SYLLABUS

MBAD 6242, MICROECONOMICS FOR THE WORLD ECONOMY

FALL II, 2011

Professor: Hein Bogaard, Assistant Professor of International Business
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Office Hours: Thursdays from 10 to 12 am (and by appointment)

TEACHING ASSISTANT / TUTOR

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CLASS MEETINGS

Mondays, 9:40 to 12:10, Duques 258
Mondays, 13:30 to 16:00, Duques 255
Tuesdays, 9:40 to 12:10, Duques 254

COURSE DESCRIPTION

This course applies the tools of microeconomics to business decisions. The economics of supply and demand in product markets is at the core of the analysis. The course focuses predominantly on the theory of the firm (production and cost structure) and its competitive environment (perfect competition, monopoly, oligopoly, and monopolistic competition), rather than on consumer behavior. The material presented in this course will also be applied to elements of international microeconomics, such as gains from international trade, the effects of commercial policy, and multi-market price discrimination.
LEARNING OBJECTIVES

After this course, students will be able to:

1. identify the effects of supply and demand on market prices and quantities exchanged.
2. characterize the cost structures of firms and assess the effects of firms’ decisions on their economic performance.
3. analyze the type of competition in a market and design a corporate strategy for the firm.
4. consider effects of international trade, commercial policies, and international market segmentation on market prices in different countries.

PREREQUISITES

There are no formal prerequisites. However, the lectures assume that you are comfortable with basic linear algebra and that you can work with and interpret graphs of (linear) functions.

READINGS, RESOURCES & MATERIALS

Readings for each class are listed on the weekly schedule. Students are expected to do the readings, including newspaper and magazine articles before class.

- Textbook: Microeconomics for the Global Economy
- Lecture Notes (posted on Blackboard)
- Readings listed on the syllabus or handed out in class (newspaper articles pertinent to the course topics may be added to the reading materials during the course)
- Blackboard course website (at http://blackboard.gwu.edu)

Note: There is a custom textbook for this course, which mainly consists of chapters from “Microeconomics”, by Bernheim and Whinston. There are two versions. There are several options to purchase the text. First, the custom book comes in a printed version that can be ordered through the GW bookstore (ISBN-13: 9781121234369, $101.25). This version is printed on demand, so please order in time. Second, an e-book can be ordered directly from McGraw-Hill (go to: https://create.mcgraw-hill.com/shop/# and search for ISBN-13: 9781121274518, $52.03). If you purchase the e-book, you will be able to print pages, but printing is restricted to 2 or 3 pages at a time by the publisher. If you prefer to read from paper, you are probably better off with the printed version. Finally, you could purchase the standard textbook Microeconomics, Bernheim and Whinston, 2008, McGraw-Hill (ISBN-13: 9780072900279). Please note that we will be using only about half of the book.
EXAMS & GRADING

Quiz 1 (week 2, November 4) 10%
Quiz 2 (week 3, November 11) 10%
Mini case I (due week 4, November 20 at midnight) 15%
Mini case II (due week 6, December 4 at midnight) 15%
Final Exam (TBA – 2nd week of December) 40%
Class Participation 10%

Grading I follow the recommendations of the MBA Faculty Task Force which are “that the grade distribution of the class has an average between 3.2 and 3.4 and no more than 20% of the class receives a grade of A”. This means that the average (and median) grade will be about a B+.

Quizzes There are two online quizzes, one in week 2 and one in week 3. The quizzes will test your ability to complete problems using the theory learned in class. They will consist of about 8 questions or sub-questions. The quizzes will be available on Blackboard for 8 hours (on Fridays) and take about 45 minutes.

Mini-cases The mini-case, consist of one or two longer questions. The cases will be posted on Blackboard two weeks before they are due. The mini-cases are group work and should be submitted with your study group. The problem set cannot be discussed outside of the groups (except with the TA and professor).

Final Exam The course concludes with a 90 minute final exam. The final is comprehensive and will consist of a mix of problems and conceptual questions. The exam has to be taken at the date and time scheduled. Students have the option to write (develop) a microeconomics case study in lieu of doing the exam. See the Annex at the end of this syllabus.

Class Participation The grade for class participation is based on attendance, ability to answer questions and contributions to class discussion.
OTHER POLICIES

Class Preparation Students are expected to do the readings and to be prepared to discuss the supplemental articles. Coming to class unprepared is unacceptable.

