Ron Baiman, Ph.D
MBA/MSA 611
Winter Quarter 2016

Benedictine University MBA/MSA Programs
MBA_MSA 611 Economics
Winter 2016
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Course Description: In this course you will learn to apply microeconomic tools to business decision making. Topics include optimization, consumer behavior, elasticity of demand, the use of regression analysis to estimate demand (revenues) and costs, marginal analysis and market structure.

Prerequisites: MBA 510 Economics and MBA 541 Business Statistics

Topics: The focus will be on the microeconomic relationships that will be used to understand the rapidly changing business environment. Some of the concepts covered include supply and demand, demand elasticity, optimization, marginal benefits and marginal costs, regression analysis, consumer behavior, the theory of production and costs, the measurement of costs, forecasting, empirical demand curves, the theory of the firm under both perfectly and imperfectly competitive situations such as monopoly, monopolistic competition, and oligopoly, and strategic behavior.

Note to students: This is an applied microeconomics course and thus it will require you to spend a lot of time working problems. Keep in mind that these problems have been chosen to enhance your understanding of the microeconomic theories used in decision-making, and you should not get “bogged down” with the math—the main purpose of the class is to learn economics. You should work all the assigned problems—you cannot learn managerial economics without working problems. We will go over some of those problems in class but obviously we don’t have time to cover all of them. Many answers to the technical problems are found at the end of the book—you should not look at these until you have made a good effort to work the problem on your own. You will not have to turn in these problems, but you will find the exams much easier if you work the problems. There is a workbook with additional problems to practice if you wish.

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Course Goals and Objectives

- Analyze consumer behavior and its impact on supply and demand.
- Utilize the concepts of optimization and elasticity in decision-making.
- Use regression analysis to demonstrate relationships between economic variables.
- Calculate an estimate of a demand function in order to forecast future sales.
- Analyze market structures to maximize profits given the demand and cost schedules of a firm.
- Apply microeconomic theory in managerial decision-making.
- Appraise strategic behavior in the decision-making process.

Required Texts and Materials

- W. Bruce Allen, Neil A. Doherty, Keith Weigelt, and Ewin Mansfield. Managerial Economics: Theory Applications and Cases. 8th Edition, W. W. Norton & Company, ISBN: 978-0-393-91277-7

Course Requirements

Midterm Exam	40% of final grade
Regression Problem	10% of final grade
Class Presentation	10% of final grade
Final Exam	40% of final grade
Class Participation	See Below
	100%

Class Presentation: Each student will be asked to give a short 5-10 minute presentation managerial economics (or general economics) issue of their choice related to a published business or economics reading that is of importance to their work or private lives. A "fall back" option is to present (chapter or sections) from: *Capital in the Twenty First Century*, by Thomas Piketty, or the forthcoming book *The Morality of Radical Economics: Ghost Curve Ideology and the Value Neutral Aspect of Neoclassical Economics*, by Ron Baiman (10% of the final grade). Sections of these will be put up on D2L.

Midterm Examination: The midterm will be given during the 6th class. It will cover Chapters 1, 2, 4 and 6 in the text and supplemental power point and D2L material (40% of the final grade).

Regression Problem: A problem using regression analysis, using Bloomberg Lab data which you will collect, will be handed out to you during the first or second week. It will be due a week before the last class. (10% of the final grade).

Final Examination: The final will be given during the 10th class. It will cover Chapters 7 p. 224-236, 8, and 12 in the text and supplemental power point and D2L material (50% of the final grade).

Class Participation: The class is enhanced if each student is willing to contribute his or her opinions and share these with the rest of the class. Though not officially part of the grade calculation, participation *will be considered* in borderline cases when determining final course grades. Students should not miss classes. If is necessary to miss a class, students should notify the instructor before the class. Students should not have more than two excused absences. More than two missed classes could result in a grade reduction.

Grading Criteria

The grading criteria for the class are as follows:

A = 90-100 Excellent
B = 80-89.9 Good
C = 70-79.9 Average
D = 60-69.9 Passing but below average
F = <59.9 Failing

Incompletes are to be issued sparingly and only to students in good academic standing (GPA is 3.0 or above). The student must currently be doing at least "C" work in the class. The student must have a clearly defined plan for completing the work within an acceptable amount of time. Incompletes that remain on the record for 180 days after the end of the term will automatically become "Fs."

