

Lincoln University

Spring 2014
Mr. Hibshoosh

Course: BA 301 – Managerial Economics
3 units, 45 lecture hours
Day/Time: Thursday (Th) 1530-1815
Instructor: Aharon Hibshoosh
Office Hours: Th: 1815-1915.
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Textbook: Jack Hirshliefer, Amihai Glazer and David Hirshliefer, *Price Theory and Applications*, 7th edition, Cambridge University Press, Pearson, Prentice Hall. (Several ISBNs are available: ISBN-13, 978 0-521-81864-3 (hardback), ISBN-10, 0-521-81864-8 (hardback), ISBN-13, 978 0-521-52342-4 (paperback), ISBN-13, 0-521-52342-7 (paperback).

BA 301 – Managerial Economics

Course description:

Course Catalog Description: BA 301: The course covers basic economic relationships, demand and supply analysis, forecasting, production and cost theories, market structures and models, pricing practices, capital budgeting and governmental regulations. (3 units)

Prerequisite: MATH 10.

The Managerial Economics course is essentially a microeconomics course which provides the Economics foundation necessary for understanding and modeling economics and business issues. Together with the Financial Accounting course, the micro and macro economics courses provide the most essential foundation in Business Education. In particular students studying finance should be aware that Finance can be considered as a special topic within Economics. Any future work in Finance would require deep comprehension of Micro and Macro economics. I will be tailoring the Managerial Economics course with this need in mind. Additional required topics beyond the textbook would be presented.

The course assumes that different agents are forming preferences and optimal choice while facing various constraints. We would thus study a) the consumer as an agent maximizing its preference (utility) by consuming optimal quantities of goods, b) the business firm maximizing its profit via recruiting the optimal number of workers and employing optimal quantities of production factors. c) the financial investor maximizing its objective by balancing risk and expected return. The decisions of the different agents are made in an environment characterized

by scarcity and with limited agents' resources, control, or strategic options. We would learn how to derive optimal economic decisions and how to characterize them. In particular, we will focus on the change in optimal behavior when the markets environmental factors are varying. We would study the effect of distinctive market structures on the behavior of the agents learn how the aggregate behavior of the agents help forming these distinctive market structures.

This course is comprised of lecture and exercise sessions. I will deliver the lecture and the TA would deliver the exercise session under my supervision. Indirectly, the most important component of the class is its assigned homework. The students should be aware that Economics has very rigorous mathematical foundation. This essential mathematical foundation would be covered throughout the semester and will be our second topic. Any weakness in the mathematical foundations could be detrimental to student success in the class. Hence, the students are expected to take great efforts to stay mathematically current. Still the knowledge of mathematical foundation is only a necessary skill which must be used to gain conceptual economics comprehension. This challenges demand special steady effort and help. Besides the TA help, the class would be broken down to groups so that group members can also help each other.

Some Learning Objectives:

- 1) Understand the general approach of Economics, Microeconomics Macroeconomics and Managerial Economics.
- 2) Master mathematical tools of Managerial Economics
- 3) Learn how to read and interpret marginals, elasticities and the relationship between price elasticity and marginal revenue.
- 4) Understand how market equilibrium is formed by market forces of supply and demand and how its values changes.
- 5) Understand the concept of utility function and the associated concept of indifference curve.
- 6) Learn how optimal choice is formed in static environment and under inter temporal choice.
- 7) Learn the basic Mean Variance Framework and topics in the managerial economics of Finance.
- 8) Learn how optimal individual and aggregate demand and supply schedules are obtained and interpreted.
- 9) Learn to characterize demand and production functions.
- 10) Understand Concepts of return to scale (optimal decentralization) and technological change
- 11) Short run and Long run concepts in economics and their impact on rational behavior and market evolution.
- 12) Learn the common market structures and their strategic implications.
- 13) Learn how environmental impacts creates technological and pecuniary externalities

Methodology:

The course is based on lecture and exercise. The exercise session would be used to cover homework solutions and possibly some special topics. Students are expected to first try to solve their problem alone, but then compare their solutions with those of other group members. In case of difficulty, the group should work on the problem(s) together. The homework is then submitted individually. The group must review the progress of each member weekly and report the completion of the homework of every member by the homework deadline.

