

Managerial Economics

UW – Oshkosh Professional MBA

Fall 2018

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Course Description

This course is designed to teach you the underlying philosophy of business. Economics is a way of strategic thinking. Applying economic analysis to a wide array of business problems and decisions can be used to increase your company's profitability. Our presentation of economic concepts provides a language and a system of logic for organizing ideas relevant to the business world. The economic way of thinking and organizing information underlies all of the other business disciplines, from finance to marketing to HR.

Success or failure in business depends on the position of the firm and the management of its resources. Economics teaches us to think systematically and strategically about achieving competitive advantage through the management of firm resources. This includes decision making under uncertainty, costs, pricing, market analysis, and strategic interactions with competitors.

A problem-solving approach is used to achieve this objective. This encourages us to focus on the *application* of economic tools rather than a purely theoretical understanding. The PMBA program should prepare you to be responsible and strategic business leaders in a complex and ever-changing world. Hence, this course should be applied to the decision-making process of business leaders. The course is designed to tap into your professional experiences and link them to economic concepts – thus, you will dictate a lot of what happens in the classroom.

Learning Objectives

- Learn to use economic models to think critically about business problems, including (a) learning to use the rational-actor paradigm to predict firm and individual behavior, (b) employing marginal analysis to make extent (how much) decisions, and (c) be able to identify the conditions that characterize competitive outcomes and efficient allocations of resources.
- Evaluate need for market intervention, identify winners and losers from such intervention, and summarize costs and benefits.
- Understand and apply optimal prices and price discrimination strategies. Understand dynamic pricing, how it works, and the economics behind it.

- Apply strategic thinking (game theory) to decision-making and know how to use it to analyze firm and individual choices; use economic theory to inform decisions in uncertain environments.
- Align incentives with the goals of the company and understand how to identify and manage incentive “problems”.
- Produce a report outlining a recommended plan of action for a manager on either (a) product pricing or (b) shutting down a program/service/investment that leverages a range of appropriate analytical techniques, including qualitative and quantitative information.

Course Material

(1) *Microeconomics for MBAs*: by McConnell, Bruce and Flynn. This is the recommended text for the class and will correspond to our discussions.

(2) Additional and relevant short readings from news sources will be posted to D2L throughout the course.

Course Format

Each class will constitute a mixture of lecture, small-group problem solving / discussion, and large group conversation. Lectures will introduce economic principles and relevant examples in business. Each mini-executive team will then be asked to discuss a particular economic topic, problem or application within the context of team members’ professional experience, first in a small group setting and then in a conversation within the whole class. This will allow us to transform our class from lecture-driven, one-way exchanges to fully interactive environments.

In class, we will solve problems by integrating materials from across topics; this emphasizes critical evaluation skills and encourages finding multiple methods to solve the same problem. We will discuss why a homework question was assigned, why it is relevant, what we should learn from it, and the real world applications.

Course Deliverables

Homework (30%)

As part of each week’s reading assignment, each group is responsible for preparing solutions and discussions for two homework problems. Each group has different problems assigned, but everyone will know all of the problems in advance. Note that preparing the solution involves more than finding a numerical value — you need to discuss and evaluate different solution strategies, examine the assumptions of the model, and present relevant real world examples.

In their presentations of the solutions, teams should provide an overview of the economic concepts and identify real-world examples and/or applications. Examples may be from professional/personal experience or current news stories. Teams are graded on the accuracy and thoroughness of the presentation, the ability to answer questions posed by classmates, team dynamic, and the relevance of examples.

Why do we do this? Presentations are an important part of your job. Practicing making presentations on challenging and new material a great way to sharpen skills, compelling you to truly understand how the economics works. The benefits are not limited to the presenting group. For those in the audience, this is an excellent opportunity to practice listening and evaluation skills. When making your presentation, please keep in mind the important concept of audience. Remember that executives regularly speak to three distinct constituencies: their supervisors, their subordinates, and the general public. In your presentations, you should identify or flag issues/arguments that are particularly relevant for each audience.

