



Econ 5110: Managerial Microeconomics

Fall 2016 Syllabus
Department of Economics
Business School
HKUST

Xinyu Hua

Time and Venue:

L1 Time: 9:15– 12:45, Tuesdays, Aug. 23 – Oct. 12
Venue: LSK 2001

L2 Time: 9:15– 12:45, Wednesdays, Aug. 24 – Oct. 12
Venue: LSK 2001

***Both sections will have exam on Oct 12 (exact time to be determined by the MBA office).**

Instructor:

Xinyu Hua (xyhua@ust.hk ; 2358-7609; Room 6076, LSK Business School Building)

Email is always a great way to reach me.

Office Hours: Tue afternoons or by appointment

Course Web Site: canvas.ust.hk

Course Description and Objectives

Warren Buffet once said: “When an industry with a reputation for difficult economics meets a manager with a reputation for excellence, it is usually the industry that keeps its reputation intact.” Many managers fail to appreciate the numerous ways in which competition can destroy profitability. This course focuses on understanding individual economic behavior, competition, and market characteristics that are relevant to business and management.

Learning Objectives:

- Understand and use tools, concepts, and theories from microeconomics in performing demand and competitive analysis.
- Apply demand and supply analysis in predicting market price and related dynamics in competitive markets.
- Understand the key trade-offs between high margin and high volume of sales in pricing decisions, and choose different pricing strategies according to industry or market conditions.
- Predict competitors' actions and reactions using basic game theoretic methods. In the context of oligopoly market, analyze the direct effect and the strategic effect of a firm's decisions such as pricing, advertising, quantity, new product introduction, quality, etc.

Brief Course Outline

The table below gives an approximate outline of the course.

	Topic	Required reading and preparation before class
Week 1	Introduction. Market Demand	Notes on Demand Estimation Case on “Medicines Co.”
Week 2	Free/Easy Entry Market --Demand and Supply Analysis	Group Assignment 1 due Case on “Subsidies and the Global Cotton Trade”
Week 3	Monopoly Market --Pricing and Price Discrimination.	Case on “Uber Pricing Strategies” (pages 13-15 only) Case on “Saurer: The China Challenge”
Week 4	Oligopoly Market I: Competitive Advantage	Group Assignment 2 due Notes on “Industry and Firm Analysis” Case on “Matching Dell” and “Dell 2009” (Pages 6-8 only) Case on “Enterprise Rent-A-Car”
Week 5	Oligopoly Market II: Game Theory (Competition and Cooperation)	Mini-Case on “Xbox versus PlayStation” Mini-Case on “Easyhome versus Macallian”
Week 6	Oligopoly Market III: Strategic Decisions	Group Assignment 3 due Online Simulation on Universal Rental Car
Week 7	Oligopoly Market IV: Strategic Decisions with Asymmetric Information	Case on “The Zero-Fee Tours in Hong Kong”
Week 8	Exam	

Study Groups and Case Study Method

You are encouraged to follow the grouping made by the MBA office. The groups are responsible for working on the cases and the group assignments.

The approach toward teaching and learning managerial economics is primarily inductive. That is, you will learn many concepts and topics outlined above largely through cases, examples and some simple models – this is the essence of **the case study method**. The goal is to carefully study specific business situations and

decisions with the goal of extracting broader principles, which will then be available to you in a wide variety of managerial contexts.

Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find sorting through this complexity and ambiguity to be frustrating. The problems presented in the case discussion may not have one correct answer. However, there will generally be a set of insights and solutions which are better than others. And it is in working through the messy details to find these insights and solutions – both in your own preparation and in class discussion – that the concepts and principles introduced in the readings and lectures will come alive and be enriched for you.

For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases and readings assigned for that class. Finally, I ask that you deal with the cases as you find them; do not seek outside or post-case data on the firm or the industry.

How Will You Be Graded?

The grade is made up of five components:

- 1. Final Exam (50%):** The final will be an in-class exam on **Oct 12**. It will be a combination of a few mini-case questions.
- 2. One Group Written Assignment (10%): On Aug 30/31,** All groups please submit a demand curve constructed based on the case “Subsidies and the Global Cotton Trade,” and some other questions to be distributed. You can find the instruction on how to construct the curve on the course site.
- 3. One Group Written Case Analysis (15%): On Sep 13/14,** Some groups will submit a report including competitive advantage identified based on the cases “Matching Dell” and “Dell 2009 (pages 6-8 only)”, and the other groups will submit the report based on the case “Enterprise Rent-A-Car”. **The report should be in PowerPoint format and has no more than 20 slides.** During the class on Sep 13/14, **two groups will be selected to make 25-min presentation each.**
- 4. One Group Simulation Project (10%):** In Week 5, a URL will be sent to the whole class. Each group should register before playing the simulation game. Please finish the game **by Sep. 26 (before 4pm)**. The detailed instructions will be distributed later.
- 5. Class Participation and Contribution (15%):** Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Obviously, you can not participate if you are not present, so absences without legitimate excuses will lead to a reduced participation grade. Learning opportunities are maximized when students are actively engaged in discussion. Active engagement means that you’re *listening carefully* to the comments of other students and seeking opportunities to make comments that move the class discussion forward.

