MGT519

Managerial Economics

4^{th} Module, 2025/2026

Course Information

Instructor: FENG,Yan

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Office Hour: Tuesday & Friday, 5:30pm-6:30pm

Teaching Assistant: TBA

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Classes:

Lectures: Tuesday & Friday

S1：3:30pm – 5:20pm　　S2：10:30am – 12:20pm

Venue: PHBS Building, Classroom TBD

1. Course Description

1.1 Context

Course overview:

Almost every managerial decision-making problem is an economic problem. The purpose of Managerial Economics is to apply a series of basic economics principles to understand the decision making within the firm and the impact of the decision making environment. This course addresses the need for choice implied by the scarcity of resources. The fact of scarcity necessitates that individuals, firms, and societies choose among alternative uses of its limited resources. At the same time, the various choices made by different economic agents must be mutually consistent. Markets are a mechanism to achieve such reconciliation. Issues related to demand and supply, appropriate estimation of economic profits/value, among others, can be successfully tackled with managerial economics tools. In this class we seek to understand what the economic foundation of managerial choices of firms is, and how markets work to coordinate these choices and some consequence resulted from unique economic and managerial situations such as imperfect information. This course focuses on the managerial economics of organization, emphasize the fundamentals, the organizational issues that are closely related to managerial considerations.

There are many important issues related to managerial process that are extended content of managerial economics or more or less related to the economic aspects of decision making, such as risk management, governance of the organization and etc. Many of these topics will be intensively dealt with in subject-specific courses, therefore are not covered in our course of Managerial Economics. We will from time to time come across topics related to issues such as marketing, corporate strategies and strategic management, but we will not dive into the details of such topics.

Quantitative skills such as math and statistics are separate courses provided in the comprehensive business training curriculum; they will be utilized (in a non-intensive way) in this course when necessary, you should feel comfortable with the basics such as marginal analysis and optimizations.

Prerequisites:
No economics background required, nonetheless, a basic knowledge of microeconomics and management subjects is helpful.

1.2 Textbooks and Course Materials

Recommended Books: (selected chapters will be provided)
Christopher R. Thomas and S. Charles Maurice, 2020, *Managerial Economics: Foundations of Business Analysis and Strategy* (12e), McGraw-Hill Education. (hereinafter TM)
David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 2017, *Economics of Strategy* (7e), Wiley. (hereinafter BDSS)
Additional reading materials:
For each topic, recommended and extended readings are listed and will also be provided by the instructor. These readings are for you to explore further on the topic of your interest.
Exercises:
Exercises will be handed out to help understand and review the lectures.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment (YES with details or NO)

1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	
	2.2. Students will be able to apply leadership theories and related skills.	
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyse business problems and identify the ethical aspects, provide a solution and defend it.	
	3.2. Our students will practice ethics in the duration of the program.	
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	Yes Exercises; Exams
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Yes Exercises; Exam
	5.3. Our students will demonstrate competency in critical thinking.	Yes Exercises; Exam

2.2 Course specific objectives

The basic objective of this course is to familiarize the students with the approach, language and techniques of managerial economics. More specifically, this course intend to:

- Develop specific tools – basically quantitative as well as broadly analytical – that are useful for assessing managerial economics problems.
- Instil a unique "point of view" on each student. This point of view – the "economics point of view" – is quite powerful and has proven to be a useful analytical perspective in many circumstances, including business decision making at the highest level.

2.3 Assessment/Grading Details

Attendance	10%
Participation	10%
Midterm exam	30%
Final exam	50%

Attendance: Attendance is a requirement as a school policy. Planned absentee from classes should be reported to the instructor through formal email (cc TA). Emergent absentee should be followed up by status updating to the instructor (with the proof of the said emergence).

Participation: Active involvement in the classroom is required, although I will not "cold call" on you. Your participation will be evaluated based on the frequency of your responses, the quality of your insights/comments, and etc.

Midterm exam: Test for the first half of class content, a CLOSED book exam.

Final exam: This is a comprehensive test covering the overall content for the whole class, emphasis will be put on the latter half of the course content, a CLOSED book exam.

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

AI tools requirements:

Using AI tools to complete assignments or assessments without the approval of the course instructor will be regarded as an act of academic dishonesty. Depending on the severity of the situation, penalties will be implemented in accordance with the provisions of the Peking University Graduate Student Handbook.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics, Teaching Schedule

Topic 1: The basics

- Managerial decision and economics
- Effective management: goals and objective
- Value and value added
- Economic costs & Economic profit
- Marginal analysis

Required readings:

TM: 1, 3

Brandenburger, A.M.& Stuart, H.W. (1996). Value-based business strategy. Journal of Economics & Management Strategy, 5(1) 5–24.