The homework deadline is 1AM on the day of the next class meeting and homework should be emailed to the TA. Notwithstanding, an automatic extension is given till the beginning of the class on this date. However, once the roll name is called, no late homework is accepted. At the beginning of the class all homework whether already submitted by email or not, must be submitted as hard copy. However, notice, a student who had emailed the homework by 1AM would not be considered late, if he/she failed to turn the homework at the beginning of the class. This student (only) would have one more week to turn the hard copy without any penalty.

HW format: Quantitative exercises including diagrams may be required to be processed in Excel. Typically homework must be typed, unless otherwise specified.

Student Conduct:

- Please participate. What you put into the class will determine what you get out of it – and what others get out of it.
- Please come **on time**. Late arrivals disturb everyone else. Plan to stay during the whole class period. Attendance may be taken at least one time in of each class. In the case where more than one attendance is taken, only students attending all attendances would be considered as present.
- Students may not read other materials (newspapers, magazines) during class an no multitasking is allowed.
- Students are not allowed to come and go during class sessions.
- If you miss a class, you are responsible for getting notes/slide printouts on the material covered from a classmate in your group.
- To avoid distracting noise in class, cellular phones **must** be turned off or the ringing mode silenced.
- During the exam all recording devices of any form must be closed and stored in closed bags. (See also Examination Policy).
- All class participants are expected to exhibit respectful behaviors to other students and the instructor. All students have the right and privilege to learn in the class, free from harassment and disruption. Inappropriate or disruptive behavior will not be tolerated, nor will lewd **or** foul language.

Examination Policy:

I will use objective exams consisting of TF and MC questions. Many of these questions would require mathematical derivation and computations. The final would be comprehensive and consists of two parts. The midterm would include only chapters covered in the lecture prior to the midterm and associated extra lecture information. The final is comprehensive. The exams are closed book exams, without a restroom break (or any other break) during the midterm or each of the parts of the final. (I will make alternative examination opportunities where the need for break is medically required and professionally supported by a letter from a medical doctor). No exchange of pencils, erasers and any other material between students are allowed during the exam. No electronic instrument capable of copying material in any form (in particular, in print or visual image) is allowed in the exam. In particular, cell phones, organizers, calculators, tape recorders cameras, computers, etc. must be closed and stored inside a closed bag. A student violating these requirements should expect an F grade, in addition to other disciplinary consequences.

Grading Guidelines:

Class attendance 10 pts

Homework 30 pts*

Midterm 30 pts

Final 50 pts.

Total course points: 120 pts

The grade will be based on a curve. Gaining the following number of course points would assure the grade:

Course Points	Grade
95 and above	A
90-95	A-
80-89	B+
70-79	B

60-69	B-
50-59	C+
48-49	C
46-47	C-
44-45	D+
42-43	D
Below 42	F

Course Schedule:

Topics^ and Tentative Schedule^^

We will focus on elements in the following chapters^, in Hirshleifer, Glazer and Hirshleifer.

Topics

Chapters

I. The Economics Perspective and Mathematical Modeling of Economic Concepts

1/23-1/30 Introduction and Overview. 1

1/23-2/13 Mathematical derivation of economic relationships and Working Tools * 2

II. Preference consumption and Demand

1/30-2/13 Utility and preference 3,4

2/20-2/27 Demand: consumer optimal choice 4

2/27- 3/6 Demand sensitivity and Characterization 5

III. The economics of Finance

3/6 - 4/3 Topics in Financial Economics 15 and elements of 11

IV. The firm and the Market Structure

4/10 - 4/17 Business Firm's production and cost 6 and elements of 12

4/17- 4/24 Equilibrium in the product Market –Competitive industry 7

4/24 - 5/1 Review of Market structures with monopoly power * and externalities

Elements of 8, 9 10 and 16.

Spring Recess: March 18-22

Midterm: March 13. Final: May 8th

^ The numerical reference to a chapter in the textbook.

* This topic would be studied throughout the course.

^^ The time table is tentative. This is not an exclusive list of topics to be covered in this course. If time permits, I will accelerate the presentation. Alternatively, if necessary, pace and intensity of coverage may be traded off to assure greater comprehension.

Updated: January 9, 2014. The syllabus may be updated in the future as necessary.