

Managerial Economics: Term 1, 2010-2011

Instructors

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TA Office Hours:

I. Overview of the course

The course is divided into two parts.

- Part I, taught by Amit Bubna, April 26 to May 11
- Part II, taught by Tarun Jain, May 12 to May 27.

Learning Goals:

The course is intended to teach you the process of critical and integrative thinking.

Methodology:

Towards meeting the learning goals, the course introduces you to the economist's way of thinking about problems and making decisions. Some of you may take to the methodology like ducks to water, others will find it bitter medicine. In both cases, you will hopefully learn to appreciate the methodology and likely alter the way you look at the world and what you do. A central component of economics methodology involves running controlled *thought* experiments called models. These are toy versions of real situations in which the less critical aspects of the problem are stripped away to focus on understanding the primary issue under consideration. Beyond appreciating this technique, learning economics necessarily entails engagement and arguments with the logic. Most importantly, we do NOT offer a laundry list of facts to be learnt by rote – otherwise, there would be no need for a course.

This course in managerial economics will use the above-mentioned methodology to focus on decision-making in business situations. Managers regularly address issues ranging from pricing, cost determination, compensation, entry into and exit from markets, and output decisions. At the end of the course, you will have the basic tools that structure these problems for optimal decision-making and, more importantly, develop an intuition for analyzing economic problems.

This is a problem-oriented course. We recognize that as a manager, you will seldom be asked for your intuition and (almost certainly) never asked for a formal proof, but you will be asked to price services, determine how much material to produce, make decisions to invest, etc. While, the problems differ from one context to another, intuition and the logic of the proof do not. So, rather than focusing on a specific scenario, you must instead **understand** the intuition and the proof in

solving any problem. To facilitate this, we provide sample questions and solutions on the course webpage.

It must be clear from above that **BASIC** (AND I DO MEAN, BASIC) mathematical and calculus skills are expected for this course.

II. Course Conduct - Contract with Students

Students will be expected to be prepared for all classes. This includes having done the readings and being prepared to answer questions/participate in discussions. Students should arrive in class on time, not leave the class during the session, and not perform any other activity that is unrelated to the course during class-time.

The only way to learn is to be prepared for classes by reading the material before each class. It is useful to ask questions and actively participate in class. There are numerous opportunities and options outside the classroom made available for students. Students should make use of instructor office hours as well as those of teaching assistants (TAs) assigned to the course.

ASA has decreed that **attendance is MANDATORY**. So please be sure to adhere to this guideline to avoid being penalized.

Last but not the least, it is **IMPERATIVE**, that we treat all stakeholders in the classroom (and possibly those outside the classroom too, though I have little control over that) with respect. Learning is not about putting others down as much as being attentive to others' perspectives.

In return for your adherence to the contract, the instructor promises to be on time, well-prepared and appear well-kept.

III. Course Material

There is a course pack for this course which contains textbook readings for each class.

In addition, there are additional readings for each class that will be available only on the course webpage (on Blackboard). You are expected to access that material and be familiar with it prior to the class.

Handouts, if any, for each lecture will be handed out in class. They will also be available on the course webpage after the lecture.

Recommended (but not required) for the course are the following books:

- "Managerial Economics," 6th edition, by Bruce Allen, Neil Doherty, Keith Weigelt and Edwin Mansfield
- "Microeconomics for Managers" by David Kreps
- "Microeconomics" 7th Edition by Robert Pindyck & Daniel Rubinfeld

Several copies of these books are in the library. These books have a number of problems that you can solve for practice, preferably before you come for class. Even though you may face some difficulty in solving them prior to the class, it would be extremely useful for you to take a shot early on. And if all goes well, these problems will be a breeze after the class.

IV. Quick Glance Course Schedule

(Note that content and dates may change to accommodate the pace of the class. Such changes will be announced.)

Here is an approximate outline of what is intended for each class. You would be expected to familiarize yourself with the readings before each lecture.