Grading Guidelines

Grade of "A" (Excellent): To receive an A in this class, students must consistently demonstrate excellent performance. On assignments, "A" students demonstrate unusually sharp insight into the material, articulate their ideas clearly and comprehensively, and integrate ideas previously learned in the course or in other disciplines. In class, "A" students demonstrate outstanding preparation for and enthusiastic participation in discussions and activities. The work of an "A" student consistently goes above and beyond what is required and is of such nature that it could be put on reserve for all students to review and emulate as the ideal.

Grade of "B" (Good): The receive a B in this class, students must consistently perform at a level to considered good to very good. On assignments, "B" students demonstrate good comprehension of the subject matter and communicate their ideas well. In class, "B" students demonstrate good preparation, and they adequately participate in discussions. The work of a "B" student usually reveals a high quality of performance and represents solid work.

Grade of "C" (Average): To receive a "C" in this class, a student must consistently perform at an adequate, or average, level; or, perhaps fluctuate between average and good work. On assignments, "C" students demonstrate a satisfactory understanding of the material, and communication of ideas is at an acceptable level. In class, "C" students demonstrate average preparation, and they participate in discussion, although

with less enthusiasm and consistency than an “A” or “B” student. The work of a “C” student usually meets all the requirements, but only on an adequate level.

Grade of “D” (Passing, but below average): To receive a “D” in this class, a student must consistently perform at a below average level. On assignments, “D” students have difficulty understanding the material and cannot clearly communicate their ideas. In class, “D” students may not attend or are frequently unprepared for class and rarely show any enthusiasm for
participation in discussions. The work of a “D” student is passing by a slim margin, but is unacceptable if continued.

Grade of “F” (Failing): To receive an “F” in this class, a student must consistently produce work that is unacceptable, either in quantity or quality. On assignments, “F” students cannot clearly communicate and understanding of the material or do so in a consistently insufficient manner. In class, “F” students do not attend or are not prepared and do not contribute in any manner to discussions. The work of an “F” student is insufficient to gain credit for the course.

Student Responsibilities

- Students who are not enrolled in class (either for credit or audit) cannot attend the class and cannot receive credit for the course.
- Students cannot submit additional work after grades have been submitted to alter their grade (except in cases of temporary grades such as I, X, IP).
- Students on academic probation are not eligible for a grade of I – Incomplete.

To ensure a comprehensive and authentic education, the student is responsible for planning his/her academic program and progress, and for evidencing academic performance with honesty and integrity. Intended learning cannot be evidenced if one misrepresents the work of others as his/her own. The University encourages students to assist one another (e.g. tutoring, group projects); the student is accountable for work submitted to meet his/her requirements.

Academic honesty is expected and required in all academic work. Each student shall be honest in her or her academic work and shall support the honesty of others as stated in the Benedictine University Academic Honesty Policy (http://www.ben.edu/ahp) and in the current graduate catalogue, http://www.ben.edu/graduatecatalog/policies02.pdf.

In accordance with the policy of academic honesty, activities such as, but not limited to which are prohibited, include:

- Giving or receiving unauthorized aid on a quiz or examination
- Taking an exam or doing homework assigned for another student, or arranging to have it done
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- Plagiarism (submitting the work and/or ideas of others without giving proper credit)

- Falsifying data or other results
- Using material, information or sources specifically and legitimately restricted by the instructor
- Sabotaging the work of others
- Altering academic records

Evidence of the following behaviors will be construed as violations of academic honesty and will result in a failing grade for that assignment: submitting identical assignments, exams, answers, journal entries or other deliverables; sourcing identical citations, data, tables or quotations; conversations among students during in-class examinations.

The search for truth and the dissemination of knowledge are the central missions of a university. Benedictine University pursues these missions in an environment guided by our Roman Catholic

tradition and our Benedictine heritage. Integrity and honesty are therefore expected of all members, administration and staff. Actions such as cheating, plagiarism, collusion, fabrication, forgery, falsification, destruction, multiple submission, solicitation and misrepresentation, are violations of these expectations and constitute unacceptable behavior in the University community. The penalties for such actions can range from a private verbal warning, all the way to expulsion from the University. The University's Academic Honesty Policy is available at **http://www.ben.edu/AHP** and students are expected to read it.

Attendance
A student is required to contact their instructor in advance if they are going to miss a class session. Although student attendance at all class meetings is mandatory, it is understood that there may be extenuating circumstances that may prevent a student from attending class. Students who miss 9 contact hours or more class will not receive credit for the course. Such a student will be administratively withdrawn from the course and will be assigned a grade of "F". Students who are administratively withdrawn because of absences will be required to retake the course at a later date. Students will not receive a refund and must take the course at the tuition rate in effect at the time of the subsequent course enrollment.

