Course description:

This course will employ the marginal analysis and the consumers-firms-markets perspectives provided by economics principles to enhance your understanding of the business environments in which you have been/are/will be working and the important strategic issues that arise in those environments. Issues of when and how markets work, when and how market failures can arise, and the consequences and opportunities for enterprises in those environments will be prominent.

The course structure assumes that you are comfortable with quantitative concepts and approaches and with graphical/geometric ways of presenting quantitative information, as well as with basic algebra and calculus concepts, including systems of equations, logarithms, NPV calculations, and simple derivatives. (A brief review is part of the course materials; see Feb. 12(a) below.)

There are a number of important themes/concepts that will pervade the course:

-- Marginal analysis, incentives, and opportunity cost (all as related to the maximizing process), and elasticities as a measuring device
-- Strategic thinking (e.g., look forward and reason back; search for dominant and dominated strategies)
-- The concept of equilibrium
-- The presence or absence of market power, and its consequences
-- The presence or absence of information, and its consequences
-- The consequences of “spillovers” or externalities.

Class sessions will sometimes begin with brief discussions of recent articles in The Wall Street Journal, The New York Times, and/or other publications and news sources that illuminate or are illuminated by the topics covered in the course. You are encouraged (though not required) to read one or more of these publications and to contribute to the discussions.

All class sessions will be electronically recorded and will be available as streaming videos through NYU Classes within a day or two of the class session. The videos are not a substitute for class attendance and participation but can be used for review and for instances where missing a class is unavoidable.
Teaching assistant:

The teaching assistant for this course will be Pascal Schaefer (pds396@stern.nyu.edu). The specific times and places for office hours will be announced and posted.

Course requirements/grading information:

Final grades for the course will be determined on the basis of the following components and weights:

- One mid-term exam 30%
- One final exam 40%
- Two group projects (2 x 15%) 30%

The two exams will be closed-book exams; *but you can bring a single 8½" x 11" sheet (double-sided) of notes and a hand-held calculator to the exams*. Copies of former exams (and former answer keys) are part of the course materials, and review sessions will be held during class sessions prior to the mid-term exams.

The two group projects are the responsibility of each study group, and the grade for each group project applies to each group member. Although some specialty of effort is inevitable, all group members are responsible for their group’s final draft submitted, and you should (at a minimum) participate in reading and editing drafts of each of your group’s project reports.

Your participation in classroom discussions is important and will be a “tie-breaker” if you are on the border between two grades. Thoughtful comments/questions count favorably; quality is more important than quantity. Advance review of class materials and readings is likely to help. Also, your attendance, punctuality, and overall citizenship and professionalism will matter.

Five *individual* problem sets will be assigned. They are *required* to be submitted on the dates indicated. The problem sets are designed to reinforce the insights already discussed in class and to challenge students to apply those insights in new contexts. They will be marked with a check (and possibly an overall plus or minus). Detailed answers will be distributed with the returned problem sets. Performance on the problem sets will also serve as a “tie-breaker” for the final grade if you are otherwise on a borderline. You may consult with other students with respect to solving the problems, but your submission must be *your own* submission, typed (or handwritten) by yourself (*typed is strongly preferred*) and stapled. Submission of a hard copy in class is strongly preferred; but an e-mail attachment sent *before* class (in the event that you cannot attend class and cannot ask a classmate to bring the hard copy) is acceptable. *Because the problem sets are required, you will not receive your final grade for the course unless all five have been submitted.*

Final grades will follow Stern’s guideline for core courses: no more than 35% of the class will receive grades of A or A-.
Texts and other materials:

There is no assigned text for this course. A recommended text for this course is: *Managerial Economics and Business Strategy*, 9th edn., by Michael R. Baye and Jeffrey T. Prince (McGraw-Hill, 2017), which is available in the bookstore and online. (Used copies of the 8th edn. are also available online.)

Course materials (including this syllabus, plus class notes, handouts, problem sets, group assignments, former exams, etc. -- but not the Baye & Prince text) are available in the course binder and on NYU Classes, Stern’s course management system.

As additional materials – e.g., copies of in-class slides and answers to problem-set assignments, to in-class mini-case discussions, to group projects, and to the mid-term exam, etc. – become available, they will be distributed in class and posted on the NYU Classes website.

Code of conduct:

As is true for all courses at Stern, you are expected to adhere to the Stern Code of Conduct.

