

## **ECO 610: Managerial Economics**

Summer 2020

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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. I have also provided a set of online resources that can serve as an alternative to many of the assigned textbook readings. You can find these on the detailed course outline and reading assignments:

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 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 keep regular hours during the week and am generally available. Just let me know when you would like to meet. I am easily reachable by telephone and e-mail, or we can set up a zoom meeting.

### **Boilerplate Information:**

For information about official university policy regarding excused absences, accommodations due to disability, non-discrimination, and academic integrity, as well as information about various UK support services, click [here](#).

## Course Outline and Reading Assignments:

**Friday, June 5**

**Monday, June 8**

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*, July 26, 2012: if you are captain of the ship, how broad is the scope of activities that fall under your purview? <https://www.kentucky.com/news/business/article44369544.html>

Two countries going in different directions RE markets vs. central planning:

"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>

"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>

"Lawmakers Struggle to Define Gasoline Price 'Gouging,'" *WSJ*, 11/9/05: how will a society allocate scarce resources, and what adjustment process will it use when the relative scarcities of different resources changes?

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

"Corn's Rally Sends Ripples," *WSJ*, 1/18/07: contemplating a career picking winners and losers in the stock market? When you play chess, do you think two moves ahead or six moves ahead?

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

**Wednesday, June 10**

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: imagine that you are named brand manager for this newly acquired product line and are tasked with pumping up demand for Quaker Oats.

<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: to increase our revenues, should we raise or lower the price of admission? <http://bit.ly/odthLq>

“For Dollar Stores, a Mixed Bag,” *WSJ*, 7/11/13: do all companies suffer in a recession? <http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1399253185/13FBAC776B7259CDD87/82?accountid=11836>

“The Millennial vs. Boomer Stock Smackdown,” *WSJ* 6/7/19: trying to decide what stocks to include in your personal retirement account?—how tastes/preferences differ across socio-economic groups and how that affects profitability. <https://search-proquest-com.ezproxy.uky.edu/docview/2236060595/4368C0827FFF4982PQ/81?accountid=11836>

### **Friday, June 12**

### **Monday, June 15**

Production, economic costs, economic profit.

Text:

BSZ, ch. 5: “Production and cost.”

Outside readings:

“Amazon Robots Get Ready for Christmas,” *WSJ*, 11/20/14: could you head up a project to determine the cost-minimizing mix of robots vs. workers in the peak and off-peak seasons?

<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: short-run law of diminishing returns can bite when plant size is too small.

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

“Small Talk,” *WSJ* 5/30/06: thinking about buying an existing business so you can be your own boss? Here are some things to consider.

<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: it was also a problem during the 20<sup>th</sup> century.

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

### **Wednesday, June 17**

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: what happened to chicken production in the 1960s comes to pigs.  
<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: How do you think the widening of the Panama Canal is going to affect the supply chains of companies in the eastern U.S?  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/1266990140/13FBAE3E923680778EB/71?accountid=11836>

“New Role for the Gator: Chicken Farmer’s Friend,” *New York Times*, 6/18/2000: read this and you will never forget the concept of economies of scope.  
<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, June 19**

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: who is “outsourcing” to whom?  
<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: value chain, make or buy, supplier power, supply chain management—this article has it all. <https://search-proquest-com.ezproxy.uky.edu/docview/1936420682/3B95B99B20C4FF6PQ/60?accountid=11836>

“Companies More Prone to Go ‘Vertical,’” *WSJ*, 11/30/09: fads and trends vs. fundamental economic reasons whether to make or to buy.  
<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399140920?accountid=11836>

**Monday, June 22**

In-class midterm exam

**Wednesday, June 24**

Markets and market structure.

Text:

BDSS, ch. 6, “Competitors and Competition.”

Outside readings:

“‘Green Gold’ Rush Eludes Greeks,” *WSJ*, 12/19/17: unbranded olive oil vs. branded olive oil—which market structure model is appropriate for analyzing each?

