**ECON-351x – MICROECONOMICS FOR BUSINESS**

 Marshall School of Business, Spring 2017

Instructor: Professor Mick Swartz

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Course: **Tuesday and Thursday, 8:00-9:50 am**

**Location: EDI HOH**

**COURSE OBJECTIVES**

The purpose of ECON-351x Microeconomics for Business is to develop our understanding of how markets work and to explore the challenges and opportunities that markets pose for governments, managers and

firms. The course introduces and applies basic economic principles to address issues that arise in a firm’s relationships with customers, suppliers, competitors, employees, other organizations, and the regulatory environment. Microeconomics also provides some fundamental building blocks for other courses,including Macroeconomics, Marketing, and Corporate Finance.

**Learning Objectives**

Students will understand and apply supply and demand knowledge in a project.

Students will create solutions using supply graphs.

Students will apply solutions using demand curves and revealed preferences.

Students will gain basic knowledge in economics and begin to understand the conceptual framework in microeconomics.

Students will solve problems using game theory.

Students will apply cost curves and production functions to problems concerning how does a firm maximize profits.

Students will solve problems demonstrating how a firm maximizes profit in a monopoly situation.

Students will demonstrate how a competitive firm maximizes profit.

Ethical considerations related to drug pricing and food policies will be considered and students must demonstrate their reasoning on any optimal policies.

Students must apply theories to demonstrate the impact of government policies on International Trade issues.

**COURSE MATERIALS**

The required text for this course is Pindyck R.S. and D.L. Rubinfeld , Microeconomics, 7th Edition. However, we have a customized edition of these textbooks available in the bookstore. You can alternatively purchase the kindle version at Amazon’s website (or any other ebook format that you may prefer).

Moreover, the University BookStore sells a package that includes the

book, study guide and online access to Prentice Hall online materials. These additional materials are not completely necessary for the course but may help you complement the material we cover during the lectures. Lecture notes are available on Blackboard before each lecture, as well as newspaper articles and other materials that are relevant to our discussion. Practice problems are for self-assessment and you don’t need to hand them in for grading.

 **EXPECTATIONS**

 An active and productive classroom is essential for the success of this course. Cultivating and maintaining such an environment is the responsibility of the instructor and the students. This

responsibility imposes several obligations on all of you. First, it is very important that you prepare yourself for each and every session. It is not necessary that you know the material “cold” before each

class, but it is important that you expend sufficient effort to gain some grasp of the ideas we will be discussing. To be more specific, prior to every session, you should read all of the assigned materials, give

some thought to the broader societal implications of the materials and your discussions.

Second, microeconomics is logical and seems quite apparent when material is being presented in class. However, the arguments can be subtle and intellectually, as well as analytically, challenging when

the student attempts to reproduce the details of an economic argument outside of class. Furthermore, microeconomic theory is cumulative, so a misunderstanding of some earlier argument can create an even deeper misunderstanding at some later stage. It is important that you review your notes after each class and attempt to recreate the same economic arguments on your own. Keep current with your understanding of the material by reviewing your lecture notes soon after each class. If you have difficulties understanding the material I am available during office hours. If you need to see me outside office hours, please send me an e-mail to arrange for a convenient time.

Third, microeconomics makes use of algebra, geometry and calculus as a way to summarize complex arguments that cannot be efficiently expressed in words. Even though you should have seen these concepts in your calculus courses, I will briefly review these concepts as I use them to present economic arguments.

And fourth, it is very important that you appreciate the interactive nature of the classroom environment. Although I will typically lecture, that does not mean I discourage classroom interaction.

On the contrary, I encourage your active participation in the discussion through observations and questions. When I ask a question, it is almost never rhetorical: I expect an answer. And I encourage relevant questions from the class, as well. However, please be respectful of your classmates’ time. We are on a very constrained timetable that does not allow for long, drawn-out conversations about material that is not relevant to the class material.

**EVALUATIONS**

Your grade for this course depends on your individual performance on 2 mid-term exams, a group project (final examination) and a presentation in class. The grading standards and policies of the Marshall School of Business will be used for grading. In addition, we are all bound by the standards of academic integrity of the University.

I will administer 2 midterms and a final exam throughout the course. In addition, you will have a group project and presentation. The presentation will use powerpoint and last 10 minutes. The presentation/project will be a 5-10 page paper that analyzes a problem in society and your group will try to come up with solutions to the problem that use the basic concepts taught in the course. The solutions should be consistent with basic economic concepts.