Course outline and calendar (“a” topics will be covered in the 1st half of that evening’s class session; “b” topics will be covered in the 2nd half of that evening’s class session):

Feb. 12(a): Introduction; key concepts
   Baye & Prince ch. 1; extra notes “Math Review”
   Class notes; be prepared to discuss the Mini-Case (at the end of the class notes): “A CONSULTANT’S TASK”

Feb. 12(b): Review of basic supply and demand; market equilibrium; changes in equilibrium; some applications
   Baye & Prince ch. 2
   Class notes

Feb. 19(a&b): Demand in greater depth: utility maximization; the demand curve; demand elasticity (and supply elasticity); consumer surplus; demand estimation
   Baye & Prince ch. 3 (ch. 4)
   Class notes
   Individual problem set #1 due

Feb. 26(a): Supply in greater depth (I): production analysis; economies and diseconomies of scale; demand and supply for inputs
   Baye & Prince ch. 5
   Class notes

Feb. 26(b): Supply in greater depth (II): cost analysis; the importance of marginal cost; horizontal, vertical, and scope economies/diseconomies; the role of technological change; the learning curve
   Baye & Prince ch. 5
Mar. 4(a): Perfect competition: conditions in commodity markets with lots of producers; the supply curve; monopolistic (imperfect) competition
Baye & Prince ch. 7, ch. 8 (competition)
Class notes
Individual problem set #2 due

Mar. 4(b): Monopoly (and monopsony)
Baye & Prince ch. 7, ch. 8 (monopoly)
Class notes: be prepared to discuss the Mini-Case (at the end of the class notes): “A BEEF MONOPOLIST”

Mar. 11(a&b): Pricing with market power: market segmentation, price discrimination
Baye & Prince ch. 11
Class notes: be prepared to discuss the Mini-Cases (at the end of the class notes): “AIRLINES AND THE VALUE OF RESTRICTIONS” and “THE GAINS FROM ‘BUNDLING’”
Group project #1 (Cinemex) due

Mar. 18: NO CLASS SESSION (NYU Spring Break)

Mar. 25(a): A comparison of monopoly and competition; producer surplus and its uses; welfare consequences of price controls, of a sales tax
Baye & Prince ch. 8
Class notes
Individual problem set #3 due

Mar. 25(b): Review
Review recent mid-term exam and answer key; come with questions

Apr. 1(a): Mid-term exam (in class)

Apr. 1(b): Game theory and strategic analysis: basic concepts
Baye & Prince ch. 10
Class notes

Apr. 8: NO CLASS SESSION (1st night of Passover)

Apr. 15(a): Game theory and strategic analysis: extensions
Baye & Prince ch. 10
Class notes

Apr. 15(b): Oligopoly: basic concepts; the consequences of mutual interdependence; some “simple” solutions
Baye & Prince ch. 9
Class notes
Apr. 22(a): Oligopoly: the prisoner’s dilemma applied; strategic extensions
   Baye & Prince ch. 9
   Class notes; be prepared to discuss the Mini-Case (at the end of the class notes): “THE MONOPOLIST AND THE STRATEGIC ENTRANT”
   Individual problem set #4 due

Apr. 22(b): Uncertainty and risk; introduction to asymmetric information: agency, moral hazard, adverse selection, etc.
   Baye & Prince ch. 12
   Class notes

Apr. 29(a): Asymmetric information applied: output markets; insurance markets; input (labor) markets; input (capital) markets
   Baye & Prince, ch. 6, ch. 12
   Class notes; article, “Financial Services in the U.S.: The Next Decade”; be prepared to discuss the Mini-Case (at the end of the class notes): “AN EXAMPLE OF THE ADVERSE SELECTION PROBLEM IN INSURANCE”
   Group project #2 (Newspaper wars) due

Apr. 29(b): Auctions; why auctions? types of auctions; properties of auctions
   Baye ch. 12 (auctions)
   Class notes; be prepared to discuss the Mini-Case (at the end of the class notes): “BIDDERS’ KNOWLEDGE/INFORMATION AND THE ‘WINNER’S CURSE’ IN AUCTIONS”

May 6(a): Externalities and public goods; why they arise; private and social problems; strategic responses
   Baye ch. 14
   Class notes; article, “The Magic of the Market: The Advantages of Catch-Share Fishing”
   Individual problem set #5 due

May 6(b): Externalities applied: intellectual property; networks: their importance for industry structure and behavior; the importance of externalities; of economies of scale.
   Baye, ch. 8, ch. 13
   Class notes; article “Network Economics & Public Policy”
   Review recent final exam and answer key; come with questions

Take-at-home final exam will be assigned on May 7 at 5:00pm and must be submitted by May 14 at 9:00pm