

ECO 610: Managerial Economics

Summer 2014

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Course Description:

In this course we will apply economic theory to managerial decision making and analysis. We will employ many of the traditional tools of microeconomics and see how they can be used to evaluate practical business problems. We will pay particular attention to the strategy of firms in the marketplace. ECO 610 is a core course in the MBA program and is intended to help you understand basic economic concepts that underlie the business process modules and advanced learning bundles later in the program.

Reading Assignments:

Assigned readings will come from two different managerial economics textbooks:

Brickley, Smith, and Zimmerman, *Managerial Economics and Organizational Architecture* (4th edition), McGraw-Hill Irwin, 2006, (available for under \$10 at http://www.amazon.com/Managerial-Economics-amp-Organizational-Architecture/dp/0073523011/ref=sr_1_fkmr1_1?ie=UTF8&qid=1398349957&sr=8-1-fkmr1&keywords=brickley+smith+and+zimmerman+managerial+economics+and+organizational+architecture+5th+ed)

Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy* (4th edition), John Wiley & Sons, Inc., 2007, (also available for under \$10 at http://www.amazon.com/Economics-Strategy-Fourth-Edition-Besanko/dp/B003FAZFNE/ref=sr_1_4?ie=UTF8&qid=1398353715&sr=8-4&keywords=besanko+dranove+4th+edition)

Instructions for purchasing electronic versions of these texts are at the end of this syllabus. There will also be assigned readings for each class taken from business periodicals such as the *Wall Street Journal*, which can be accessed through the UK library system.

Grading:

Grades in the course will be determined on the basis of performance on two in-class exams (33% each) and on a team industry study (34%). The teams and industry will be as assigned for Project Connect. The overall grading distribution will comply with the official program standards established by the MBA Policy Committee, i.e. overall class GPA ≤ 3.5 .

Office Hours:

My office is 302-D in the Mathews Building. I will be around and available most of the time during the weeks when our courses are offered. I am also easily reachable by telephone and e-mail.

Course Outline and Reading Assignments:

Thursday, June 12: 9:00-11:30 a.m.

Tuesday, June 17: 9:00-11:30 a.m.

Introduction, basics of market systems, demand and supply analysis.

Text:

BSZ, ch. 3, "Markets, Organizations, and the Role of Knowledge."

Outside readings:

"Tempur-Pedic stock up after report, analysis," *Lexington Herald-Leader*, 7/26/12, p. B5:

<http://www.kentucky.com/2012/07/25/2270718/tempur-pedic-stock-up-after-2q.html>

"China's Winter of Discontent," *WSJ*, 3/14/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398959819?accountid=11836>

"Lawmakers struggle to define gasoline price 'gouging,'" *WSJ*, 11/9/05.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398991187?accountid=11836>

"Indonesia Has Lots of Coal—And Blackouts in Capital," *WSJ*, 7/29/08.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399108953?accountid=11836>

"Corn's Rally Sends Ripples," *WSJ*, 1/18/07.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398983538?accountid=11836>

Thursday, June 19: 9:00-11:30 a.m.

Tuesday, June 24: 9:00-11:30 a.m.

Determinants of demand, estimating demand, elasticity.

Text:

BSZ, ch. 4: "Demand."

Outside readings:

"PepsiCo Pushes Breakfast in Bid to Heat Up Oatmeal," *WSJ*, 7/28/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/732571063?accountid=11836>

"Thrill parks try to boost attendance: Some lower their fees to attract crowds," *Lexington Herald-Leader*, 5/27/06. <http://bit.ly/odthLq>

"For Dollar Stores, a Mixed Bag," *WSJ*, 7/11/13.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1399253185/13FBAC776B7259CDD87/82?accountid=11836>

Thursday, June 26: 9:00-11:30 a.m.

Tuesday, July 1: 9:00-11:30 a.m.

Production, economic costs, economic profit.

Text:

BSZ, ch. 5: "Production and cost."

