Course Information

Instructor: Yan Feng
Office: PHBS Building, Room 758
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Email: fengyan@phbs.pku.edu.cn
Office Hour: Mon. & Thur., 5:30pm-6:30pm

S1: Teaching Assistant: TBA
Phone: TBA
Email: TBA

S2: Teaching Assistant: Runqing Yang (杨闰晴)
Phone: 178-8882-7396
Email: runqyang@pku.edu.cn

Classes:
Lectures: Mon. & Thur., S1: 3:30pm – 5:20pm; S2: 10:30am – 12:20pm
Venue: PHBS Building, Room ?

Course Website:
TBA

1. Course Description

1.1 Context

Course overview:
Almost every managerial decision making problem is an economics problem. The purpose of Managerial Economics is to apply a series of basic economics principles to understand the decision making process within the firm and the impact of the decision making environment.
The course addresses the need for choice implied by the scarcity of resources. The fact of scarcity necessitates that individuals, firms, and societies choose among alternative uses of its limited resources. At the same time, the various choices made by different economic agents must be mutually consistent. Markets are a mechanism to achieve such reconciliation. Issues related to demand and supply, appropriate estimation of economic profits/value, among others, can be successfully tackled with managerial economics tools. In this class we seek to understand what the foundation of managerial choices of firms is, and how markets work to coordinate these choices and some consequence resulted from unique economic and managerial situations such as imperfect information. This course focus on the managerial economics of organization, emphasize the fundamentals, the organizational issues, and the peripheral issues related to managerial considerations.

There are many important issues related to managerial process that are extended content of managerial economics or more or less related to the economic aspects of decision making, such as corporate strategies, human resource management, risk management, governance of the organization, and etc. Many of these issues will be intensively dealt with in focused subject courses, therefore are not covered in Managerial Economics. In addition, quantitative skills such as basic optimization and statistics are separate courses provided in the comprehensive business training curriculum; they will be utilized but are not covered in this course.

Prerequisites:
No specific background requirements, nonetheless, a basic knowledge of microeconomics and management is helpful.

1.2 Textbooks and Reading Materials

Required Book:

Recommended book:
David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 2017, Economics of Strategy (7e), Wiley. (hereinafter BDSS)

Additional readings:
For each topic, recommended and extended readings are listed, most of them are accessible publicly and will be distributed by the instructor, and a few practitioner articles are accessible with charge and are available through the link of the article.
2. Learning Outcomes

2.1 Intended Learning Outcomes

<table>
<thead>
<tr>
<th>Learning Goals</th>
<th>Objectives</th>
<th>Assessment (YES with details or NO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Our graduates will be effective communicators.</td>
<td>1.1. Our students will produce quality business and research-oriented documents.</td>
<td>Yes</td>
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<td></td>
<td>1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.</td>
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<tr>
<td>2. Our graduates will be skilled in teamwork and leadership.</td>
<td>2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.</td>
<td>Yes</td>
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<tr>
<td></td>
<td>2.2. Students will be able to apply leadership theories and related skills.</td>
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<tr>
<td>3. Our graduates will be trained in ethics.</td>
<td>3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.</td>
<td>Yes</td>
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<tr>
<td></td>
<td>3.2. Our students will practice ethics in the duration of the program.</td>
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<tr>
<td>4. Our graduates will have a global perspective.</td>
<td>4.1. Students will have an international exposure.</td>
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<tr>
<td>5. Our graduates will be skilled in problem-solving and critical thinking.</td>
<td>5.1. Our students will have a good understanding of fundamental theories in their fields.</td>
<td>Yes</td>
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<tr>
<td></td>
<td>5.2. Our students will be prepared to face problems in various business settings and find solutions.</td>
<td>Yes</td>
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<tr>
<td></td>
<td>5.3. Our students will demonstrate competency in critical thinking.</td>
<td>Yes</td>
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</tbody>
</table>

2.2 Course specific objectives

The basic objective of this course is to familiarize the students with the approach, language and techniques of managerial economics. More specifically, this course has three objectives:
- Develop specific tools – basically quantitative as well as broadly analytical – that are useful for assessing basic managerial economics problems.
- Instil a unique “point of view” on each student. This point of view – the “economics point of view” – is quite powerful and has proven to be a useful analytical perspective in many circumstances, including business decision making at the highest level.
- Discuss the functioning of the economy from an analytical point of view. Throughout the class an effort will be made to use necessary examples related to the real world economy, naturally, at the micro level.

### 2.3 Assessment/Grading Details

<table>
<thead>
<tr>
<th>Activity</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attendance</td>
<td>5%</td>
</tr>
<tr>
<td>Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Case 1 (individual)</td>
<td>5%</td>
</tr>
<tr>
<td>Case 2 (individual)</td>
<td>5%</td>
</tr>
<tr>
<td>Case 3 (group)</td>
<td>10%</td>
</tr>
<tr>
<td>Case 4 (group)</td>
<td>20%</td>
</tr>
<tr>
<td>Case 5 (group)</td>
<td>15%</td>
</tr>
<tr>
<td>Final exam</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Attendance**: attendance is a hard requirement as a school policy. You are allowed to be absent for at most twice (out of 18) from classes with advance notice to the instructor through formal email (cc TA). Emergent absentee should be followed by updating your status to the instructor.

**Participation**: active involvement in the classroom is required. The instructor will evaluate your participation based on the frequency of your responses, the quality of your insights/comments, and your engagement level in class discussion when your classmates are talking.

