

MANAGERIAL ECONOMICS
PROFESSOR SURDAM
THURSDAYS, NOV. 9, 2009-FEB. 11, 2010
COURSE NUMBER 920:260 (01)

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The lecture notes and the Baye textbook (Michael R. Baye, *Managerial Economics and Business Strategy*, either 4th or 5th edition; the two editions are very similar, and you can purchase used copies of the 4th edition very cheaply on Amazon.com) are the primary sources (there may be occasional differences in terminology and topics). You should read the chapters in the textbook ahead of class and high-light the material that you don't understand. I will leave a copy of the old classroom notes on reserve at Rod Library.

There are a few readings in the course packet to supplement the text. In addition, there are some brief articles. To avoid paying royalties, you can access these articles via the Internet, with most of them being available via Rod Library. We may discuss some of the articles. You will not be tested on the specific contents of the articles, although, of course, the underlying principles are testing possibilities. For *Quarterly Journal of Economics* and *Econometrica*, you may go to www.Jstor.org, click on "Browse;" click on "Business;" then scroll to the journal name. You will then select the volume and issue of the journal. For the popular press articles, go to www.UNI.edu; click on "Rod Library," click on catalog; click on "Books"; select search by "Title," type the periodical title; scroll to the "Electronic version" and click; select one of the entries and then find the volume. For the *Wall Street Journal*, ABM/Global; for *Business Week*, Lexis/Nexis; for *Chicago Sun-Times*, *Atlantic Monthly*, *New York Times*, and *Time*, EBSCOhost; for *Chicago Tribune* use any listed sites.

I place less emphasis upon some of the calculations. The homework sets and practice exams in the packet are representative of the exam questions. In order to truly understand the material, you should master these problems. Although I provide answers, you should struggle with the problem before consulting the answers. While the practice exams have some similarity, future exams will differ from past examinations.

YOUR GRADE IS BASED ON A MIDTERM (ONE-THIRD) AND FINAL EXAM (TWO-THIRDS). YOU ARE ALLOWED ONE 8.5X11" SHEET (BOTH SIDES) OF NOTES FOR THE MIDTERM AND TWO SHEETS (BOTH SIDES) FOR THE FINAL EXAM.

Packet Includes (Page numbers refer to black ink numbers on lower-right corner)

Syllabus	1- 3
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Thursday, Nov. 12 (5:30-9:00): What is economics? Economic thinking in making decisions. Price determination via the interaction of supply and demand.
Read: Chapters 1 and 2 in Baye. Homework Set 1.
“20 years after the oil embargo.” Casey Bukro. *Chicago Tribune* (November 22, 1993), Sec. 4, p. 1.
“What do Statistical ‘Demand Curves’ Show?” *Quarterly Journal of Economics* 41 (February 1927), pp. 212-35.
“Forget the Mansion.” Jonathan Clements. *Wall Street Journal* (August 23, 2006), p. D1

Thursday, Nov. 19 (5:30-9:00): More on price determination. Examples of markets at work and interferences with the market.
Read: Chapter 3 in Baye (ignore regression analysis). Homework Set 2.
“Organ donation: Gift, or a debt to the community?” Joanne Jacobs. *Chicago Tribune* (December 31, 1992), Sec. 1, p. 25.
“Why not save lives with a free market in healthy kidneys?” Walter Block. *Chicago Tribune* (August 5, 1987), Sec. 1, p. 15.
“High Minimum Wage, Higher Dropout Rate.” Robert J. Barro. *Wall Street Journal* (January 11, 1996), p. A14.
“The Real Costs of a Higher Minimum Wage.” *Business Week* (July 27, 1987), pp. 64-65.
“Safe at Any Speed.” *Wall Street Journal* (July 7, 2006), p. A12.

Thursday, Dec. 3 (5:30-9:00): Consumer theory. What underlies the demand for a product?
Read: Chapter 4 in Baye.
“The economic realities of worthless gifts.” *Chicago Tribune* (December 16, 1993), Sec. 1, p. 44.

Saturday, Dec. 5 (8:30-12:00 noon): More consumer theory.
Read: Chapter 12 (first half) in Baye. Material in course packet on “Income and substitution effects;” and “Why do people trade?” Homework Set 3.
“Luxury Tax Sinks U.S. Boating Industry.” James W. Taylor. *Wall Street Journal* (April 23, 1991), p. A22.

