Management 462: Managerial Economics
Syllabus

Course Objectives

The purpose of Managerial Economics is to apply a series of basic economics principles to the decision making process within the firm. Issues related to optimal pricing strategies, demand forecasting, optimal financing, appropriate hiring decisions, and investment decisions, among others, can be successfully tackled with managerial economics tools. Increasingly the problems faced by decision makers have an international or global dimension. This has forced analysts, consultants and academics to rapidly incorporate a global perspective to their managerial economics box of tools.

The basic objective of this course is to familiarize the students with the approach, language and techniques of managerial economics. At a more specific level, this course has three objectives:

- Discuss the functioning of the economy from an analytical point of view. Throughout the class an effort will be made to use as many examples as possible related to the international economy.

- Develop specific tools – quantitative as well as broadly analytical – that are useful for tackling basic managerial economics problems.

- Instill a unique “point of view” on each and everyone of the students. This point of view – the “economic point of view” – is extremely powerful and has proven to be a useful analytical perspective in many circumstances, including business decision making at the highest level.

Grading Policy

There will be two exams, and four to five long (group) homework assignments. There will also be a number of shorter individual assignments which will not be graded. The final grade will be determined in the following way:
• Midterm 25% (date TBA)
• Final 50%
• Homework 25%

If you are unable to take the midterm, the final exam will count for 75% of the grade.

I will not “cold call” on you, but I expect that everyone of you will participate actively in class. Class participation will be critical in determining the fate of marginal grades cases.

**Homework**

There will be four or five long group assignments. These will require creative data analysis and imaginative report writing. Each assignment will be briefly presented in class by two randomly selected groups. The rest of the class will then vote on the better report.

Each group will be free to use any software to undertake the assignments. However, I strongly recommend that you become familiar with *E-Views*. Although you will need some investment to master this package, you will find it very powerful and versatile. It is used in a number of other courses in the MBA Program.

**Office Hours**

My office is located in C-508, and my phone number is 206-6797. My E mail address is sedwards@agsm.ucla.edu. My secretary is Patricia Smith and her phone number is 825 2507.

The TA is Marcela Aurelio. She can be reached at 825 8207, or through her E mail address: marcela.aurelio@anderson.ucla.edu.

T.A. Office hours: TBA.
Readings

There is one text: *Managerial Economics* by Samuelson and Marks (S&M) (The Dryden Press 1999). You can also read some chapters from Mankiw’s *Principles of Economics* (M) (The Dryden Press 2001). In addition there is a book of applied readings: *The Armchair Economist* by Landsburg (L) (The Free Press 1993). I strongly recommend that you read the assigned readings once before each class, and then once again after the lecture. You will also have to read one chapter from Paul Milgrom and John Roberts, *Economics Organization and Management*, Prentice Hall, (Ch. 2.)

Throughout the quarter you will get some additional readings. I also plan to distribute hard copies of the Power Point transparencies before each class.

You can find some material related to the course from my web site:

http://www.anderson.ucla.edu/faculty/sebastian.edwards.

Each of you will receive *The Financial Times* throughout the duration of the course. We will be discussing some of the most important stories throughout the class. You should concentrate on international economics and companies stories.

Syllabus

I will do my best to follow the program laid out here. It is possible, however, that due to extensive discussion in class, at times we will have to deviate slightly.

Sessions 1 and 2: Basic Principles, Optimization, and Introduction to Demand and Supply Analysis

A. Concepts

Choice
Optimization
Cost-Benefit
Marginal Analysis
Marginal Costs
Basic Supply and Demand

A. Readings

S&M, Ch. 1 & 2
M. Ch. 1, 2, 3 , 4 & 5
L. Ch. 1 & 2.
Session 3 and 4: Demand Analysis

A. Concepts

Indifference curves
Substitution and complementarity
Elasticities
Optimal Pricing

B. Readings

M. Ch 5
S&M. Ch 3
L. Ch 16

Session 4: Forecasting

A. Concepts

Regression Analysis
Estimated coefficients
R square
Goodness of fit
Standard deviation
t-statistic
Simultaneous equations bias

B. Readings

S&M. Ch 5
McKinsey Staff Paper N0. 39, “Regression Analysis”, 1988
L. Ch 13 & 19

Session 5: Production and Supply Analysis I

A. Concepts

Production functions
Isocosts
Elasticity of substitution
Average and marginal costs
Economies of Scale

B. Readings

M: Ch 5 (pages 99-109)
S&M: Ch 6

Session 6: Production and Supply Analysis II

A. Concepts

Derived demand
Factor demand
Unemployment
Migration

B. Readings

S&M Ch. 7
M. Ch 18

Session 9: Economic Organization and Transaction Costs Analysis

A. Concepts

Organizations and efficiency
Transaction Costs
Transaction costs and the Theory of the firm
Coase Theorem

B. Readings

Paul Milgrom and John Roberts, *Economics Organization and Management*, Prentice Hall, Ch. 2

Session 8: Market Equilibrium Under Perfect competition

A. Concepts

Market clearing prices
Government policies
Externalities
Market efficiency

B. Readings

M. Ch. 6,7,14
L. Ch 16 and 20
S&M, Ch 8

Session 9: Uncertainty, the Value of Information and Imperfect Competition

A. Concepts

Probabilities and Decision trees
Expected utility
Attitudes towards risk
Monopoly
Oligopoly
Monopolistic competition

B. Readings

S&M, Ch 14
M. Ch 15, 16, 17
L. Ch 17
S&M, Ch 9, 10

Session 10: Game Theory and Strategic Behavior

A. Concepts

Payoff tables
Nash equilibrium

B. Readings

L. Ch 18
S&M, Ch 11