**Cases**: cases are used to provide scenarios of business decisions that set up the context to use what we discussed in classes. The write-ups for cases are used to assess command of the knowledge you learned and the effectiveness of your utilization of analytical models developed in the classes. When the case write-ups are group work, each team member receives the same score unless there is clear difference in efforts declared and agreed upon by all members in a specific team.

**Final exam**: this is a comprehensive test covering all important content of the whole course. The exam is used to assess your understanding of the course materials. The final exam is an
open book test.

2.4 Academic Honesty and Plagiarism

It is important for a student’s effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to PHBS Student Handbook.

3. Topics, Teaching and Assessment Schedule

3.1. Topics

1. Introduction
Managerial economics; Firm and market

Recommended readings:

Extended Readings:
2. Demand
Consumer theory; Demand; Price elasticity; Total and marginal revenue; Other elasticity

**Required readings:**
T&M: 2.1, 2.5, chapter 5, 6, & 7

**Recommended readings:**

**Extended Readings:**

3. Supply
Short run production; Long run production; Short run supply; Long run supply

**Required readings:**
T&M: 2.2, 2.5, chapter 8, 9.1-9.5, 9.7, 11.1-11.4

**Recommended readings:**

**Extended Readings:**
4. Market equilibrium
Market equilibrium; Value of exchange; Price controls

Required readings:
T&M: 2.3-2.6

Recommended readings:
McKinsey & Company Article, April.

Extended Readings:
Journal of Economic Literature, 39(2), 479-535.
Economy, 75(4, Part 1), 395-399.
69(274), 223-237.
Economy, 65(1), 1-17.

5. Costs and firm boundary
Economic costs; Economic profit; Economies of scale/scope; Learning curve; Network effect

Required readings:
T&M: 1.2, 9.6, chapter 10

Recommended readings:
BDSS: chapter 2&3
55 (2):71-82.

Extended Readings:
Management Science, 59(4), 933-949.
Journal of Industrial Organization, 26(5), 1250-1255.
Caillaud, B. and B. Jullien, (2003), Chicken and egg: competition among intermediation 


6. Market power

Market power; Monopoly & monopolistic competition; Pricing with market power

**Required readings:**
- T&M: chapter 12&14

**Recommended readings:**
- BDSS: chapter 5

**Extended Readings:**

7. Strategic decision

Game theory basics; Oligopoly

**Required readings:**
- T&M: chapter 13

**Recommended readings:**
- BDSS: chapter 5, 6, 87

**Extended Readings:**


8. Organization and asymmetric information (supplements)

Moral hazard; principle-agent problem

**Recommended Readings:**

BDSS: chapter 12

**Extended Readings:**


3.2. **Schedule (may subject to minor adjustment according to actual class progress)**

Reminder: the students are required to purchase in total 5 cases (*BAB344, IES586, A00001, NA0481, W88C82*) from the HBS case services; this will be facilitated by the TA.
<table>
<thead>
<tr>
<th>Time</th>
<th>Date</th>
<th>Topic</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>04.23</td>
<td>Introduction</td>
<td>Online class</td>
</tr>
<tr>
<td></td>
<td>04.27</td>
<td>Demand</td>
<td>Online class</td>
</tr>
<tr>
<td>Week 2</td>
<td>04.30</td>
<td>Demand</td>
<td>Online class</td>
</tr>
<tr>
<td></td>
<td>05.04</td>
<td>Demand</td>
<td>Online class</td>
</tr>
<tr>
<td>Week 3</td>
<td>05.07</td>
<td>Supply</td>
<td>Online class</td>
</tr>
<tr>
<td></td>
<td>05.11</td>
<td>Supply</td>
<td>Online class; HW 1: case 1: Apple Watch (A)- the Launch (BAB344)</td>
</tr>
<tr>
<td>Week 4</td>
<td>05.14</td>
<td>Supply</td>
<td>Online class</td>
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<tr>
<td></td>
<td>05.18</td>
<td>Market equilibrium</td>
<td>HW 2: Case 2: Hurricane Sandy (IES586)</td>
</tr>
<tr>
<td>Week 5</td>
<td>05.21</td>
<td>Costs &amp; firm boundary</td>
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<tr>
<td></td>
<td>05.25</td>
<td>Costs &amp; firm boundary</td>
<td>HW 3: Case 3: Spark Publishing and Printing House (A00001)</td>
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<tr>
<td>Week 6</td>
<td>05.28</td>
<td>Market power</td>
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<td></td>
<td>06.01</td>
<td>Market power</td>
<td></td>
</tr>
<tr>
<td>Week 7</td>
<td>06.04</td>
<td>Market power</td>
<td>HW 4: Case 4: Augusta Training Shop (NA0481)</td>
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<tr>
<td></td>
<td>06.08</td>
<td>Case 4: Augusta Training Shop (NA0481)</td>
<td>Collect Case 4 write-up before class</td>
</tr>
<tr>
<td>Week 8</td>
<td>06.11</td>
<td>Strategic decision</td>
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<tr>
<td></td>
<td>06.15</td>
<td>Strategic decision</td>
<td>HW 5: Case 5: Pricing Games (W88C82)</td>
</tr>
<tr>
<td>Week 9</td>
<td>06.18</td>
<td>Case 5: Pricing Games (W88C82)</td>
<td>Collect Case 5 write-up before class</td>
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<tr>
<td></td>
<td>06.22</td>
<td>Incentives (supplements)</td>
<td></td>
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<tr>
<td><strong>06.25</strong></td>
<td>Final Exam</td>
<td><strong>Final Exam</strong></td>
<td>7pm-9pm</td>
</tr>
</tbody>
</table>

4. **Miscellaneous**
  - Avoid tardiness
  - Email notification of absence
  - NO cell phone use in classroom