Date	Topics/Objects
April 26/April 27	LECTURE 1: Basic Economic Concepts and applications Readings: Course pack Additional Readings: <ul style="list-style-type: none">• “The Auction Game Handout”• “Herd Them Together and Scalp Them”, WSJ, Feb. 23, 1995• “The Regulators’ Best Friend”, Economist, Mar. 31, 2005
April 28/April 29:	LECTURE 2: Demand, Elasticity, Consumer Surplus, Aggregate Demand Readings: Course pack Additional Readings: <ul style="list-style-type: none">• “The (fictitious) Delhi Metro case”• “Alcohol and Marijuana Use Among College Students: Economic Complements or Substitutes?”, NBER WP8401
April 29 (Th, 2 pm)	Group Homework 1 handed out (on blackboard only), by 2 pm
May 3 (M, 8am)	Group Homework 1 due (hard copies), by 8 am, AC3, Courtyard
May 3/May 4:	LECTURE 3: Monopoly and Price Discrimination; Costs; Supply Readings: Course pack Additional Readings: <ul style="list-style-type: none">• “Socially Responsible Pricing: Lessons from the pricing of AIDS drugs in developing countries”, CMR, Fall 2004
May 5/May 6:	LECTURE 4: Cost Dynamics; Perfect Competition Readings: Course pack Additional Readings: <ul style="list-style-type: none">• “The Auction Game Handout” - again
May 6 (Th, 2 pm)	Group Homework 2 handed out (on blackboard only), by 2 pm
May 10 (M, 8 am)	Group Homework 2 due (hard copies), by 8 am, AC3, Courtyard
May 10/May 11	LECTURE 5: Market Efficiency, Market Distortions Readings: Course pack Additional Readings: <ul style="list-style-type: none">• “The Economics of Competition Law”, by Amit Bubna and Shubhashis Gangopadhyay, in Vinod Dhall (ed) <i>Competition Law Today</i>, OUP, 2007.• Cartelization in India.pdf

- “Efficiency Effects on the U.S. Economy from Wireless Taxation”, by J. Hausman in National Tax Journal.
- India’s Competition Act, 2002

May 14

Examination on Part I of the course

May 12/May 13 LECTURE 6: Consumer Behavior, Risk Aversion, Adverse Selection, Moral Hazard
Readings: Course pack

May 17/May 18: LECTURE 7: Public goods, Externalities
Readings: Course pack

May 18 **Group Homework 3** handed out (on blackboard only), by 2 pm

May 21 **Group Homework 3** due (hard copies), by 4 pm, AC3, Courtyard

May 19/May 20: LECTURE 8: Cournot, Stakelberg, Bertrand, Dominant Firm
Readings: Course pack

May 24/May 25: LECTURE 9: Game Theory I: Simultaneous Games
Readings: Course pack

May 25 **Group Homework 4** handed out (on blackboard only), by 2 pm

May 28 **Group Homework 4** due (hard copies), by 4 pm, AC3, Courtyard

May 26/May 27 LECTURE 10: Game Theory II: Sequential and Repeated Games
Readings: Course pack

May 29

Examination on Part II of the course

V. Grading

Each part of the course will carry 50% of the total grade for the course and will be distributed across the various components as follows:

	Part I	Part II
Homework	15%	15%
Class quiz	5%	5%
Exam	30%	30%

For homework, there will be two group assignments in each part. The total grade will be: Better of the two. This effectively makes the All homework submissions must be made in **HARD COPIES**, not electronically. The writing must be comprehensible – anything that is not legible will be ignored and hence penalized. No late submissions will be accepted. Please remember to put the names and PGIDs of all your group members.

VI. Course Webpage (on Blackboard)

In the interest of the environment, we expect to use the course webpage extensively for multiple purposes.

Homework assignments and solutions will be posted on the course webpage. You are expected to obtain these from the webpage directly rather than expect hard copies in class. ***There will be no hard copies of the assignments or solutions. The course website will be the only source for these.***

Material to be read before the class as well as any additional material that we think could be of interest will also be put on the course webpage.

The webpage will also be used for announcements (e.g., error in Problem Set). It is your responsibility (as adults) to check for announcements.

Please use the Discussion Board on the course webpage. This could be a valuable resource for exchanging ideas and sharing knowledge.

VII. Honour Code

ISB takes the honour code seriously, and so should you. The student handbook contains details on the honour code and ethics standards at ISB. Please ensure that you read the relevant section(s) in the Handbook. Feel free to ask us in case you have any questions.