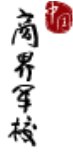




**PHBS**  
北京大学汇丰商学院



**MGT519**

## **Managerial Economics**

### **3<sup>rd</sup> Module, 2020/2021**

#### **Course Information**

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***Instructor: Yan Feng***

Office: PHBS Building, Room 758

Phone: 86-755-2603-2985

Email: [fengyan@phbs.pku.edu.cn](mailto:fengyan@phbs.pku.edu.cn)

Office Hour: Mon. & Thur., 5:30pm-6:30pm

***S1:Teaching Assistant: TBA***

Phone: TBA

Email: TBA

***S2:Teaching Assistant: Runqing Yang (杨闰晴)***

Phone: 178-8882-7396

Email: [runqyang@pku.edu.cn](mailto:runqyang@pku.edu.cn)

***Classes:***

Lectures: Mon. & Thur., **S1:** 3:30pm – 5:20pm; **S2:** 10:30am – 12:20pm

Venue: PHBS Building, Room ?

***Course Website:***

TBA

## **1. Course Description**

### ***1.1 Context***

Course overview:

Almost every managerial decision making problem is an economics problem. The purpose of Managerial Economics is to apply a series of basic economics principles to understand the decision making process within the firm and the impact of the decision making environment.

The 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 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 focus on the managerial economics of organization, emphasize the fundamentals, the organizational issues, and the peripheral issues 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 corporate strategies, human resource management, risk management, governance of the organization, and etc. Many of these issues will be intensively dealt with in focused subject courses, therefore are not covered in Managerial Economics. In addition, quantitative skills such as basic optimization and statistics are separate courses provided in the comprehensive business training curriculum; they will be utilized but are not covered in this course.

Prerequisites:

No specific background requirements, nonetheless, a basic knowledge of microeconomics and management is helpful.

## **1.2 Textbooks and Reading Materials**

### **Required Book:**

Christopher R. Thomas and S. Charles Maurice, 2015, *Managerial Economics: Foundations of Business Analysis and Strategy* (11e, English Version), China Machine Press. (hereinafter T&M)

### **Recommended book:**

David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 2017, *Economics of Strategy* (7e), Wiley. (hereinafter BDSS)

### **Additional readings:**

For each topic, recommended and extended readings are listed, most of them are accessible publicly and will be distributed by the instructor, and a few practitioner articles are accessible with charge and are available through the link of the article.

## 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.	Yes Case analysis
	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.	Yes Case analysis
	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 analyze business problems and identify the ethical aspects, provide a solution and defend it.	Yes Case analysis
	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 Final exam
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Yes Case analysis
	5.3. Our students will demonstrate competency in critical thinking.	Yes Final exam; Case analysis

### 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 has three objectives:

- Develop specific tools – basically quantitative as well as broadly analytical – that are useful for assessing basic 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.
- Discuss the functioning of the economy from an analytical point of view. Throughout the class an effort will be made to use necessary examples related to the real world economy, naturally, at the micro level.

## **2.3 Assessment/Grading Details**

Attendance	5%
Participation	10%
Case 1 (individual)	5%
Case 2 (individual)	5%
Case 3 (group)	10%
Case 4 (group)	20%
Case 5 (group)	15%
Final exam	30%

**Attendance:** attendance is a hard requirement as a school policy. You are allowed to be absent for at most twice (out of 18) from classes with advance notice to the instructor through formal email (cc TA). Emergent absentee should be followed by updating your status to the instructor.

**Participation:** active involvement in the classroom is required. The instructor will evaluate your participation based on the frequency of your responses, the quality of your insights/comments, and your engagement level in class discussion when your classmates are talking.

**Cases:** cases are used to provide scenarios of business decisions that set up the context to use what we discussed in classes. The write-ups for cases are used to assess command of the knowledge you learned and the effectiveness of your utilization of analytical models developed in the classes. When the case write-ups are group work, each team member receives the same score unless there is clear difference in efforts declared and agreed upon by all members in a specific team.

**Final exam:** this is a comprehensive test covering all important content of the whole course. The exam is used to assess your understanding of the course materials. The final exam is an

open book test.

## **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.

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

## **3. Topics, Teaching and Assessment Schedule**

### **3.1. Topics**

#### **1. Introduction**

Managerial economics; Firm and market

#### **Recommended readings:**

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

#### **Extended Readings:**

Hands, W. (2012). Normative rational choice theory: past, present, and future. *Voprosy Ekonomiki*, 10.

Shubik, M. (1958). Studies and theories of decision making. *Administrative Science Quarterly*, 289-306.

## 2. Demand

Consumer theory; Demand; Price elasticity; Total and marginal revenue; Other elasticity

### Required readings:

T&M: 2.1, 2.5, chapter 5, 6, & 7

### Recommended readings:

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

Duffer E. (2018). Amazon prime reading Customers see price hike. *Forbes*, Jan, 29. Accessed through <https://www.forbes.com/sites/ellenduffer/2018/01/29/amazon-prime-reading-customers-see-price-hike/#8bf764a5e638>

Ledger, S. et al. (2018). Can carbon prices fire up gas demand in electricity generation?. *McKinsey & Company Article*, January.

### Extended Readings:

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.

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

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

## 3. Supply

Short run production; Long run production; Short run supply; Long run supply

### Required readings:

T&M: 2.2, 2.5, chapter 8, 9.1-9.5, 9.7, 11.1-11.4

### Recommended readings:

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

Amed, I. et al. (2019). The state of fashion. *McKinsey & Company Report*, February.

### 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.

#### **4. Market equilibrium**

Market equilibrium; Value of exchange; Price controls

##### **Required readings:**

T&M: 2.3-2.6

##### **Recommended readings:**

Campagnol, N. et al. (2018). Metal mining constraints on the electric mobility horizon.

