

**ILLINOIS STATE UNIVERSITY
DEPARTMENT OF ECONOMICS**

Econ 239: Managerial Economics
Fall Semester 2015

Classroom: Stevenson 434
Time: MW 9:35a.m.-10:50p.m.

Instructor: Dr. Chen

E-mail: jchen4@ilstu.edu (Please include "ECO239" in the subject line)

Office: Stevenson 426K

Office Hours: MW 8:30 a.m. – 9:30 p.m. or by appointments

Graduate Assistant's Office Hours: TBA

Course Website: via ReggieNet

Objectives

The science of economics provides some powerful conceptual tools that enable us to analyze market system. Managerial economics is a branch of microeconomics that focuses on decision-making in business firms.

Managerial economics is particularly useful to managers. First, it provides certain tools for decision-making and strategic planning, which are especially helpful in complex, uncertain and dynamic situations. These include quantitative demand analysis and price discrimination. Second, it gives you a framework with which to analyze the nature of any industry in which you might find yourself. Such important notions as entry barriers, sunk costs, the learning curve and switching costs all help explain why competition is fierce in some industries and muted in others. Third, economics helps you learn to think strategically, understanding and even anticipating the nature of rivalry when only a few players are involved. In contrast to the perspective in many business policy courses in which a firm's rivals are assumed to react passively to its decisions, we will emphasize the implications of rivalry when a firm's competitors are sophisticated and rational actors. The tools of game theory help structure thinking about issues such as entry into new markets, innovation and imitation, and collusion.

After taking this course, you are expected to master some basic analytical tools in managerial economics, to be able to read the popular and trade press in business from the perspective of economics, and interact with specialists (e.g. consultants) who speak in the jargon of economic theory.

Required Materials

Michael R. Baye and Jeffrey T. Prince (2014), *Managerial Economics and Business Strategy*, 8th Edition, McGraw-Hill.

During the semester I will provide you with handouts that prepare you for the exams. In addition, I will post lecture notes, homework assignments, and other course-related items at Blackboard. It is your responsibility to ensure that you obtain all these materials.

Student Responsibilities

While class instructions facilitate learning, the ultimate responsibility to learn the material taught rests upon you yourself. You should take due note of all assignments, meeting locations, and any changes to the syllabus announced during class time.

Any behavior that interferes with the proceeding of each class and the learning of other students will not be tolerated. To that end, you are responsible for:

1. Being on time to classes,
2. Staying in class until dismissed,
3. Turning off and stowing any device (e.g. smartphone) irrelevant to the class,
4. Refraining from talking during class-time unless directed,
5. Absolutely *no texting* in class.

Prerequisites

ECO 101 or 105, MAT 121 or 145 required; and one of the following: ECO 138 or GEO 138 or POL 138 or PSY 138 or ECO 148.

Evaluation

Class Participation	5%	Project	25%
Quizzes	15%	Midterm Exam	20%
Homework	15%	Final Exam	20%

Midterm exam will be given in class on **Sept. 30** (tentative). The final exam schedule will be announced later in the semester.

The following scale will be used to determine your final grade:

A	90 – 100 percent
B	80 – 89 percent
C	70 – 79 percent
D	60 – 69 percent
F	Below 60 percent

Class Participation

You are expected to be actively involved in class discussions and other activities throughout the semester. **Completion of assigned readings before class is required.** You should prepare to answer questions in class. These class participation points are to be earned! Any violation of the items listed under “**Student Responsibilities**” – *the use of your smart devices in particular* – would forfeit all of your class participation points.



Absences due to Student Bereavement. Students who experience the death of an immediate family member or relative as defined in the University Student Bereavement Policy will be excused from class for funeral leave, subsequent bereavement, and/or travel considerations. Students are responsible for providing appropriate documentation to the Dean of Students office and for contacting the instructor as soon as possible to make arrangements for completing missed work. More information is available in the Student Bereavement Policy at <http://www.policy.illinoisstate.edu/2-1-27.shtml>

Quizzes

There will be several quizzes throughout the semester. **NO make-up quiz will be given.** The lowest-scored quiz will be dropped from your final grade.

Homework

There will be a number of homework assignments during the semester. I encourage you to work in groups but turn in only one clean copy, with all names listed on the first page. Each assignment should be submitted at the beginning of the class on its due date. It is important to show steps in your assignment; otherwise, you would receive No credit. **No late homework will be accepted.**

Project

This is a group assignment. The details will be given in a separate handout. Each group is required to submit a final report on **Wednesday, Dec. 2**. In addition, each group will give a 10-minute presentation during Week 14.

Exams

Both exams are closed-book, closed-notes tests. **There are NO make-up exams.** Questions will include multiple choices and problem solving. Working through the homework assignments and quizzes carefully will be the best way to prepare for the exams.

Note: Academic integrity is a serious matter, and any deviations from appropriate behavior will be dealt with strongly. At my discretion, situations of concern may be dealt with as a scholastic matter or a disciplinary matter. As a scholastic matter, I have the discretion to determine appropriate penalties to the student's workload or grade, but the situation may be resolved without involving many individuals. An alternative is to treat the situation as a disciplinary matter, which can result in suspension from the University, or have lesser penalties. Be aware that I view this as a very serious matter, and will have little tolerance of or sympathy for questionable practices. A student who attempts to obtain credit for work that is not their own (whether that be on a paper, quiz, homework assignment, exam, etc.) will likely receive a failing grade for that item of work, and at my discretion, may also receive a failing grade in the course.

Course Outline (*Tentative*)

Part 1. Supply and Demand

Week 1

Aug. 17: Introduction.

Aug. 19: Economics of effective management.

Week 2

Aug. 24: Demand and supply.

Aug. 26: Market equilibrium.

Week 3

Aug. 31: The concept of elasticity; own-price and cross-price elasticity.

Sept. 2: Income elasticity; Obtaining elasticities from demand functions.

Week 4

Sept. 7: Labor Day; No Class.

Sept. 9: Production function.

Week 5

Sept. 14: Cost function.

Part 2. Market and Industry Structure

Sept. 16: Market structure: Perfect competition.

Week 6

Sept. 21: Market structure: Monopoly.

Sept. 23: Market structure: Monopolistic competition.

Week 7

Sept. 28: Review.

Sept. 30: Midterm Exam.

Week 8

Oct. 5: Bertrand oligopoly model.

Oct. 7: Cournot oligopoly model.

Week 9

Oct. 12: Stackelberg oligopoly model.

Oct. 14: Basic pricing strategies.

Week 10

Oct. 19: Price discrimination; two-part pricing.

Oct. 21: Block pricing; bundling; advanced pricing strategies.

Part 3. Game Theory

Week 11

Oct. 26: Introduction to game theory.

Oct. 28: Simultaneous-move games and applications.

Week 12

Nov. 2: Repeated games and applications.

Nov. 4: Mixed Strategies and applications.

Week 13

Apr. 12: Introduction to multi-stage games.

Apr. 14: Subgame perfect equilibrium and applications.

Week 14

Apr. 19: Project Presentation 1.

Apr. 21: Project Presentation 2.

Week 15

Thanksgiving break; No classes.

Week 16

Wrap up and review.