



Econ 5110: Managerial Microeconomics
Spring 2019 Syllabus
Business School, HKUST

Instructor:

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Course Description and Learning Goals

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 economic behavior and competition can destroy profitability. This course focuses on understanding individual economic behavior, competition, and market characteristics that are relevant to business and management.

- Apply demand and supply analysis in predicting market price and related dynamics in competitive markets.
- Analyze key trade-offs in pricing, and compare 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 various business decisions and explain the impacts of asymmetric information on market efficiency.

Learning Methods (Teamwork and Case Studies)

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**. 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.

Brief Course Outline

The table below gives an approximate outline of the course.

	Topic	Required reading and preparation before class
Feb 16 AM	Introduction Market Demand	Notes on Demand Estimation Case on “Medicines Co.”
Feb 16 PM	Monopoly Market: Pricing	Case on “Uber Pricing Strategies” (pages 1-9 only)
Mar 2 AM	Monopoly Market: Pricing (Cont’d) Free Entry Market	Case on “T-Mobile in 2013” Case on “Subsidies and Global Cotton Trade” Group Assignment 1 due
Mar 2 PM	Oligopoly Market I: Strategic Decisions	Brief Case on “ CNS Worldwide (Cloud)”
Mar 16 AM	Oligopoly Market II: Strategic Decisions with Asymmetric Information	Simulation on Universal Rental Car Group Assignment 2 due by 10am on Mar 15
Mar 16 PM	Oligopoly Market III: Competitive Advantage	Group Assignment 3 due Background Notes on “Industry and Firm Analysis” Cases on “Revitalizing Dell” and “Enterprise Rent-A-Car”
Mar 30 AM	Oligopoly Market IV: Mergers and Acquisitions	Case on “Coca-Cola and Huiyuan”
Mar 30 PM	Exam	

Assessment

The grade is made up of four components:

- 1. Final Exam (50%):** The final will be an in-class exam on **Mar 30**. It will be a combination of a few mini-case questions.
- 2. Group Assignment 1 (10%):** On **Mar 2 (9:30am)**, all groups please submit answers to a few questions (to be distributed).
- 3. Group Assignment 2 (Online Simulation) (10%):** After the class on Mar 2, a URL will be sent to the class. Please finish the game **by Mar 15 (before 10am)** and

submit a brief written summary before the morning class on **Mar 16** (instructions to be distributed).

4. Group Assignment 3 (Written Case Analysis) (15%): before the afternoon class on Mar 16, some groups will submit a written report on the case “Revitalizing Dell”, and the other groups will submit their report on the case “Enterprise Rent-A-Car”, based on the case preparation questions on the course site. **The report should be in PowerPoint format and has no more than 20 slides.** During the afternoon class on Mar 16, **two groups will be selected to make 20- min presentation each.**

5. Class Participation and Contribution (15%): 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?
- **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. The following books are for reference only but not required.

Png: The textbook for reference is *Managerial Economics*, 5th Edition, by Ivan Png, Pearson, Prentice Hall.

BDSS: Another book for reference is *The Economics of Strategy*, 7th Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer, Wiley.

HKUST Honor Code and Classroom Etiquette

The HKUST Academic Integrity and Honor Code apply to this course. In particular, the assignments must be strictly your group’s original work. And you should not get any course material from the classes in previous years.

Students are expected to arrive for class on time and the instructor will start 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. However, you may not engage in distracting behavior such as surfing the Web or instant-messaging.

Course Outline (Details)

It is important to recognize upfront that this class cannot 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.

Week 1 (Feb 16) AM:

- a) **Introduction**
- b) **Demand**

Customer Value, Demand Curve, and Price Elasticity
Factors Affecting Demand
Demand v.s. Economy of Scale

Case: *Medicines Co.* (HBS)

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

Week 1 (Feb 16) PM:

- a) **Monopoly Market/Power: Pricing**

Uniform Pricing Methods
Direct Segment Price Discrimination
Indirect Segment Price Discrimination

Case: *Uber Pricing Strategies and Marketing Communications*

Reading: Png, Chapter 8 and 9 (optional)

Week 2 (Mar 2) AM:

- a) **Monopoly Market/Power: Pricing (Cont'd)**

Case: *T-Mobile in 2013* (HBS)

- b) **Free/Easy Entry Market**

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

Case: *Subsidies and Global Cotton Trade* (HBS)

Reading: Png, Chapter 4 and 5 (optional)

Week 2 (Mar 2) PM:

a) Oligopoly Market I: Strategic Decisions

Game Theory and Nash Equilibrium
Price, Quantity/Capacity, Advertising, New Product Introduction

Case: *CNS Worldwide* (HBS)

Reading: Png, Chapter 10 (optional)
BDSS, Chapter 5 and 7 (optional)

Week 3 (Mar 16) AM:

a) Oligopoly Market I: Strategic Decisions (Cont'd)

Simulation: *Universal Rental Car* (HBS)

b) Oligopoly Markets II: Strategic Decisions with Asymmetric Information

Reading: Png, Chapter 12 (optional)

Week 3 (Mar 16) PM:

a) Oligopoly Market III: Competitive Advantage

Case and Presentations: *Revitalizing Dell* (HBS)
Enterprise Rent-A-Car (Kellogg)

Reading: BDSS, Chapter 8 and 9 (Optional)

Week 4 (Mar 30) AM:

a) Oligopoly Market IV: Mergers and Acquisitions

Economy of Scale/Scope and Impacts on Market Competition

Case: *Coca-Cola and Huiyuan* (HKU)

Reading: BDSS, Chapter 2 (Optional)