Academic Accommodations for Religious Obligations

A student whose religious obligation conflicts with a course requirement may request an academic accommodation from the instructor. Students must make such requests in writing by the end of the first week of the class.

Library Resources

As a student at Benedictine University, you have access to the library. The Benedictine Library website explains available resources as well as the special services for non-traditional students. The Benedictine University Library provides students free use of RefWorks, a wonderful tool for bibliographic citations and proper reference use: http://owl.ben.edu/resources/library/tutorials/index.htm. Reference librarians are professionals who can assist you in learning highly efficient, effective research skills and sourcing, so you are encouraged to meet with them. Conference rooms may be reserved for team meetings. You are encouraged to tour the library while on campus.

Technology Requirement

The MBA Program requires, as a minimum, basic skills in word processing and spreadsheet development. Students are expected to maintain active e-mail for communication, and effectively use technology to support oral presentations.

Access to the University computer network and to the University email system is gained through the use of Login Ids. Each person's Login ID is unique and access is controlled by a password of your choosing. Please see http://www.ben.edu/ithome/faqs.asp for instructions on obtaining your login Ids and email address.

Policy on University Closings

A variety of conditions may disrupt normally scheduled classes. These include university closures due to severe weather, building issues (loss of power, water, etc.), and health related issues, such as flu.

For severe weather, contact the Benedictine University emergency information line at (630) 829-6622 or check www.emergencyclosings.com or www.cancellations.com. In addition, radio stations WBBM 780 AM and WGN 720 AM announce closings. You are encouraged to review the University's Emergency Response and Recovery Plan at http://www.ben.edu/campus_resources/emergencyinfo/index.cfm.

In the case of a University class cancellation, students are expected to immediately check their D2L announcement board for instructions. Faculty are required to provide students with alternate activities so that the learning experience continues and so that the required course learning objectives required in the class are met. Activities can may include: a discussion board activity throughout the week, additional content-specific videos to review and discuss, participation in a topic-specific blog, live chat sessions, etc. Students are required to participate in these additional activities. Failure to participate will count as a missed class. Additional or other procedures may be implemented by the University in the event of an extended closing.

FERPA Information

The Family Education Rights and Privacy Act, also known as the Buckley Amendment, addresses the issue of student privacy. Although there are many regulations that must be adhered to, FERPA permits some flexibility with regard to how it is administered. Through the enactment of FERPA in 1974, guidelines were established prohibiting institutions from releasing student information to anyone without expressed written permission from the student. This means we cannot discuss student's schedules, grades or other specific information related to the student with spouses, family members or friends.

A student may provide for release of identifiable, non-directory information to a third party by signing a "Confidential Release Authorization" form. The form is available in Benedictine Central, the Academic Resource Center (ARC), or under forms in "Advising Matters".

For more information regarding FERPA please see http://www.ben.edu/ferpa/index.cfm .

Electronic Devices Policy

One aspect of being a member of a community of scholars is to show respect for others by creating and maintaining an environment that is conducive to learning. Due to the distraction that can occur with ringing cell phones or other electronic devices we ask that you set your cell phone/electronic device to mute/silence BEFORE each class. Furthermore, if you use your cell phone, BlackBerry, PDA or other electronic device is used in any manner during a test or quiz, the student will receive a zero for that test or quiz. This policy also applies to pagers, iPODS, BlackBerrys, PDA's, Treos, Bluetooths, MP3 players and all other electronic communication and/or data storage devices. Students are prohibited from taping the lecture unless the Instructor has given expressed permission. Videotaping lectures is strictly prohibited

Information Technology Info

Access to the University computer network and to the University email system is gained through the use of Login Ids. Each person's Login ID is unique and access is controlled by a password of your choosing. http://www1.ben.edu/it/index.asp

Special Needs

If you have a documented learning, psychological, or physical disability, you may be eligible for reasonable academic accommodations or services. To request accommodations or services, contact Jennifer Golminas at 630-829-6512 or in the Krasa Student Center, room 012 to arrange proper documentation for equal access to

educational and campus services. All students are expected to fulfill essential course requirements. The University will not waive any essential skill or requirement of a course or a degree program.

Mission Statement

Benedictine University dedicated itself to the education of undergraduate and graduate students from diverse ethnic, racial and religious backgrounds. As an academic community committed to liberal arts and professional education, distinguished and guided by its Roman Catholic tradition and Benedictine heritage, the University prepares its students for a lifetime as active, informed and responsible citizens and leaders in the world community.