 **Date Points**

Midterm One: Thursday, Feb 16th 25

Midterm Two: Thursday, April 13th 25

Final Exam/Project: Final Exam Date 20

Presentation: Due April 20th , 25th and 27th 10

Weekly Problems: Due date assigned in class 20

**Total Points: 100**

The total points will be used for the final grade distribution.

Presentations will be April 20-27 depending on the sign up list.

Make-up exams will not be administered.

My policy is to comply with the grading policies of the Marshall School of Business while recognizing and rewarding differences in performance among students. I will also ensure that each student receiving a

passing grade in this course has demonstrated sufficient mastery of the materials to facilitate their successful performance in subsequent courses.

The University, as an instrument of learning, is predicated on the existence of an environment of integrity. As members of the academic community, faculty, students, and administrative officials share

the responsibility for maintaining this environment. Students are obliged to engage in behavior that maintains the standards of academic integrity so essential to a productive learning environment.

**STATEMENT FROM DISABILITY SERVICES AND PROGRAMS**

 Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m. - 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

**COURSE OUTLINE**

January 10

**Supply and demand**

I will introduce the course, give you some idea of what to expect and

discuss the goals and methodology of microeconomics. We will introduce

the inner workings of markets and discuss supply and demand as ways to

characterize aggregate consumer and firm behavior.

Ch. 1

January 12

**Chapter 2 Tools of Economics and Graphs**

Supply and Demand

Incentives

January 17

**Mathematical Tools of Microeconomics**.

We introduce the main analytical tools we will use to study how markets

work. We will discuss the derivative of a function, both formally and

graphically, as well as the main solution methods of optimization theory.

We will introduce the notion of elasticities as ways of characterizing the responsiveness of demand to the economic environment.

Ch. 2.1, 2.4

and 2.5.

January 19

**Consumer Theory and Market Demand (I).**

We start our analysis of demand by developing a model of consumer

behavior. This model sheds light on how a rational individual chooses

among the options she can afford. To this aim we will characterize

consumer preferences and the budget constraint.

Ch. 3.1, 3.2,

3.3 and 3.4

January 24

**Consumer Theory and Market Demand (II).**

We will analyze how the individuals’ choice is affected by changes in her

economic environment, most notably changes in the prices of the goods she

purchases and on her available wealth. Finally, by aggregating the choices

of each consumer we will obtain market demand.

Ch. 4.1, 4.2

and 4.3.

January 26

**Consumer Theory and Market Demand (III).**

In this lecture we turn to a normative analysis by investigating ways of

evaluating consumer welfare. We will introduce the concept of consumer

surplus as a way of quantifying the value that consumers derive from

participating in market transactions. We will also consider the empirical

challenges faced with estimating demand functions.

Ch. 4.4 and

4.6.

January 31

**Intertemporal Choice**

This session develops our understanding of decision making over time. In

particular we will develop ways of quantifying a stream of present and

future payoffs and how consumers may consumption and investment

decisions over time. This topic is especially important in other areas, like Macroeconomics and Finance.

Ch. 15.1,

15.2, 15.3

and 15.6.

February 2

**Uncertainty (I)**

Here we look at decision making in risky environments, where the result of

consumers and firms’ actions and choices are uncertain. Economic analysis

of decision making in risky environments forms the foundation of many

areas in business, for example Finance.

Ch. 5.1 and

5.2

February 7

**Uncertainty**

We will follow up session 7 by analyzing how firms and consumers can

reduce the risk they face in their decisions. We will, for instance, touch upon the topics of insurance, diversification and the benefits from obtaining better information.

Economic Case (I): Turnstiles in L.A.’s MTA.

Ch. 5.3.

February 9

**Technology and Production (I)**

This session looks at the foundations of supply. In particular, we will see

how to get from the production technology and price of inputs to the cost of

production of a firm.

Ch. 6.1, 6.3

and 6.4

February 14

**Technology and Production (II)**

We explore the concept of economic costs by answering the question “what

costs are relevant for economic decision making?”. We will also look at the difference between short run and long run costs and discuss the impact of innovation and technological change.

Ch. 7.1, 7.2,

7.3 and 7.4

**Feb 16th Midterm One Exam**

February 21

**Perfect Competition (I)**

We use our understanding of consumer and firm behavior to analyze our

first market structure: perfect competition. We start by discussing how a

perfectly competitive firm makes production decisions.

Ch. 8.1, 8.2,

8.3, 8.4 and

8.7

**February 23**

 Perfect Competition (II)

From each firm’s output decision we derive market supply. This allows us

to study the market price and output and how changes in the environment

affect prices and outputs in the short and long run in a perfectly competitive

market.

