

# **ECO 610: Managerial Economics**

Summer 2018

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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; prior editions of the books are fine:

Brickley, Smith, and Zimmerman, *Managerial Economics and Organizational Architecture* (4<sup>th</sup>, 5<sup>th</sup>, or 6<sup>th</sup> editions), McGraw-Hill Irwin (available for under \$10 at amazon.com).

Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy* (4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, or 7<sup>th</sup> editions), John Wiley & Sons, Inc., (also available for under \$10 at amazon.com).

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.

## **Office Hours:**

Whenever. My office is 223-Q in the Gatton Building. I will be around and available most of the time during the weeks when our course is offered, so take your chances and drop by or let me know when you would like to meet. I am also easily reachable by telephone and e-mail.

## Course Outline and Reading Assignments:

**Friday, June 15:** 9:00-11:30 a.m.

**Monday, June 18:** 9:00-11:30 a.m.

**Wednesday, June 20:** 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>

"As Economy Grows, North Korea's Grip on Society is Tested," *New York Times*, 5/1/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1893439516/6B98A8736BF04FEA/PQ/2?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>

"Venezuela is Starving—Hobbled by Economic Policies, Latin America's Once-Richest Country Can No Longer Feed its People," *WSJ*, 5/6/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1895499247/5CF40B45C8B34BB/DPQ/1?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>

**Friday, June 22:** 9:00-11:30 a.m.

**Monday, June 25:** 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/1399253185/13FB/AC776B7259CDD87/82?accountid=11836>

**Wednesday, June 27:** 9:00-11:30 a.m.

**Friday, June 29:** 9:00-11:30 a.m.

Production, economic costs, economic profit.

Text:

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

Outside readings:

“Amazon Robots Get Ready for Christmas,” *WSJ*, 11/20/14.

<http://search.proquest.com.ezproxy.uky.edu/docview/1626121572/92A2AB457DB74662PQ/67?accountid=11836>

“Subaru’s Got a Big Problem: It’s Selling Too Many Cars,” *WSJ*, 8/21/13.

<http://search.proquest.com.ezproxy.uky.edu/docview/1426497632/D37A78AD1E014597PQ/73?accountid=11836>

“Small Talk,” *WSJ*, 5/30/06.

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

“Accounting’s 21<sup>st</sup> Century Problem,” *WSJ*, 3/22/16.

<http://search.proquest.com.ezproxy.uky.edu/docview/1774739976/CC673B578D9941CEPQ/69?accountid=11836>

**Monday, July 2:** 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>

“Meet the World’s Largest Cargo Ships,” *WSJ*, 1/8/13.

<http://search.proquest.com.ezproxy.uky.edu/docview/1266990140/A537F218D2EE4AFCPQ/71?accountid=11836>

“New Role for the Gator: Chicken Farmer’s Friend,” *New York Times*, 6/18/2000.

<http://www.nytimes.com/2000/06/18/us/camilla-journal-new-role-for-the-gator-chicken-farmer-s-friend.html?pagewanted=all&src=pm>

**Friday, July 6:** 1:00-3:30 p.m. [note time change!]

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>

“Plane Makers Want a Bigger Part of Parts,” *WSJ*, 9/8/17.

<https://search-proquest-com.ezproxy.uky.edu/docview/1936420682/3B95B99B20C4FF6PQ/60?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>

**Monday, July 9:** 9:00-11:30 a.m.

In-class midterm exam

**Wednesday, July 11:** 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](http://www.sailingissues.com/online.wsj.com/article_email/0,,SB109112801159177914-INje4Nplad3oZunaoKGBauBm4,00.html)

"Boeing, Airbus Confront Crowded Skies," *WSJ*, 7/17/17.

<https://search-proquest-com.ezproxy.uky.edu/docview/1919400529/1A3F32BEECF54CB3PQ/57?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>

**Friday, July 13:** 9:00-11:30 a.m.

**Monday, July 16:** 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>

**Wednesday, July 18:** 9:00-11:30 a.m.

**Friday, July 20:** 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:

"The Complex Anatomy of a Drug Price," *WSJ*, 12/9/15.

<http://search.proquest.com.ezproxy.uky.edu/docview/1746810875/BA22CB528BCC4A24PQ/1?accountid=11836>

"Gillette, in Change, Shaves Prices," *WSJ*, 4/5/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1883999799/20A8A4C4F1674000PQ/57?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>

**Monday, July 23:** 1:00-3:30 p.m. [note time change!]

**Wednesday, July 25:** 9:00-11:30 a.m.

**Friday, July 27:** 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>

“Bigger Proves Far from Better for Canadian Jet Maker,” *WSJ*, 1/9/15.

<http://search.proquest.com.ezproxy.uky.edu/docview/1643323053/8A341AD473946EAPQ/6?accountid=11836>

**Monday, July 30:** 9:00-11:30 a.m.

In-class final exam

**Friday, August 3:** 9:00 a.m.

Industry study written reports due.

**Other Stuff:**

**Why does your professor not make life easy for you and provide you with a full set of notes?**

<http://search.proquest.com.ezproxy.uky.edu/docview/1778340277/AAA293BC2BD141E5PQ/100?accountid=11836>

**Not so hot at public speaking?**

<http://search.proquest.com.ezproxy.uky.edu/docview/398467912/5C312F30658E4470PQ/65?accountid=11836>

**How to get promoted:**

<http://search.proquest.com.ezproxy.uky.edu/docview/1543603571/6D14D25148D43E7PQ/121?accountid=11836>

**Corporate social responsibility:**

<http://search.proquest.com.ezproxy.uky.edu/docview/1563438369/EE4669351F744765PQ/113?accountid=11836>

**Dressing for Success (for young guys):**

<http://search.proquest.com.ezproxy.uky.edu/docview/1888144611/5E064328C1384A7EPQ/95?accountid=11836>

**(and for old guys):**

<http://search.proquest.com.ezproxy.uky.edu/docview/1888144623/5E064328C1384A7EPQ/96?accountid=11836>

## Industry Study Team Assignment

Much of what we are studying in this course equips 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 a ten to twelve 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.ezproxy.uky.edu/docview/398553202/48E61259468E4A5BPQ/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](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 cover page to the appendix can serve as your reference list. BTW, I have found that the quality of the appendix correlates very closely with the quality of the body of the report, and I conjecture that the relationship is causal.

The written report is due Friday, August 3. Your group will also make an oral presentation of your analysis to Harvie and Karl. I will grade your written report and return it to you with detailed comments. The oral presentation is an ungraded assignment, but Harvie and Karl will be evaluating your oral communication skills and giving feedback as well. I have attached to the course website (see <http://gatonweb.uky.edu/faculty/scott/mba603-605fall2009/>) several industry studies conducted by individual students in the TEI Piraeus-UK MBA program a few years back that I think are pretty good. My hope is that a team of four or five students who have four weeks to work on a report can do even better.