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WEEK ONE: DEMAND AND ELASTICITY 1

OBJECTIVES:

Upon completion of this class, each student will be able to:

- Define and calculate the value of the firm and explain the relationship between maximizing profit and other firm goals.
- Understand net present value and the difference between accounting and economic profit.
- Understand the demand curve.
- Define and explain the own-price elasticity of demand.
- Understand and use point and arc elasticities.
- Calculate the own-price elasticity of demand from a linear demand curve.

ASSIGNMENTS

The following assignments are to be completed prior to the class:

- Read Chapters 1 and 2 p. 28 – 43 in the text.
- Work problems 3, 5, 6, 7, 8, and 9 from Chapter 1 and problem: 1 from Chapter 2.

Chapter 1 of the text discusses how managerial economics applies microeconomic theory to business problems and analyzes how to use economic theory to make decisions that will achieve the firm's goals. We will discuss the concepts of opportunity cost, normal profit, accounting profit and economic profit. We will use the present value formula to determine the value of the firm. We will also discuss individual, market, and firm demand and demand curves.

Chapter 2 (p. 28 -41) of the text introduces the demand curve and the concept of price elasticity of demand. The Chapter then shows how to derive own-price elasticity from a linear demand curve, price elasticity values along a linear demand curve, and point and arc elasticities.

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WEEK TWO: DEMAND AND ELASTICITY 2

OBJECTIVES:

Upon completion of this class, each student will be able to:

- Understand the relationship between own-price elasticity and total revenue,
- Use own-price elasticity to find the point of total revenue maximization along a linear demand curve.
- Derive and understand how income and cross-price elasticities effect consumer demand.
- Derive and understand the advertising elasticity of demand.
- Be able to calculate elasticity from constant and unitary elasticity demand functions.

ASSIGNMENTS

The following assignments are to be completed prior to the class:

- Read Chapter 2 p.44 - 60 in the text.
- Work Chapter 2 problems: 2, 3, 4, 5, 7, 8, 9, 10, on p. 61-3.

Chapter 2 (p. 42 – 60) of the text explains the relationship between own-price elasticity and total revenue along the demand curve and how to use price elasticity to strategically increase total revenue. The point of revenue maximization along a linear demand curve is then derived. We will then discuss income, cross-price, and advertising elasticities of demand. Finally we will find out what the mathematical specification for a constant price-elasticity and unitary elastic demand curve looks and what a constant unitary elastic demand curve looks like.

Note: Typos on p. 59. Equation 2.19 should be:

$$\boldsymbol{Q = aP^{-b_1}I^{b_2}}$$

Similarly, in all other equations on p. 59 the term “I” should not be superscripted.

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WEEK THREE: ESTIMATING DEMAND FUNCTIONS

OBJECTIVES

Upon completion of this class, each student will be able to:

- Estimate a product's demand function by using consumer surveys, market experiments, or regression analysis.
- Estimate a demand curve for a particular product.
- Understand statistical methods used to provide firms with information about markets.
- Interpret and use the statistical output of regression software.
- Understand and know how to test for important problems in regression analysis such as multicollinearity.
- Be able to analyze regression residuals.

ASSIGNMENTS

The following assignments are to be completed prior to this class:

- Read Chapter 4 of the text.
- Work Chapter 4 problems: 1, 5, 6, 9, 10, and 12, on p. 125.
- Begin work on Regression Project.

Chapter 4 will focus on estimating demand using statistical models. We will apply Ordinary Least Squares (OLS) regression technique to estimating demand curves for both simple regression and multiple regression models. We will show how to use Excel to perform OLS regression analysis. Common problems of regression analysis such as multicollinearity and serial correlation will be discussed. We will also discuss using dummy variables to correct for seasonal variation in the data and will conclude with a discussion of the problems and limitations that are inherent in forecasting.

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WEEK FOUR: ANALYSIS OF COSTS 1

OBJECTIVES:

Upon completion of this class, each student will be able to:

- Understand (Mainstream) Neoclasssical (NC) and Post-Keynesian (PK) theories of the relationship between costs and output.
- Use different categories of costs such as opportunity costs, short-run costs, long-run costs, average and marginal costs, and transactions costs to effectively manage the firm.

ASSIGNMENTS

The following assignments are to be completed prior to this class:

- Read Chapter 5 p.136 –156 and Chap. 6 p. 172 – 189 in the text and the supplemental PK Lavoie material on D2L
- Work Chapter 6 problems: 2 and 5, p. 205-6.

