

BS0815 - MANAGERIAL ECONOMICS

COURSE TUTOR

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COURSE AIMS

Economics provides us with a useful set of tools for analysing the world and aiding decision-making by managers and policy-makers. This course aims to give students an overview of many of these tools and of the insights that can be obtained with them, concentrating on those most relevant to business managers. This means that most of the lectures are on microeconomic topics, looking at the actions of firms and of individuals, but the course concludes with some coverage of macroeconomic problems and policies, looking at the economy as a whole and its international context. Students who complete this course should be able to read the business and economics pages of a quality paper and assess the arguments they contain.

COURSE OBJECTIVES

(i) Knowledge

On successful completion of this course, the student will have an understanding of:

- supply and demand analysis
- the theory of the firm
- perfect competition and monopoly models
- oligopolistic decision making
- game theory
- uncertainty and asymmetric information
- capital investment
- government policies towards externalities, regulation and competition policy
- macroeconomics, and aggregate supply and demand
- macroeconomic policies
- international trade and exchange rates

(ii) Skills

The course will facilitate the students' development of:

- conceptual skills in an economic context
- quantitative skills in an economic context
- critical reasoning skills

LEARNING OUTCOMES

By the end of the course the students will be able to:

- think in the terms of a professional economist
- appraise economic articles in a serious newspaper such as the Financial Times
- solve stylised quantitative questions in a business context

TEACHING METHODS

This course has ten two-hour lectures, used to introduce the main topics – students are not expected to be passive note-takers, but will be questioned during the lectures. The lectures are reinforced by nine one-hour tutorials, used for a mixture of discussion and problem solving. Some online resources to help in the analysis of economic models are also available and will be referred to during the course.

ASSESSMENT

The course is assessed by one group project (30%) and one multiple choice exam (70%).

COURSE STRUCTURE

Lecture Topics

- 1. Introduction to thinking like an economist**
What is economics? This lecture will look at how economists approach the task of thinking about the world. It introduces the key concepts of incentives, equilibrium and opportunity cost, and the different kinds of economic data. We also discuss the key tool of supply and demand analysis, showing how the two sides of a market interact to determine prices and quantities.
- 2. Supply and Demand**
We develop the tool of supply and demand analysis further, introducing the concepts of elasticity – how responsive one variable is to a change in another – and of economic welfare.
- 3. Companies**
This lecture discusses companies and their costs of doing business. We introduce the concepts of marginal revenue and marginal cost, and show that any company will maximise its profits, if it should produce at all, by choosing the output level where marginal revenue and marginal cost are equal.
- 4. Perfect Competition and Pure Monopoly**
This lecture covers two polar cases. In perfect competition, there are many firms in an industry, each of which tries to maximise its profits while taking the market price as given. In the opposite case of monopoly, there is just one firm, and it is able to choose its price. We will discuss the costs – and occasional advantages – of having a monopoly.
- 5. Oligopoly and Game Theory**
This lecture shows how we can analyse firms' decisions when there are just a few firms in an industry. Because each firm's actions will affect its competitors, it has to anticipate their reactions when deciding on its strategy. Game theory is the set of tools that economists (and others) have developed to aid decision-making in this context.
- 6. Uncertainty and Information**
Many economic decisions have to be made against a background of incomplete information. This lecture covers some of the implications of this in contexts which include auction markets (why do bidders often over-pay?) insurance (do you take enough care if your possessions are insured?) and education (would a degree that taught you nothing worth knowing still be worth having as a signal of your intelligence?).
- 7. Investment and Finance**
This lecture covers the decisions that firms have to take when investing for the future. We will cover both investment in physical assets (such as a factory) and in financial

assets – stocks and shares. The lecture will discuss the benefits of a diversified portfolio, how to measure the cost of capital, and whether financial markets are efficient. We also cover the role of banks in a modern economy.

8. Microeconomic Policy

Governments intervene in the economy in many ways. This lecture will look at a few of the main areas of microeconomic intervention. Externalities exist when an agent does not bear the full consequences of their actions, such as pollution, but policies such as environmental taxes or tradable emissions permits can correct for them. Economic regulation can be used to control firms which are natural monopolies, so that the normal constraint of competition is impossible. Competition policy is used to ensure that conditions in other industries do remain competitive.

9. Macroeconomics

This lecture discusses the economy as a whole. How do we measure the level of economic activity, and what determines it? How are inflation and unemployment related to each other?

10. Macroeconomic Policy

Government policy to affect the levels of output and of inflation is one of the key themes of this lecture. The other is the interaction between an economy and the rest of the world – how international trade tends to follow the principle of comparative advantage, what the balance of payments is, and how exchange rates are determined.

KEY TEXTS

Begg, D. and D. Ward *Economics for Business*

Pindyck R.S. & Rubinfeld D.L. *Microeconomics*, Prentice Hall

Additional supplementary readings may be found in:

Salavatore D *Managerial Economics in a Global Economy* Thompson

Mansfield E *Managerial Economics*, Norton

Waldman D and Jensen E *Industrial Organization*, Addison Wesley

Besanko D and R.R.Braeutigam *Microeconomics*, Wiley

Other material will be posted online