Ch. 8.5, 8.6

and 8.8

**February 28**

**Perfect Competition (III) and Group Project Meetings in Class**

What are the properties of perfectly competitive markets? We study the

efficiency properties of competitive markets, both productive and

allocative. We also study various forms of market intervention in perfectly competitive markets: taxes, subsidies, price floors and ceilings and production quotas.

March 2

**Chapter 9**

**Oligopoly and Monopolistic Competition**

Ch. 9.1, 9.2,

9.4, 9.5 and

9.6.

March 7

**Perfect Competition (IV)**

In this lecture we translate our understanding of competitive markets to the study of factor markets and, in particular, labor markets.

Ch. 14.1 and

14.2.

15 W

10/18

**Group Project Meetings**

March 9

**Market Failure, Externalities and Public Goods**

What may reduce market efficiency? We explore different instances (called

market failures) in which markets fail to deliver an efficient outcome. In this lecture we will focus on the role of externalities and public goods

Ch. 18.1,

18.2 and

18.5

**March 12-19 Spring Break**

March 21

**Monopoly and Monopsony**

Monopoly power is nice to have, and we’ll examine how a monopolist

would price their product. We also discuss the sources of monopoly power

Ch. 10.1,

10.2, 10.4

and 10.5

March 23

**Market Segmentation, Bundling and Advertising**

In this session we discuss pricing strategies based on directly segmenting

the market, and how a monopolist optimally sets prices when offering its

products to different segments. We will also discuss the role of bundling

and advertising in market segmentation.

Ch. 11.1,

11.2 and

11.5

March 28

**Nonlinear Pricing**

In this session we discuss other innovative pricing strategies based on

indirectly discriminating among consumers, like quantity discounts, product design and general nonlinear pricing schemes.

Ch. 11.4

March 30

**Game Theory: Basics**

To understand how firms and consumers make decisions in interactive

settings, where the outcome of their decisions is affected by what other

firms and consumers are doing, we introduce the tools of game theory. In

this session we analyze how to model strategic situations and consider

different solution concepts, including Nash equilibrium.

Ch. 13.1,

13.2 and

13.3

April 4

**Game Theory: Sequential Games**

When decisions are made sequentially, rational decision makers should

look forward at the consequences of their decisions on others and reason

back to find their optimal course of action. This reasoning will allow us to refine the concept of Nash equilibrium to sequential settings.

Ch. 13.5

**April 6**

**Competitive Strategy: Competition in Price and Quantity**

What happens when there are a few firms instead of many or only one?. We

need to model each firm’s conjectures about what other firms’ reactions

will be to their actions. We will use game theory to see how the presence

of more firms in the market affects firm’s pricing and production decisions

Ch 12.2 and

12.3

**April 11 Review**

 **Competitive Strategy: Coopetition**

Firms are face with the dual goal of competing against their rivals at the same time of finding ways to cooperate (“collude”) in softening their

competitive attitudes. However, such cooperation may be hard to enforce if firms or consumers interact only once. We will study how facing your

rivals repeatedly in the market place can allow firms to credibly committ to future cooperation conditional on present cooperation. Indeed, we will

show when this can be sustain in a self-enforcing mutually beneficial

agreement. We analyze the implications of this reasoning to collusion and

cartel behavior.

Ch. 13.8

**April 13th , TH , Midterm Two EXAM : CUMULATIVE EXAM**

Competitive Strategy: Strategic Moves

Firms seek to affect the way they compete by making “strategic moves”:

i.e. actions that cannot be easily undone. We will analyze how these actions

may lead to situations exhibiting a first mover advantage. Topics covered

include the role of commitment and credibility.

Ch. 12.2,

12.5, 12.7,

13.6 and

13.7.

 **Auctions**

Transactions in many markets occur through posted prices, where sellers

announce the price at which they will trade their product. There are other

trading mechanisms, most notably auctions. In this session we start our

analysis of auctions.

Ch. 13.8

**April 20 Group Presentations**

 **Information in Markets (I)**

Up to now information has been assumed to be available equally to all

market participants. But that’s not always the case. What does asymmetric

information do to the functioning of markets? How do markets respond to

the failures caused by asymmetry? Here we will learn what a few lemons

may do to a peach orchard.

Ch. 17.1

**Information in Markets (II)**

Asymmetric information hinders the well-functioning of markets. In this

lecture we explore how parties to a transaction can ameliorate the impact of

asymmetric information through the different mechanisms. In particular,

we will discuss how “actions speak louder than words” by studying the role of signaling and screening in markets.

**April 20 -27 Group Presentations**

Final Examination/Project: Set by University TBA

**University Bulletin Sets the Date**