, how would economics be of use to me?*” It turns out it can be very useful. The course is broad in scope and contains varying degrees of technical difficulty to satisfy a wide audience of students in economics, finance or management. We will consider decision-making problems in the market place, others pertaining to organisational aspects and financing of the firm, and maybe investigate the scope of the firm .

Aims and Relationship to Other Courses

This course is also a springboard for more advanced courses in industrial organisation, organisation economics and the theory of incentives. It is offered as part of the economics stream in the B.Com and B.Econ degrees. The only prerequisite for this course are ECON2101 (Micro II); it is useful but *not necessary* to have taken a course in game theory and/or the economics of corporation. The course builds on the knowledge students acquired in Micro II; **in particular, we will transition from Micro II to this course using the same workbook. Throughout the course we will use the same weekly assignment format as in Micro II.**

ASSESSMENT

Assessment Details

Assessment Task	Weight	Length	Due Date
Short weekly assignments.	30.00% (total)	Weekly	n/a
Midterm exam	20.00%	2 hours	Week 7
Final Exam	50.00%	2 hours	University Exam Period

Assignments

Assignments will take the form of *small*, weekly problem sets. Emphasis will be laid on methods and techniques, rather than just results. For example, a correct result without any derivation will be penalised. Students will have to turn them in to their tutor, who will provide answers in class. A *random* subset of the questions will be graded.

LECTURE SCHEDULE

Approximately one half of the course is devoted to strategic market interactions (imperfect competition) while the other half turns inward and concerns itself with the organisation and the financing of the firm. The last session, time permitting, explores preliminary questions of the boundaries of the firm. Below is an approximate schedule, which may be amended at the lecturer's

discretion depending on students' response to the material. This is **not** a binding commitment.

- Week 1 – Review of basic pricing problems (monopoly, perfect competition, duality of cost minimisation). Some applications.
- Week 2 – Guest Lecturer: Mark Steyn, CEO of Husdon (recruitment), about 1 hours. Review of optimisation methods (from QMA and Micro II). Introduction to some simple games. Cournot model of quantity competition.
- Week 3 – Bertrand model of price competition, the Bertrand paradox, differentiation, free entry and sunk costs.
- Week 4 – Some aspects of asymmetric information and pricing – the market for lemons, certification.
- Week 5 – More advanced monopoly pricing – simple two-part tariffs, pricing with complements.
- Week 6 – Repeated interactions: overcoming the Bertrand paradox, collusion, multimarket contact
- Week 7 – Mid-term exam
- Week 8 – Bilateral contracting (the holdup problem)
- Week 9 – Moral hazard and the provision of incentives in the firm
- Week 10 – Introduction to corporate finance
- Week 11 – More corporate finance
- Week 12 – Vertical integration and double marginalisation. Outsourcing decisions.

TUTORIAL SCHEDULE

- Week 1 – Questions from the Bergstrom and Varian workbook
- Week 2 – Review of optimisation methods: exercises. Simple games.
- Week 3 and on – Questions to be specified, following the Lecture schedule