Tuesday, Dec. 8 (5:30-9:00): Special topics in consumer theory.
Roles of time and risk.
Read: Material in course packet on “Role of time.” Homework Set 4.
“How to Rewrite Economic History.” Thomas I. Palley. *Atlantic Monthly* (April 1997), pp. 20 and 22.
“How Much Will People Pay to Save a Few Minutes of Cooking? Plenty!”/“Even Canned Corn Strains Abilities of Modern Cooks.” Betsy Morris. *Wall Street Journal* (July 25, 1985), pp. 23. (Second article is also by Morris, same page.)

Thursday, Dec. 10 (5:30-9:00):

An introduction to the theory of the firm. Why a firm?

Read: Chapters 5 and 6 in Baye.

“The Nature of the Firm.” Ronald Coase. *Econometrica* IV (November 1937), pp. 386-405.

Thursday, Dec. 17 (5:30-9:00): **MIDTERM EXAMINATION (covering the material from the first five lectures, through December 8). You are allowed one 8.5x11" sheet of notes (front and back).** Economic costs. Perfect competition.

Read: Chapters 7 (skim this chapter) and first part of 8 in Baye and material in the course packet, “Everything you’ve wanted to know about costs.”
Homework Sets 5 and 6.

“Airline takes the marginal route.” *Business Week* (April 20, 1963), pp. 111-12 and 14. Not available over the Internet.

“Wal-Mart could pay workers more without big price hikes.” Jared Bernstein and Josh Bivens. *Chicago Sun-Times* (July 8, 2006), p. 15.

“Acorn Squash.” Steven Malanga. *Wall Street Journal* (August 26-27, 2006), p. A10

Thursday, Jan. 14 (5:30-9:00): Firms with price-setting power:

Monopolies, Oligopolies, and Monopolistic Competitive firms.

Read: Chapters second part of 8 and 11 in Baye. Homework Set 7.

“Rewarding ‘Frequent Buyer’ for Loyalty.” Michael J. McCarthy. *Wall Street Journal* (June 21, 1989), p. B1.

“David versus Goliath: Lawsuit against Wal-Mart could change the face of retailing.” Kathy Kristof. *Chicago Tribune* (June 14, 1994), Sec. 6, p. 9.

Thursday, Jan. 21 (5:30-9:00): Strategic interaction between firms in oligopolistic Industries.

Read: Chapters 9 and 10 in Baye.

Thursday, Jan. 28 (5:30-9:00): Demand for factors of production.

Read: Material in course packet on “Demand for factors of production.”

Homework Set 8.

“When Tenors Were Gods.” Michael Walsh, *Time* (July 18, 1994), p. 54.

“One Plus One = Higher Wages: A little math can be a big asset.” *Business Week* (June 19, 1995), p. 30.

Thursday, Feb. 4 (5:30-9:00): The role of information and other topics.

Thursday, Feb. 11 (5:30-9:00): **FINAL EXAMINATION (COVERS ALL MATERIAL). You are allowed two 8.5x11" sheets of notes (front and back on each sheet).**

Material for course packet:

Income and substitution.
Why do people trade?
Role of time.
Everything you wanted to know about costs.
Demand for factors of production.

Baye

Chapter 1: Fundamentals

Chapter 2: Market forces: demand/supply
Includes CS/PS, price control

Chapter 3: Quantitative demand analysis
Elasticities
Ignore regression analysis

Chapter 4: theory of individual behavior
Has different axioms.
Uses $MRS = P_x/P_y$
Skinny section on income and substitution effects.

Chapter 12: uncertainty and the firm
(first half of chapter)

Chapter 5: Production process and cost

Chapter 6: Organization of the firm

Chapter 7: The Nature of Industry
(Skim through this chapter.)

Chapter 8: Managing in perfect competition

Surdam

Math review

Handout on marginal magnitudes

Lectures 1 and 2

Need other concepts of price,
taxes, charts on elasticity and
total revenue, simultaneous
changes in supply/demand

Lectures 3 and 4

U-max using MU/P ratios
Income/substitution handout
Price indices

Lecture 5

Diminishing MU and gambling
Gains from trade handout

Lecture 6

Role of time handout

Lecture 7

Why a firm? Accounting vs.
economic profits
Everything you wanted to know
about costs handout

Lecture 9

Firm supply curve

(first half)

Chapter 8: Managing under monopoly
and monopolistic competition
(second half)

Lecture 8
Monopolies and price setters

Chapter 11: Pricing Strategies for Firms
With Market Power

Chapter 9: Basic Oligopoly Models

Chapter 10: Inside Oligopoly

Lecture 9
Demand for factors of production