Outside readings:

"Holiday Hiring Call: People vs. Robots," *WSJ*, 12/20/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/818622450?accountid=11836>

“Honda’s Flexible Plants Provide Edge,” *WSJ*, 9/23/08.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399105360?accountid=11836>

“Small Talk,” *WSJ*, 5/30/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399047133?accountid=11836>

“Small Investments with Major Returns,” *WSJ*, 1/5/09.

<http://online.wsj.com/article/SB123116077359153453.html>

Thursday, July 3: 9:00-11:30 a.m.

Horizontal boundaries of the firm.

Text:

BDSS, ch. 2: “The Horizontal Boundaries of the Firm: Economies of Scale and Scope.”

Outside readings:

“Power Pork: Corporations Begin to Turn Hog Business into an Assembly Line,” *WSJ*, 3/28/94.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398373847?accountid=11836>. If you want to see a pork processing plant in action, try

<http://www.youtube.com/watch?v=LsEbvMipJI>

“Meet the World’s Largest Cargo Ships,” *WSJ*, 1/8/13. [http:](http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1266990140/13FBAE3E923680778EB/71?accountid=11836)

ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1266990140/13FBAE3E923680778EB/71?accountid=11836

“Going to the Well: A Powerful Idea,” *Lexington Herald-Leader*, 7/4/11.

<http://bit.ly/nHKQQA>

Tuesday, July 8: 9:00-11:30 a.m.

Vertical boundaries of the firm.

Text:

BDSS, ch. 3: “The Vertical Boundaries of the Firm.”

Outside readings:

“Made to Measure: Invisible Supplier Has Penney’s Shirts All Buttoned Up,” *WSJ*, 9/11/03.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398953831?accountid=11836>

“Bike Maker Faces a Tactical Shift,” *WSJ*, 10/28/98.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398673631?accountid=11836>

“Companies More Prone to Go ‘Vertical,’” *WSJ*, 11/30/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399140920?accountid=11836>

Thursday, July 10: 9:00-11:30 a.m.

In-class midterm exam

Tuesday, July 15: 9:00-11:30 a.m.

Markets and market structure.

Text:

BDSS, ch. 6, "Competitors and Competition."

Outside readings:

"Greece is the Word," *WSJ*, 7/30/04.

http://www.sailingissues.com/online.wsj.com/article_email/0,,SB109112801159177914-INje4Nplad3oZunaoKGBauBm4,00.html

"Winds of Change for Boeing, Airbus," *WSJ*, 3/16/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399095358?accountid=11836>

"The tri-county pizza war," *Lexington Herald-Leader*, 11/10/05.

<http://bit.ly/poGliZ>

"Show Stopper: How Plastic Popped the Cork Monopoly," *WSJ*, 5/1/10.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/220157523?accountid=11836>

Thursday, July 17: 9:00-11:30 a.m.

Tuesday, July 22: 9:00-11:30 a.m.

Competitive markets.

Text:

BDSS, ch. 6, "Competitors and Competition."

BSZ, ch. 6, "Market Structure."

Outside readings:

"Alligator Farming Shows There's a Lot to be Said for Cows," *WSJ*, 8/2/89.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398158016?accountid=11836>

"Economic Woes Take a Bite out of Alligator Ranching," *WSJ*, 11/12/97.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398605851?accountid=11836>

"A Run on Alligators Sends Designers Scrambling," *WSJ*, 3/18/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399057549?accountid=11836>

Thursday, July 24: 9:00-11:30 a.m.

Tuesday, July 29: 9:00-11:30 a.m.

Monopoly, pricing with market power.

Text:

BSZ, ch. 6, "Market Structure."

BSZ, ch. 7, "Pricing with Market Power."

Outside readings:

"How a Fight Over a Board Game Monopolized an Economist's Life," *WSJ*, 10/20/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399064057?accountid=11836>

"Seeking Fame in Apple's Sea of Apps," *WSJ*, 7/15/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399087647?accountid=11836>

“Seeking Perfect Prices, CEO Tears Up the Rules,” *WSJ*, 3/27/07.
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399036795?accountid=11836>

Thursday, July 31: 9:00-11:30 a.m.

Tuesday, August 5: 9:00-11:30 a.m.

Oligopoly, rivalry, strategic behavior.

