



GSBA 511 – MICROECONOMICS FOR MANAGEMENT
MS IN FINANCE – SUMMER 2016

Instructor: Scott Abrams
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Class Meetings: T/Th: 1:00 – 3:25pm
Class Location: JKP 212
Office Hours: Th: 3:30 – 5:00pm and by appointment

COURSE DESCRIPTION

Economic analysis is a cornerstone of fundamental decision making in virtually all areas of business. For example, the economics of consumer choice underlies much of modern marketing strategy, including pricing, segmentation, and advertising. The theory of the firm contributes to a sound understanding of managerial accounting as well as production and location decisions. Economic analysis of intertemporal decisions and behavior in a risky environment form the foundation of financial practice. Finally, the study of social goods, market failures, and industrial structure is necessary for an understanding of government's role in a market system.

Managerial Economics is designed to examine all those areas in which economic reasoning is a necessary basis for making informed business decisions. The purpose of GSBA 511 – Microeconomics for Management is to refine our understanding of how markets work and to explore the challenges and opportunities that markets pose for governments, managers, and firms.

This 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 for Management also provides some fundamental building blocks for other courses, including Corporate Finance and Investments.

LEARNING OBJECTIVES

Through lecture, case analysis, worked samples, and by learning to apply appropriate mathematical and financial formulas and functions, you will be able to:

- Apply graphical and algebraic analytical techniques to the analysis of resource allocation through an understanding of economic theories and models.
- Apply the basic demand-supply market model to goods markets and factor markets by identifying and analyzing the values of equilibrium prices and quantities as determined by market forces.
- Differentiate and apply different aspects of neoclassical economic theory by examining the dynamics of consumer, firm, and market forces and calculating their impacts.
- Apply the model of behavior in risky circumstances by calculating expected utility, expected income, and certainty equivalents.
- Explain the role of game theory in economic models through game-theoretic representations.

- Explore market power by examining the impact of monopoly, monopsony, and oligopoly on resource allocation.
- Apply the impact of various forms of government intervention in markets by calculating the changes in consumer and producer surplus, and deadweight loss.
- Analyze the impact of asymmetric information on market efficiency by explaining examples of adverse selection, moral hazard, and principal-agent problems.
- Understand public goods, positive and negative externalities, and how externalities relate to potential market failure.

COURSE MATERIALS

Required Text: Pindyck, Rubinfeld; *Microeconomics 8/e*, Pearson Prentice-Hall, 2013; ISBN: 978-0-13-285712-3.

Optional Reading: *The Wall Street Journal, Economist, Bloomberg Businessweek, Financial Times.*

Blackboard: Slides for each lecture will be posted on Blackboard at <https://blackboard.usc.edu>. In addition, announcements, clarifications to homework problems, problem solutions and other resources will be posted. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall Help Desk at (213) 740-3000, or HelpDesk@marshall.usc.edu.

EXPECTATIONS

- Students are expected to attend all classes and to arrive on time. If a class is missed due to an illness or other unforeseen circumstance, students are responsible for any work missed and I encourage you to get notes and material from fellow classmates. I recommend that you use a “buddy system” and arrange for classmates to pick up extra handouts.
- Students are expected to be prepared to discuss class material and actively participate in class.
- It is greatly encouraged to follow current issues and developments in economics and finance related topics.

GRADING

The final course grade will be assigned based on the combined score from your class participation, homework assignments, midterm exam, and the final exam. The final course grade will include such factors as the class mean, standard deviation, and rank, as well as other considerations. I will not use a strict statistical rule (e.g. a rule based on one standard deviation) in assigning your final course grade. The target course GPA is approximately a 3.3.

The following is a breakdown of how each component is weighted:

<i>Component</i>	<i>%</i>
Class Participation	5
Homework Assignments	10
Midterm Exam	40
Final Exam	45
TOTAL	100

- **Class Participation**

Class participation helps to facilitate a better learning environment. The grade will reflect my assessment of both that quantity and quality of a student's individual contribution to the classroom. An example of a positive contribution is asking relevant questions or providing examples during lecture.

Note that regular attendance is necessary for class participation; however it is not sufficient for a higher letter grade in this class.

- **Homework Assignments**

The homework grade will be assessed over four problem sets. Assignments will be given a grade of 'check' or 'no credit'. Homework assignments are to be completed in neat handwriting. Homework must be turned in to me at the start of class. Late homework will receive no credit.

Homework will not be returned. If you wish to keep a copy of your homework, please copy the assignment before turning it in. Homework assignments are kept in storage in case they are needed for re-grades or grade disputes. You can always ask to review your past homework.

Working in groups is encouraged, but each student must turn in his or her own assignment.

- **Exams**

The midterm and final exams will consist of various multiple choice and short answer theoretical concept questions and problems. The questions will be both quantitative and qualitative in nature and will be based on material presented in lecture and readings. The final exam covers the entire course with an emphasis the second half of the course.

You are required to be present for the midterm exam and the final exam. Make-up exams will not be administered.

RETENTION OF GRADED COURSEWORK

Final exams and all other graded work which affect the course grade will be retained for one year after the end of the course if the graded work has not been returned to the student.

TECHNOLOGY POLICY

Laptop and Internet usage is not permitted during academic sessions. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during academic sessions. Videotaping faculty lectures is not permitted due to copyright infringement regulations.

SUPPORT SYSTEMS

A number of USC's schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the American Language Institute <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students. The Office of Disability Services and Programs http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, USC Emergency Information <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

STUDENT DISABILITY

The Office of Disability Services and Programs (www.usc.edu/disability) provides certification for students with disabilities and helps arrange the relevant accommodations. 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. For more information, visit www.usc.edu/disability.