<https://search-proquest-com.ezproxy.uky.edu/docview/1978204751/5057514BD29A4D70PQ/18?accountid=11836>

“Restaurants Burned by Oversupply, Rivals,” *WSJ*, 10/17/16: what type of market structure and expected long-run profitability in the restaurant industry?  
<http://search.proquest.com.ezproxy.uky.edu/docview/1829442259/72E60390CBF94A2EPQ/64?accountid=11836>

“Boeing, Airbus Confront Crowded Skies,” *WSJ*, 7/17/17: can the tight duopoly market for large passenger jet airplanes last forever?  
<https://search-proquest-com.ezproxy.uky.edu/docview/1919400529/1A3F32BEECF54CB3PQ/57?accountid=11836>

“Harry’s Cuts into Gillette’s Razor Turf,” *WSJ*, 11/11/16: what happens to the pricing power of a dominant firm when some upstart comes along?  
<http://search.proquest.com.ezproxy.uky.edu/docview/1837880191/E66C037C10B4D00PQ/1?accountid=11836>

**Friday, June 26**

**Monday, June 29**

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: your professor’s all-time favorite *Wall Street Journal* article!!

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

“Electric-Car Metals Let Down Investors,” *WSJ*, 2/19/19: what paradigm or model would you use to analyze a commodity market like cobalt or lithium?

<https://search-proquest-com.ezproxy.uky.edu/docview/2183042543/fulltext/B2CCEF0846B24379PQ/76?accountid=11836>

or natural gas? “Long a Promise, Gas Goes Global,” *WSJ*, 6/7/17.

<http://search.proquest.com.ezproxy.uky.edu/docview/1906346922/FFFDCE8C1817464DPQ/1?accountid=11836>

“Shell Shock: Chinese Demand Reshapes U.S. Pecan Business,” *WSJ*, 4/18/11: another perfectly competitive market example.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/862237747?accountid=11836>

“As Tobacco Sales Dry Up, Kentucky Farmers Look to the State’s ‘Original Crop’—Hemp,” *Los Angeles Times*, 2/12/19: if asked to analyze the hemp market and how it can be expected to evolve over time, what approach would you use?

<https://search-proquest-com.ezproxy.uky.edu/docview/2178498475/93EE81DA0646462BPQ/4?accountid=11836>

**Wednesday, July 1**

**Monday, July 6**

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: monopoly pricing when the spotlight of public attention is on you.

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

"Gillette, in Change, Shaves Prices," *WSJ*, 4/5/17: how much do you love your Fusion five-bladed razor, and has that love been diminished by the entry of Harry's and Dollar Shave Club into the market?

<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: textbook example of implementing the inverse-elasticity pricing rule, with huge results.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399036795?accountid=11836>

**Wednesday, July 8**

**Friday, July 10**

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: can you see a learning-curve competitive advantage that Airbus gained by getting a jump on Boeing in this market?

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

"Airbus Jet Leaves Legacy of Flubs," *WSJ*, 2/20/19: who was right in their assessment of the superjumbo market in 2001, Boeing or Airbus?

<https://search-proquest-com.ezproxy.uky.edu/docview/2183505974/603F73604943E1PQ/63?accountid=11836>

"Cruise Lines Slash Their Prices as War Fears Rattle Travelers," *WSJ*, 1/29/03: schedules are established, capacity is committed, and then an unanticipated drop in demand occurs.

<https://search-proquest-com.ezproxy.uky.edu/docview/398887154/33DE6F31F3364532PQ/115?accountid=11836>

“Huge Cruise Ships Prepare for Launch but Face Uncertain Waters,” *WSJ*, 12/04/09: how cruise lines have to make capacity commitments before they know the exact state of demand. Do you see the connection with the above reading on price wars?

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399127167/138B03F609C59AFF144/53?accountid=11836>

“Upstart’s Tactics Allow it to Fly in Friendly Skies of a Big Rival,” *WSJ*, 6/23/99: some pretty shrewd strategists at Frontier.

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

## **Monday, July 13**

In-class final exam

### **Fun 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>

**Think you are ready to run a Fortune 500 company?**

<https://search-proquest-com.ezproxy.uky.edu/docview/2311173180/1BC7C6CA85FD4DCAPQ/63?accountid=11836>

**Corporate social responsibility:**

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

<https://search-proquest-com.ezproxy.uky.edu/docview/2108088715/37FE2B74986F4312PQ/53?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>