Text:

BSZ, ch. 6, “Market Structure.”

BSZ, ch. 9, “Economics of Strategy: Game Theory.”

Outside readings:

“Haven’t Shareholders Had Enough Chicken?” *WSJ*, 4/4/01.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398780117?accountid=11836>

“Cruise Lines Slash Their Prices as War Fears Rattle Travelers,” *WSJ*, 1/29/03.

<http://online.wsj.com/article/SB1043780266145632024.html>

“Upstart’s Tactics Allow it to Fly in Friendly Skies of a Big Rival,” *WSJ*, 6/23/99.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398729938?accountid=11836>

“Techdom’s Two Cold Wars,” *WSJ*, 7/22/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399099640?accountid=11836>

Thursday, August 7: 9:00-11:30 a.m.

In-class final exam

Instructions for Purchasing Electronic Textbooks:

While the electronic textbooks are from the 4th edition of each book, you may be able to find a different edition online for a cheaper price. That should work equally well.

Brickley, Smith, and Zimmerman, *Managerial Economics and Organizational Architecture* (4th edition), McGraw-Hill Irwin, 2007:

Click on <https://create.mcgraw-hill.com/shop/#/catalog/details/?isbn=9781121597365>

Buy the book.

Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy* (4th edition), John Wiley & Sons, Inc., 2007:

Go to: <http://coursepacks.xanedu.com/?PackId=472818>

If you have previously registered for another CoursePack, log in. If not, click the Student Registration link. Complete the registration page and click Submit.

Confirm your CoursePack selection and click Continue.

Complete your billing information, confirm and click Submit.

After completing the purchase pages, you will be taken to your CoursePack.

If you have problems, contact XanEdu Customer Service at 1-800-218-5971 (option 4) or email cust.serv@xanedu.com.

Industry Study Team Assignment

The previous team assignments have been preparing you to do an in-depth study of the industry in which your Project Connect firm competes. Your assignment is to research your industry so that you become something of an expert. Sources that you might use for your research include library and internet resources, as well as discussions with persons knowledgeable about the industry.

Your research should follow the outline of an industry study discussed in Chapter 10 of *Economics of Strategy* by Besanko, Dranove, Shanley, and Schaefer. In other words, you should do a five-forces analysis of your industry. The types of questions you should consider in analyzing your industry are outlined in Appendix 10.1 of the book. Also take a look at the Motley Fool's discussion of the five forces of competition. Click on several of the columns included here:

<http://www.fool.com/search/solr.aspx?exchange-input=&q=porter%27s+five+forces&source=ignsittn0000001>

You should convey your research findings in a business-style report. You should write an eight-to-ten page report (12 pt. font, double-spaced, one-inch margins) that could be submitted to the top executives of the company or to a group of outside investors contemplating buying stock in the company. Make sure that you appropriately cite all of the outside references that you use, because your audience will not want to make important decisions based on unreliable sources or flimsy evidence and research. Be careful and efficient in your writing. Two of my favorite essays on business writing are "It Is Recommended That You Write Clearly," by Gary Blake, *WSJ*, 4/3/95: <http://search.proquest.com/docview/398553202/138B0356EB05274B4F0/42?accountid=11836> and "How to Write Good," by Michael O'Donoghue, originally published in *The National Lampoon*, http://workableweb.com/pages/tips/how_to_write_good.htm. A concise list of do's and don'ts is contained at <http://www.plainlanguage.gov/examples/humor/writegood.cfm>.

Attach as an appendix to your report a hard copy of each of the sources that you use! If you cite a book or long article, only include the title page and the pages you refer to in your report. For short articles from periodicals, newspapers, and internet sources, include the entire piece. Then in your memo you can use very brief citations to your sources, e.g. see Appendix A-1.

The written report is due Thursday, August 7, at which point your group will be asked to make an oral presentation of your analysis. I have attached to the course website (see MBA 603/605 fall 2009 link) several industry studies conducted by individual students in the TEI Piraeus-UK MBA program in prior years that I think are pretty good. My hope is that a team of four or five students who have six weeks to work on a report can do even better.