



Econ 5110: Managerial Microeconomics

Spring 2020 Syllabus

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 make strategic decisions using basic game theoretic methods. Analyze the direct effect and the strategic effect of various business decisions and explain the impacts of asymmetric information on market efficiency.
- Understand the linkage between strategies in external markets and internal organization (such as organization structure, mergers and acquisitions).

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.**

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*, 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.

Assessment

The grade is made up of four components:

- 1. Final Exam (50%):** The final will be held on **Mar 21**.
- 2. Group Assignment 1 (15%) due by 2pm, Feb 21 (Friday):** all groups please submit answers (**via email**) to a couple of questions (to be distributed), finish an online simulation game (the URL and instruction will be sent to the class about one week earlier), and submit a brief summary (half page or one page) of the strategy you use in the simulation.
- 3. Group Assignment 2 (15%): before the afternoon class on Mar 7,** please submit a written report on the case “P&G Organization” (and the updates) **via email**. **The report should be in PowerPoint format and has no more than 20 slides.**
- 4. Class Participation and Contribution (20%):** 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?

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.**

Brief Course Outline

The table below gives an approximate outline of the course. It is important to recognize upfront that this class cannot be as perfectly organized as the outline suggests. Managerial economics is complicated throughout, and we may adjust the detailed topics or learn new tools throughout the course. **Optional readings are not required but just for future reference.**

	Topic	Required and Optional Reading
Feb 8 AM	Introduction and Market Demand Monopoly/Market Power: Pricing <ul style="list-style-type: none"> Uniform Pricing 	Notes on Demand Estimation Case on "Medicines Co." Optional Reading: Png, Chapter 2, 8, and 9
Feb 8 PM	Monopoly/Market Power: Pricing (Cont'd) <ul style="list-style-type: none"> Price Discrimination 	Case on "T-Mobile in 2013"
	Free/Easy Entry Markets: Demand-Supply Analysis	
Feb 22 AM	Oligopoly Market I: Strategic Decisions <ul style="list-style-type: none"> Game Theory Strategic Decisions 	Mini-Case on "CNS Worldwide" Group Assignment 1 due by 2pm on Feb 21 (Friday) Optional Reading: Png, Chapter 10
Feb 22 PM	Oligopoly Market I: Strategic Decisions (Cont'd) Oligopoly Market II: Innovation and Disruption	Simulation on Universal Rental Car Case on "Netflix Inc." Optional Reading: BDSS, Chapter 5 and 7
Mar 7 AM	Oligopoly Market III: Asymmetric Information <ul style="list-style-type: none"> Capital Market Product Market 	Case on "Rural Taobao" Optional Reading: Png, Chapter 12
Mar 7 PM	Market and Organization I: Organization Structure <ul style="list-style-type: none"> Incentives Decision Right 	Group Assignment 2 due by 2pm on Mar 7 Mini-Case on "Arck Systems" Case on "P&G Organization" (and the Updates) Optional Reading: BDSS, Chapter 12 and 13
Mar 21 AM	Market and Organization II: Mergers and Acquisitions <ul style="list-style-type: none"> Horizontal Mergers Vertical Relationships 	Case on "UNIQLO" Optional Reading: BDSS, Chapter 2 and 3
Mar 21 PM	Exam	