Coase, R.H. (1937). The nature of the firm. *Economica*, 4(16), 386-405.

Paul, S. (2023). On firms. *University of Chicago Law Review*, 90(2), 579-622.

Williamson, O.E. (1979). Transaction-cost economics: the governance of contractual relations. *Journal of Law and Economics*, 22(2), 233-261.

Extended readings:

Ethiraj, S. K., & Levinthal, D. (2009). Hoping for A to Z while rewarding only A: Complex organizations and multiple goals. *Organization Science*, *20*(1), 4-21.

Foss, K., & Foss, N. (2022). *Economic microfoundations of strategic management: the property rights perspective*, Chapter 7, 169-184.

Hart, O. (1989). An economist's perspective on the theory of firm. *Columbia Law Review*, 89(7), 1757-1774.

Klaes, M., & Sent, E. M. (2005). A conceptual history of the emergence of bounded rationality. *History of political economy*, *37*(1), 27-59.

Simon, H. A. (1959). Theories of decision-making in economics and behavioral science. *The American Economic Review*, 49(3), 253-283.

Williamson, O.E. (1988). The logic of economic organization. *Journal of Law, Economics, & Organization*, 4(1), 65-93.

Topic 2: Consumer purchasing decision and demand

- Consumer purchase decision
- Individual and market Demand

- Elasticities

Required readings:

TM: 2.1, 2.5, 5, 6.

Extended readings:

Auer, J. & Papies, D. (2020). Cross-price elasticities and their determinants: a meta-analysis and new empirical generalizations. *Journal of Academy of Marketing Science*, 48, 584-605.

Barnett, W. (2003). The modern theory of consumer behavior: Ordinal or cardinal?. *The Quarterly Journal of Austrian Economics*, 6(1), 41.

Hands, D. W. (2010). Economics, psychology and the history of consumer choice theory. *Cambridge Journal of Economics*, 34(4), 633-648.

Herfeld, C. (2022). Revisit the criticisms of rational choice theories. *Philosophy Compass*, (17), e12774.

Sen, A. (1993). Internal consistency of choice. *Econometrica: Journal of the Econometric Society*, 495-521.

Stigler, G. (1950). The development of utility theory. I. *Journal of Political Economy*, 58(4), 307-327.

Stigler, G. (1950). The development of utility theory. II. *Journal of Political Economy*, 58(5), 373-396.

Thaler, R. (1980). Toward a positive theory of consumer choice. *Journal of Economic Behavior & Organization*, 1(1), 39-60.

Topic 3: Production, supply and profit maximization

- Short run production and supply
- Long run production and supply
- Cost curves
- Profit maximization

Required readings:

TM: 2.2, 2.5, 8, 9, 11.

Extended readings:

De Alessi, L. (1967). The short run revisited. *The American Economic Review*, 57(3), 450-461.

Diewert, W. E. (1981). The comparative statics of industry long-run equilibrium. *Canadian Journal of Economics*, 78-92.

Kee, R. C. (2001). Evaluating the economics of short-and long-run production-related decisions. *Journal of Managerial Issues*, 139-158.

Larson, B. (1991). A dilemma in the theory of short-run production and cost. *Southern Economic Journal*, 465-474.

Simon, H. A. (1959). Theories of decision-making in economics and behavioural science. *The American Economic Review*, 49(3), 253-283. Part III.

Topic 4: Long run profitability: fundamentals

- The nature of industry and IO view of the firm
- Resource based view of the firm
- Dynamic capability
- Profit drivers

Required readings:

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17: 99-120.

Barney, J., Wright, M., & Ketchen Jr, D. J. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management*, *27*(6), 625-641.

Baye M.R. & Prince J. (2022). Managerial Economics & Business Strategy, chapter 7.

BDSS: 8, 9, 11.

Eisenhardt, K. & Martin, J. A. (2000). Dynamic Capabilities: What Are They?. *Strategic Management Journa*l, 21(10/11), 1105-1121.

Wernerfelt, B. (1984). A resource‐based view of the firm. *Strategic management journal*, *5*(2), 171-180.

Wernerfelt, B. (1995). The resource‐based view of the firm: Ten years after. *Strategic management journal*, *16*(3), 171-174.

Winter, S. G. (2003). Understanding dynamic capabilities. *Strategic management journal*, *24*(10), 991-995.

Extended readings:

Adner, R., & Zemsky, P. (2006). A demand‐based perspective on sustainable competitive advantage. *Strategic management journal*, 27(3), 215-239.

Cattani, G., D. Sands, J. Porac, and J. Greenberg (2018). "Competitive sense-making in value creation and capture". Strategy Science, 3(4): 632-657.