Class participation will be evaluated primarily on (1) the effort and incentives to prepare and to participate in class discussion, and (2) the evaluation of content:

- **Relevance:** Are your comments related to the case and to the comments of others?
- **Advancement:** Does your comment move the class discussion forward?
- **Fact-Based:** Have you used specific data from the case, from readings, or from personal experience to support the assertions that you are making?
- **Logical:** Is your reasoning logical? Do you use economic concepts correctly?

What Materials Will We Use?

The key materials are the lecture notes, cases, and additional readings. Due to copyright, you should not distribute these materials outside our class for any education or business purpose.

Png: The textbook for reference is *Managerial Economics*, Asia-Pacific Edition, by Ivan Png, 2005, Pearson, Prentice Hall.

BDSS: Another book for reference is *The Economics of Strategy*, 6th Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer, Wiley.

HKUST Academic Integrity and Honor Code

The HKUST Academic Integrity and Honor Code apply to this course. The complete text of the Academic Integrity and Honor Code is available on the websites:

<http://www.ust.hk/vpao/integrity>

http://www.ust.hk/vpao/conduct/good_learning_experience.pps

Group Assignment

The assignment must be strictly your group's original work. You may not discuss these assignments with any person other than your group members. If your analysis contains any information from outside sources, you must properly cite the sources.

Classroom Etiquette

Students are expected to arrive for class on time and the instructor will start and end the class according to schedule. Students should demonstrate respect for the instructor and fellow students during the class period. **Please try to avoid side conversations when your classmates raise questions or give comments.**

You are welcome to bring your laptop or ipad to class in order to take notes or perform calculations on your own computer. However, you may not engage in distracting behavior such as using your laptop to surf the Web, to check e-mail, or to do instant-messaging. For general guidelines about proper classroom behavior, please consult: http://www.ust.hk/vpao/conduct/good_learning_experience.pps

Course Outline (Details)

It is important to recognize upfront that this class can not be as perfectly organized as the outline suggests. This is not accounting or statistics which begin with core, universally accepted principles, and then build to harder problems and applications. Instead, managerial economics is complicated throughout, and we may adjust the detailed topics or learn new tools throughout the course to answer new questions that arise.

Optional Readings (Not Required):

Students who have not been exposed to microeconomics at all or would like to learn more mathematical analysis are encouraged to read up on the following background materials (notes available on the course website):

1. "A Note on Cost Functions and Cost Curves";
2. "A Note on Demand Functions and Demand Curves";
3. "A Note on Market Equilibrium and Competitive Market Equilibrium" ;

Weeks 1:

a) Introduction

b) Demand

Understanding Customer Value, Demand Curve, and Price Elasticity
Factors Affecting Demand
Demand Estimation (Customer Value Method)

Case:

Medicines Co. (HBS)

Reading:

Course Site: Notes on Demand Estimation
Png: Chapter 2, Chapter 3 (optional)

Weeks 2:

a) Market Structure

Reading:

Png: Chapter 7 (pp.231-246) (optional)

b) Free/Easy Entry Market

Firm's Supply Decisions: Costs and Capacity
Demand-Supply Analysis

Cases:

Subsidies and the Global Cotton Trade (Kellogg)

Reading:

Png: Chapter 4 (pp.105-121, pp.125-128), Chapter 5 (optional)

Week 3:

a) Monopoly Market: Pricing

Pricing Methods

- Marginal Revenue and Marginal Costs (Excel)
- Value-based Pricing: e.g. Customer Value Model
- Cost-based Pricing: Markup and Price Cost Ratio

Reading:

Png: Chapter 8 (pp.267-277, 288-289) (optional)

b) Monopoly Market: Price Discrimination

Direct Segment Price Discrimination

Indirect Segment Price Discrimination

Cases:

Uber Pricing Strategies and Marketing Communications (UV)
Saurer: The China Challenge (A) (IMD)

Reading:

Png: Chapter 9 (pp.313-323, 327-340) (optional)

Week 4:

a) Oligopoly Market I: Competitive Advantage

Five Forces (Not to be discussed in class)

Four Types of Competitive Advantage:

- Market Power
- Niche Advantage
- Benefit Advantage
- Cost Advantage

Case and Group Presentation 1:

Matching Dell (HBS) and Dell 2009 (pages 6-8 only) (Ivey)

Case and Group Presentation 2:

Enterprise Rent-A-Car (Kellogg)

Reading:

Course Site: Notes on Industry and Firm Analysis
BDSS: Chapter 8 (pp.258-264) and Chapter 9 (optional)

Week 5:

a) Oligopoly Market II: Game Theory (Competition and Cooperation)

Game theory
Nash Equilibrium
Simultaneous Games and Sequential Games

Cases:

Playstation versus Xbox (U Michigan)
Easyhome versus Macallian (HKUST)

Reading:

Png: Chapter 10 (pp.349-357, 367-381) (optional)

Week 6:

a) Oligopoly Market III: Strategic Decisions

Price, Quantity/Capacity, Advertising, New Product Introduction
Direct Effects and Strategic Effects

Tools:

Spreadsheets for Solving Oligopoly Price or Quantity Competition

Simulation:

Simulation on Universal Car Rental (HBS)

Reading:

BDSS: Chapter 5 (pp.180-192), Chapter 7 (Optional)

Week 7:

a) Oligopoly Markets IV: Strategic Decisions with Asymmetric Information

Asymmetric Information and Quality

Case:

The Zero-Fee Tours in Hong Kong (HKU)

Reading:

Png: Chapter 12 (pp.431-442) (optional)