*McKinsey & Company Article*, April.

##### **Extended Readings:**

Hayek, F. A. (1946). The meaning of competition. 1948, 92-106.

Makowski, L., & Ostroy, J. M. (2001). Perfect Competition and the Creativity of the Market.

*Journal of Economic Literature*, 39(2), 479-535.

McNulty, P. J. (1967). A note on the history of perfect competition. *Journal of Political Economy*, 75(4, Part 1), 395-399.

Richardson, G. B. (1959). Equilibrium, expectations and information. *The Economic Journal*, 69(274), 223-237.

Stigler, G. J. (1957). Perfect competition, historically contemplated. *Journal of Political Economy*, 65(1), 1-17.

#### **5. Costs and firm boundary**

Economic costs; Economic profit; Economies of scale/scope; Learning curve; Network effect

##### **Required readings:**

T&M: 1.2, 9.6, chapter 10

##### **Recommended readings:**

BDSS: chapter 2&3

Halaburda, H. and F. Oberholzer-Gee (2014). The limits of scale. *Harvard Business Review*, April Issue, <https://hbr.org/2014/04/the-limits-of-scale>.

Hagiu, A. (2014). Strategic decisions for multisided platforms. *MIT Sloan Management Review*, 55 (2):71-82.

Modar, M. and Spamann, A. (2020) Chemicals marketing and sales: The role of digital platforms. *McKinsey & Company Article*, March.

##### **Extended Readings:**

Hagiu, A., & Spulber, D. (2013). First-party content and coordination in two-sided markets. *Management Science*, 59(4), 933-949.

Schmalensee, R. (2011). Why is platform pricing generally highly skewed?. *Review of Network Economics*, 10(4): 1-11.

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.

Rochet, J. C., & Tirole, J. (2003). Platform competition in two-sided markets. *Journal of the European Economic Association*, 1(4), 990-1029.

Hagiu, A. (2009). Two-sided platforms: Product variety and pricing structures. *Journal of Economics & Management Strategy*, 18(4), 1011-1043.

## **6. Market power**

Market power; Monopoly & monopolistic competition; Pricing with market power

### **Required readings:**

T&M: chapter 12&14

### **Recommended readings:**

BDSS: chapter 5

### **Extended Readings:**

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

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

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.

Rhoades, S. A. (1985). Market share as a source of market power: Implications and some evidence. *Journal of Economics and Business*, 37(4), 343-363.

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

## **7. Strategic decision**

Game theory basics; Oligopoly

### **Required readings:**

T&M: chapter 13

### **Recommended readings:**

BDSS: chapter 5, 6, &7

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

Lindstädt, H. and Müller, J. (2009). Making game theory work for managers. *McKinsey & Company Article*. December.

### **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.
- Stigler, G. J. (1964). A theory of oligopoly. *Journal of political Economy*, 72(1), 44-61.
- Rothschild, K. W. (1947). Price theory and oligopoly. *The Economic Journal*, 57(227), 299-320.

## **8. Organization and asymmetric information (supplements)**

Moral hazard; principle-agent problem

### **Recommended Readings:**

BDSS: chapter 12

### **Extended Readings:**

- Aron, D. J. (1988). Ability, moral hazard, firm size, and diversification. *The Rand Journal of Economics*, 72-87.
- Barkema, H., Geroski, P., & Schwalbach, J. (1997). Managerial compensation, strategy and firm performance. *International Journal of Industrial Organization*, 413-416.
- Haubrich, J. G. (1994). Risk aversion, performance pay, and the principal-agent problem. *Journal of Political Economy*, 102(2), 258-276.
- Holmstrom, B., & Milgrom, P. (1994). The firm as an incentive system. *The American Economic Review*, 972-991.
- Miller, G. J. (2005). Solutions to principal-agent problems in firms. In *Handbook of new institutional economics* (pp. 349-370). Springer, Boston, MA.
- Sappington, D. E. (1991). Incentives in principal-agent relationships. *Journal of economic Perspectives*, 5(2), 45-66.

## **3.2. Schedule (may subject to minor adjustment according to actual class progress)**

Reminder: the students are required to purchase in total 5 cases (*BAB344*, *IES586*, *A00001*, *NA0481*, *W88C82*) from the HBS case services; this will be facilitated by the TA.

Time	Date	Topic	Notes
Week 1	04.23	Introduction	Online class
	04.27	Demand	Online class
Week 2	04.30	Demand	Online class
	05.04	Demand	Online class
Week 3	05.07	Supply	Online class
	05.11	Supply	Online class; HW 1:case 1: Apple Watch (A)-the Launch (BAB344)
Week 4	05.14	Supply	Online class
	05.18	Market equilibrium	HW 2: Case 2: Hurricane Sandy (IES586)
Week 5	05.21	Costs & firm boundary	
	05.25	Costs & firm boundary	HW 3: Case 3: Spark Publishing and Printing House (A00001)
Week 6	05.28	Market power	
	06.01	Market power	
Week 7	06.04	Market power	HW 4: Case 4: Augusta Training Shop (NA0481)
	06.08	Case 4: Augusta Training Shop (NA0481)	Collect Case 4 write-up before class
Week 8	06.11	Strategic decision	
	06.15	Strategic decision	HW 5: Case 5: Pricing Games (W88C82)
Week 9	06.18	Case 5: Pricing Games (W88C82)	Collect Case 5 write-up before class
	06.22	Incentives (supplements)	
	<b>06.25</b>	<b>Final Exam</b>	7pm-9pm

#### 4. Miscellaneous

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