Chandler, A.D. (1992). Organizational capabilities and the economic history of the industrial enterprise. *Journal of Economic Perspectives*, 6: 79-100.

Chen, Y. et al. (2023). Microfoundations of dynamic capabilities: a systematic review and multilevel framework. *Management Decision*, 61(6), 1717-1753.

Lippman, S. & Rumelt, R. (2003). The payments perspective: Micro-foundations of resource analysis. *Strategic Management Journal*, 24: 903-927.

Madhok, A. (2002). Reassessing the fundamentals and beyond: Ronald Coase, the transaction cost and resource-based theories of the firm and the institutional structure of production. *Strategic Management Journal*, 23(6),5350550.

Mahoney, J. T., & Pandian, J. R. (1992). The resource‐based view within the conversation of strategic management. *Strategic management journal*, *13*(5), 363-380.

Peteraf, M. (1993). The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, 14: 179-191.

Topic 5: Long run profitability: scale, scope and learning

- Economies of scale
- Economies of scope
- Learning and experiences

Required readings:

TM: 1.2, 9.6.

BDSS: 2&3.

Extended readings:

Arte, P. & Larimo, J. (2022). Moderating influence of product diversification on the international diversification-performance relationship: A meta-analysis. *Journal of Business Research*, 139, 1408-1423.

Berger, P. G., & Ofek, E. (1995). Diversification's effect on firm value. *Journal of Financial Economics*, 37(1), 39-65.

Choi, J., Menon, A. & Tabakovie, H. (2021). Using machine learning to revisit the diversification–performance relationship. *Strategic Management Journal*, 42, 1632-1661.

Halaburda, H., & Oberholzer-Gee, F. (2014). The limits of scale. *Harvard Business Review*, *92*(4), 94-99.

Helfat C. E. & Eisenhardt, K. M. (2004). Inter-Temporal Economies of Scope, Organizational Modularity, and the Dynamics of Diversification. *Strategic Management Journal*, 25(13), 1217-1232.

Knudsen, T., Levinthal, D. A., & Winter, S. G. (2014). Hidden but in plain sight: The role of scale adjustment in industry dynamics. *Strategic Management Journal*, 35(11), 1569-1584.

Lecraw, D. J. (1984). Diversification strategy and performance. *The Journal of Industrial Economics*, 179-198.

Levinthal, D. and B. Wu (2010). Opportunity costs and non-scale free capabilities: Profit maximization, corporate scope, and profit margins. *Strategic Management Journal*, 31: 780-801.

Martin, J. and A. Sayrak (2003). Corporate diversification and shareholder value: A survey of recent literature*. Journal of Corporate Finance, 9: 37-57.*

Montgomery, C. (1994). Corporate diversification. *Journal of Economic Perspectives*, 8 (3): 163-78.

Rawley, E. (2010). "Diversification, coordination costs, and organizational rigidity: Evidence from microdata". *Strategic Management Journal*, 31(8): 873-891.

Sakhartov, A. V. (2017). Economies of scope, resource relatedness, and the dynamics of corporate diversification. *Strategic Management Journal*, 38, 2168-2188.

Silverman, B. (1999). "Technological resources and the direction of corporate diversification: Towards an integration of the resource-based view and transaction cost economics". *Management Science, 45(8): 1109-1124.*

Teece, D., R. Rumelt, G. Dosi, and S. Winter (1994). "Understanding corporate coherence: Theory and evidence". *Journal of Economic Behavior and Organization*, 23: 1-30.
Zhuo, Y. (2011). "Synergy, coordination costs, and diversification choices". *Strategic Management Journal*, 32: 624-639.

Topic 6: Long run profitability: network effect

- Network effect
- Platform economy

Require readings:

Rochet, J. C., & Tirole, J. (2003). Platform competition in two-sided markets. *Journal of the European Economic Association*, *1*(4), 990-1029.
Rochet, J. C., & Tirole, J. (2004). Two-sided markets: An overview. *Institut d'Economie Industrielle working paper*, 1-44.
Roson, R. (2005). Two-sided markets: A tentative survey. *Review of Network Economics*, *4*(2).