In Chap. 5 p. 136-156 you will learn about production functions with one or more variable inputs, the NC "Law of Diminishing Marginal Returns," Isoquants, the Marginal Rate of Technical Substitution, maximization of output for a given cost, minimization of cost of a given output fixed coefficient production functions.

In Chapter 6 p. 172 – 189 we will analyze costs using both standard NC and alternative PK models. We will define and discuss the shapes and characteristics of different kinds of costs in these models. We will discuss the controversy over the upward sloping marginal cost curve and how this impacts Neoclassical and Post-Keynesian cost analysis and the analysis of consumer behavior.

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WEEK FIVE: ANALYSIS OF COSTS 2

OBJECTIVES:

Upon completion of this class, each student will be able to:

- Understand the role of economies of scope, scale, and network economies, in cost analysis.
- Employ break-even analysis and profit contribution analysis to understand the relationship between price and profit.

ASSIGNMENTS

The following assignments are to be completed prior to this class:

- Read Chapter 6 p. 189 – 205 in the text.
- Work Chapter 6 problems: 3, 6, 7, 8, 10, 11, 12, p. 206-9.

In Chapter 6 p. 189 – 205 we show how economies of scale and scope, and network economies affect costs, and how managers can use break-even analysis and profit contribution analysis to improve firm performance. We will learn how to analyze firm costs under more realistic conditions of constant fixed costs and declining average total costs.

WEEK SIX

Mid-Term Exam Chaps. 1, 2, 4, and 6 and supplemental power point and D2L material.

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WEEK SEVEN: MARKET STRUCTURES 1

OBJECTIVES:

Upon completion of this class, each student should be able to:

- Understand the differences between theoretical: perfect competition, monopoly, monopolistic competition, and oligopoly, market structures.
- Understand the output decision for a competitive firm with no market power.
- Investigate how managers set price and output when they have market power.

.ASSIGNMENTS

The following assignments are to be completed prior to this class:

- Read Chap. 7, and Chap. 8 p. 257- 267.
- Work Chapter 7 problems 3, 4, and 5, and Chap. 8 problems: 1, 6, and 8, p. 290-3.

In Chap. 7 and Chap.8 p. 257 – 267 we discuss the taxonomy of different market structures. We then then review the output decisions under conditions of perfect competition and the price and output decision of a monopolist. We will learn how a monopoly firm can maximize profit when it faces a downward sloping demand curve.

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WEEK EIGHT: MARKET STRUCTURES 2

OBJECTIVES:

Upon completion of this class, each student should be able to:
- Understand how to maximize profit in monopolistic competitive markets.
- Analyze cost-plus pricing strategy.
- Examine demand interrelationships in the multiproduct firm.
- Understand and analyze monopsony.
- Study advertising and promotion policies.
- Investigate the empirical evidence on the usefulness of advertising.
- Understand brand equity, and the price elasticity of demand with respect to managerial behavior.

.**ASSIGNMENTS**

The following assignments are to be completed prior to this class:
- Read Chap. 8 p. 267- 289.
- Work Chapter 8 problems: 2, 3, 4, 11, 12, and 13 p. 291-4.

In Chapters 8 p. 267 – 289 reviews output and pricing decision under conditions of cost-plus pricing, monopsony and monopolistic competition. We will learn how the firm can maximize profit when it faces a downward sloping demand curve. We will also discuss common cost-plus pricing strategies, multiple product firms with joint products, and optimal advertising expenditure.

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WEEK NINE: GAME THEORY

OBJECTIVES:

Upon completion of this class, each student should be able to:

- Discuss the tools of making strategy through game theory.
- Examine the concept of equilibrium from a game-theoretic standpoint.
- Examine the concept of a dominant strategy.
- Discuss the concept of a Nash equilibrium (NE).
- Solve games using backward induction.
- Examine repeated games.
- Study the concept of reputation building.
- Study strictly competitive games.

ASSIGNMENTS

The following assignments are to be completed prior to this class:

- Review Chapter 12 of the text
- Work Chapter 12 problems: 1, 2, 3, 4, 5, 6, p. 495-7.

Chapter 12 analyzes oligopolist behavior using game theory. We will discuss price and output decisions under non-cooperative conditions and cooperative decisions. Topics covered will include the prisoners' dilemma, Nash equilibrium, simultaneous decision making games, and repeated games.

WEEK TEN

Final Exam on Chapters 7 p. 224-236, 8, and 12 in the text and supplemental power point and D2l material on Post-Keynesian firm production and cost modeling.