You will turn in this homework by team in the beginning of the class session, either by e-mailing it to me, or by bringing it on a flash drive. Please be sure your team designation and all group member names are on every assignment. It is in your best interest to contribute meaningfully to your group's efforts and completely understand your submissions, as anyone in the class (and myself) may ask you questions during the presentation of the solutions. At the end of the unit, I may ask you to evaluate your team member's contribution to this effort.

Exam (30%)

The final exam will assess your comprehensive knowledge of the course material and your ability to apply learned concepts and tools to solve problems. The exam will be held on Wednesday, May 9 after a brief question and answer session. You will be allowed to use your lecture notes during the exam. Therefore it is wise to collect diligent and exhaustive notes during the lectures.

Project (40%)

OPTION 1: Product Pricing

You are to analyze the decision process of your firm or organization. The analysis should take the form of a long memo (8 to 10 pages, inclusive of graphs and charts). This is due on Friday, May 11 by 12:00 pm (noon). The memo should be submitted to me electronically by email or to the D2L dropbox. Because of this, you may want to submit the memo as a pdf so graphs, charts, headers, etc., do not move around. A successful project should address the following information.

- (1) A qualitative and quantitative assessment of the market demand for the firm's products (choose one product or two related products). This may include your assessment of the elasticity of demand relative to other comparable products, extent to which the products are differentiated from those of potential competitors, etc.
- (2) A qualitative and quantitative assessment of the firm's cost structure, including consider high vs. low fixed costs, marginal costs, labor versus capital costs, etc. You should also include some discussion of the factors that could cause your firm's marginal cost to change.
- (3) A description of the firm's current pricing strategy; i.e., a qualitative assessment of the firm's approach to pricing rather than a quantitative overview of the actual current prices. Does your firm use price discrimination? Dynamic pricing? Mark up pricing? Does it bench-mark to competitors?

(4) Does your firm have the market power to set price? Is your firm a market leader or a market follower? Is the market competitive, monopolistic or imperfectly competitive? What kind of evidence can you provide to prove this?

(5) An assessment of the (potential) usage of more sophisticated pricing strategies such as price discrimination or dynamic pricing, product differentiation, versioning, etc.

(6) Possible discussion of any special considerations that impact the firm's pricing strategies (e.g., learning by doing, reputation).

OPTION 2: Shutting Down Services

You are to analyze the possibility of eliminating/closing a program / product offering by your organization. The analysis should take the form of a long memo (8 to 10 pages, inclusive of graphs and charts). This is due on Friday, May 11 by 12:00 pm (noon). The memo should be submitted to me electronically by email or to the D2L dropbox. Because of this, you may want to submit the memo as a pdf so graphs, charts, headers, etc., do not move around. A successful project should address the following information.

(1) A qualitative and quantitative assessment of the demand for this service (choose one service or two related services). This may include your assessment of the elasticity of demand relative to other comparable services, extent to which the services are differentiated from those of other potential suppliers, etc. How else might the needs for this service be met in the community? Are there private options? Other public options? Substitutes or complements for this service?

(2) A qualitative and quantitative assessment of the organization's cost structure, including consider high vs. low fixed costs, marginal costs, labor versus capital costs, etc. Implicit vs. explicit costs. You should also include some discussion of the factors that could cause your firm's marginal cost to change. Are there sunk costs associated with this service?

(3) What is the opportunity cost of shutting down this service? In other words, if you no longer provide this service, what can you do instead? Who will be affected by ending the service? How many people is this (estimate)? Will everyone be affected equally? Or are there variations in who would be affected?

(4) Does your organization have market power in this service? Is your organization a market leader or a market follower? Is the market competitive, monopolistic or imperfectly competitive? What kind of evidence can you provide to prove this?

(5) Does your organization employ any types of price setting behavior (or must it, as part of a governmental agency)? For example, is the service associated with the use of price floors or price ceilings? How is the service paid for? Through taxes?