Recommended readings:

Bolt, W., & Tieman, A. F. (2008). Heavily skewed pricing in two-sided markets. *International Journal of Industrial Organization*, *26*(5), 1250-1255.
Caillaud, B. and B. Jullien, (2003), Chicken and egg: competition among intermediation service providers, *RAND Journal of Economics* 34(2): 309-328.
Dubé, Jean-Pierre H., Hitsch, G. J., & Chintagunta, P. K. (2010). Tipping and Concentration in Markets with Indirect Network Effects. *Marketing Science*, 29(2), 216-249.
Economides, N. & Katsamakas, E. (2006). Two-sided competition of proprietary vs. open source technology platforms and the implications for the software industry. *Management Science*, 52(7), 1057-1071.
Evans, D. S., & Schmalensee, R. (2010). Failure to launch: Critical mass in platform businesses. *Review of network economics*, *9*(4).
Hagiu, A. (2009). Two‐sided platforms: Product variety and pricing structures. *Journal of Economics & Management Strategy*, *18*(4), 1011-1043.
Hagiu, A. (2014). Strategic decisions for multisided platforms. *MIT Sloan Management Review*, 55 (2):71-82.
Kathu, K. & Ritala, P. (2021). Slicing the cake without baking it: Opportunistic platform entry strategies in digital markets. *Long Range Planning*, 54, 101988.
Schmalensee, R. (2011). Why is platform pricing generally highly skewed?. *Review of Network Economics*, 10(4): 1-11.

Topic 7: Long run profitability: market power

- Monopoly & monopolistic competition
- Pricing with market power

Required readings:

TM: 12&14.

Extended readings:

Bailey, E. E. (1981). Contestability and the design of regulatory and antitrust policy. *The American Economic Review*, *71*(2), 178-183.

Bailey, E. E., & Baumol, W. J. (1983). Deregulation and the theory of contestable markets. *Yale Journal on Regulation*, *1*, 111.

Boulding, W., & Staelin, R. (1990). Environment, market share, and market power. *Management Science*, 36(10), 1160-1177.

Crémer, J.et al. (2023). Fairness and Contestability in the Digital Markets Act. *Yale J. on Reg.*, *40*, 973.

Kim, E. H., & Singal, V. (1993). Mergers and market power: Evidence from the airline industry. *The American Economic Review*, 549-569.

Kwon, S., Ma, Y., & Zimmermann, K. (2024). 100 years of rising corporate concentration. *American Economic Review, 114*(7), 2111–2140.

Landes, W. M., & Posner, R. A. (1981). Market power in antitrust cases. *Harvard Law Review*, 937-996.

Martin, S. (1988). Market power and/or efficiency?. *The review of Economics and Statistics*, 331-335.

Montgomery, C. A. (1985). Product-market diversification and market power. *Academy of Management Journal*, 28(4), 789-798.

Schmalensee, R. (1982). Another look at market power. *Harvard Law Review*, 95(8), 1789-1816.

Schwartz, M. (1986). The nature and scope of contestability theory. *Oxford Economic Papers*, *38*, 37-57.

Topic 8. Strategic interaction

- Game theory basics
- Oligopoly market

Required readings:

TM: 13.

Recommended readings:

BDSS: 6&7.

Extended readings:

Bhagwati, J. N. (1970). Oligopoly theory, entry-prevention, and growth. *Oxford Economic Papers*, 22(3), 297-310.

Caves, R. E., & Porter, M. E. (1978). Market structure, oligopoly, and stability of market shares. *The Journal of Industrial Economics*, 289-313.

Cyert, R. M., & March, J. G. (1955). Organizational structure and pricing behavior in an oligopolistic market. *The American Economic Review*, 45(1), 129-139.

Cyert, R. M., & March, J. G. (1956). Organizational factors in the theory of oligopoly. The *Quarterly Journal of Economics*, 44-64.
Dixit, A. (1982). Recent developments in oligopoly theory. *The American Economic Review*, 72(2), 12-17.
Lieberman, M. B. & Montgomery, D. B. (1988). First-mover advantages. *Strategic Management Journal,* 9, 41-58.
Saloner, G. (1991). Modeling, game theory, and strategic management. *Strategic Management Journal*, 12, 119-136.
Simon, H. A. (1959). Theories of decision-making in economics and behavioral science. *The American Economic Review*, 49(3), 253-283. Part IV.
Stigler, G. J. (1964). A theory of oligopoly. *Journal of political Economy*, 72(1), 44-61.

Teaching Plan:

Week	Date	Topic	Notes
1	05.06	Basics	
	05.08	Basics	
2	05.12	Purchasing decision	
	05.15	Demand	
3	05.19	Elasticity	
	05.22	Short-run production & costs	
4	05.26	Long-run production & costs	
	05.29	Profit maximization & supply	
5	06.02	Long run profitability	
	06.05	Midterm exam	
6	06.09	Scale Scope & Learning	
	06.12	Network effect	
7	06.16	Market power & sophisticated pricing	
	06.17	Market power & sophisticated pricing	
8	06.23	Market power & sophisticated pricing	
	06.26	Strategic decision & oligopoly market	
9	06.30	Strategic decision & oligopoly market	
	07.03	Strategic decision & oligopoly market; Review Class	
	07.05	Final Examination	8:30am-10:30am

4. Miscellaneous

- Avoid tardiness
- Email notification of absence
- NO cell phone use in classroom