ACADEMIC CONDUCT

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Section 11, Behavior Violating University Standards <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the Office of Equity and Diversity <http://equity.usc.edu/> or to the Department of Public Safety <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>. This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report or can initiate the report on behalf of another person. The Center for Women and Men <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage <https://sarc.usc.edu/reporting-options/> describes reporting options and other resources.

ACADEMIC INTEGRITY

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, (www.usc.edu/scampus or <http://scampus.usc.edu>) contains the University Student Conduct Code (see University Governance, Section 11.00), while the recommended sanctions are located in Appendix A.

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/>. Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

EMERGENCY PREPAREDNESS/COURSE CONTINUITY

In case of a declared emergency if travel to campus is not feasible, USC executive leadership will announce an electronic way for us to complete the course using a combination of Blackboard, teleconferencing, and other technologies.

INSTRUCTOR

Scott Abrams, Lecturer of Finance and Business Economics

Some professional experiences:

- Adjunct Professor, Finance and Business Economics, USC Marshall School of Business
- Executive Director, Motion Picture Finance, Sony Pictures Entertainment
- Manager, Finance, Warner Bros.
- Senior Accountant, Deloitte & Touche
- MBA, Finance Concentration, USC Marshall
- BA, Business Economics, UCLA
- CPA, State of California

COURSE OUTLINE AND ASSIGNMENTS

Session-Date (Day)	Class Topic	Reading
Week 1 1-May 31 (T)	Overview of the Course Introduction to Microeconomics for Management; Foundations and Models <i>Key areas of Managerial Economics</i> The Basics of Supply and Demand <i>Supply and Demand; The Market Mechanism; Changes in Equilibrium; Elasticities of Supply and Demand</i>	Chapter 1 Chapter 2
Week 1 2-June 2 (Th)	The Basics of Supply and Demand <i>Short-run vs. Long-run Elasticities; Effects of Changing Market Conditions; Effects of Government Intervention</i>	
Week 2 3-June 7 (T)	Consumer Behavior <i>Consumer Preferences; Budget Constraints; Revealed Preference, Marginal Utility and Consumer Choice; Optimization</i>	Chapter 3
Week 2 4-June 9 (Th)	Individual and Market Demand <i>Individual Demand; Income and Substitution Effects; Market Demand</i> HOMEWORK 1 DUE	Chapter 4
Week 3 5-June 14 (T)	Individual and Market Demand <i>Consumer Surplus; Network Externalities; Optimization</i>	
Week 3 6-June 16 (Th)	Uncertainty and Consumer Behavior <i>Describing Risk; Preferences Toward Risk; Reducing Risk; The Demand for Risky Assets; Bubbles; Behavioral Economics</i> Production <i>Firms and their Production Decisions; Production with One Variable Input (Labor)</i>	Chapter 5 Chapter 6
Week 4 7-June 21 (T)	Production <i>Production with Two Variable Inputs; Returns to Scale</i> The Cost of Production <i>Measuring Cost: Which Costs Matter?; Costs in the Short Run; Costs in the Long Run; Long-Run versus Short-Run Cost Curves; Production with Two Outputs – Economies of Scope</i>	Chapter 7
Week 4 8-June 23 (Th)	MIDTERM EXAM HOMEWORK 2 DUE	
Week 5 9-June 28 (T)	Profit Maximization and Competitive Supply <i>Perfectly Competitive Markets; Profit Maximization; Marginal Revenue, Marginal Cost, Profit Maximization, Choosing Output in the Short Run; The Short-Run Market Supply Curve; Choosing Output in the Long Run; The Industry's Long-Run Supply Curve</i>	Chapter 8
Week 5 10-June 30 (Th)	The Analysis of Competitive Markets <i>Evaluating the Gains and Losses from Government Intervention; The Efficiency of a Competitive Market; Minimum Prices; Price Supports and Production Quotas; Import Quotas and Tariffs; The Impact of a Tax or Subsidy</i>	Chapter 9

Week 6 11-July 5 (T)	Market Power: Monopoly and Monopsony <i>Monopoly; Monopoly Power; Sources of Monopoly Power; The Special Costs of Monopoly Power; Monopsony; Monopsony Power; Sources of Monopsony Power; Limiting Market Power: Antitrust Laws</i> HOMEWORK 3 DUE	Chapter 10
Week 6 12-July 7 (Th)	Pricing with Market Power <i>Pricing with Market Power; Price Discrimination; Intertemporal Price Discrimination and Peak-Load Pricing; The Two-Part Tariff</i>	Chapter 11
Week 7 13-July 12 (T)	Monopolistic Competition and Oligopoly <i>Monopolistic Competition; Oligopoly; Price Competition; Competition versus Collusion; Implications of the Prisoners' Dilemma for Oligopolistic Pricing; Cartels</i>	Chapter 12
Week 7 14-July 14 (Th)	Game Theory and Competitive Strategy <i>Gaming and Strategic Decisions; Dominant Strategies; Nash Equilibrium</i> Markets with Asymmetric Information <i>Quality Uncertainty and the Market for Lemons; Market Signaling</i>	Chapter 13 Chapter 17
Week 8 15-July 19 (T)	Externalities and Public Goods <i>Externalities; Ways of Correcting Market Failure</i> Final Review HOMEWORK 4 DUE	Chapter 18
Week 8 16-July 21 (Th)	FINAL EXAM	

**The schedule is subject to change, with the exception of exam dates. I will announce any changes in class.*