Absence / Late Assignments Absence from a quiz or the final exam will lead to a score of 0 unless a valid reason for absence has been established before a quiz or an exam takes place. Late submissions of the mini-cases are not accepted.

Disability services Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in the Marvin Center, Suite 242, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: http://gwired.gwu.edu/dss/

Academic Integrity Conduct and all work in this course must be in accordance with the GW Code of Academic Integrity. Academic dishonesty is defined as cheating of any kind, including misrepresenting one’s own work, taking credit for the work of others and the fabrication of information. Any assignment including plagiarized content will receive zero points. Please visit the following website for more information: http://www.gwu.edu/~ntegrity/code.html

COURSE OUTLINE

Topic 1: Introduction, Supply and Demand

What you should know / be able to do

- Analyze market equilibrium using supply and demand curves
- The economic concept of “elasticity” and its applications
- Analyze the effect of demand and supply shocks

Reading

- 1. Preliminaries (skim)
- 2. Supply and Demand (read the chapter, skim pages 51-52^1)
- “Verizon Wireless-AT&T `Price War’ may boost revenues” (Bloomberg BusinessWeek, January 20, 2010)^2
- “Microsoft supports Higher App Prices for Windows Phone 7” (Bloomberg BusinessWeek, May 26, 2011)

^1 Page numbers refer to numbers in green in the custom book.
^2 I will provide links to most articles on the Blackboard course website. Articles from the Wall Street Journal, the New York Times, Bloomberg Business week and The Economist can be found on Factiva and/or Business Source Premier, which are listed among the Business Administration databases on the Gelman Library website.
Topic 2: Cost and Production (the short run)

What you should know / be able to do

- Economic perspective on the objectives of the firm
- Analyze short-run production and cost
- Distinguish key cost concepts (opportunity, sunk, fixed, variable) and discuss their role in decision making

Reading

- 3. Balancing Benefits and Costs (read the chapter, skim pages 75-79)
- 4. Technology and Production (sections 7.1 and 7.2, skim the discussion of figure 7.4)
- 5. Cost (sections 8.1 – 8.3)
- “GM Labor Deal Ushers in New Era for Auto Industry”, WSJ, September 27, 2007
- “Indian IT firms, another giant leap”, Economist, June 1, 2011

Topic 3: Cost and Production (the long run)

What you should know / be able to do

- Analyze long-run production and cost
- Distinguish total average and marginal cost
- Explain how productivity, production scale and substitution of production factors affect (average) cost

Reading

- 4. Technology and Production (sections 7.3 – 7.5)
- 5. Cost (read sections 8.4 – 8.8)
- “Dog Eat Dog”, McAfee and Brynjolfsson, WSJ, April 28, 2007

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3 In the discussion of “marginal” benefits and costs, the book introduces “finely divisible” goods and services. If we assume that goods and services are finely divisible (e.g. that we can hire a worker for an extra minute rather than an extra hour, or an extra day at a time) analysis of marginal costs and benefits is easier. We will generally assume that goods and services are finely divisible.
Topic 4: Profit Maximization

What you should know / be able to do

- Explain the origins of market power (product differentiation, cost advantages, et cetera)
- Analyze marginal revenue for firms with and without market power
- Analyze production decisions and profit maximization for firms with market power and for firms under perfect competition (in the short run and the long run)

Reading

- 7. Profit Maximization (skip section 9.6)
- 8. Equilibrium and Efficiency (skip section 14.5)
- 9. Monopoly (sections 17.1 – 17.3 and 17.7)
- “How fuel fees are keeping airfares aloft”, Bloomberg BusinessWeek, May 5, 2011

Topic 5: Market Intervention and Trade

What you should know / be able to do

- Discuss the impact of government intervention (quantity restrictions, price restrictions and taxes) on competitive market equilibrium
- Analyze the impact of international trade policies (quotas and tariffs)

Reading

- 9. Market Interventions
- “China’s rise will change the nuts and bolts of British business”, Tim Harford, June 19, 2010, The Financial Times (see www.timharford.com)
Topic 6: Pricing

What you should know / be able to do

- Analyze and discuss the scope for and benefits of common pricing strategies such as (multimarket) price discrimination, two-part tariffs and tie-in sales

Reading

- 11. Pricing Policies (skip section 18.5)
- “They’re Watching You”, The Economist, October 16, 2003
- “Illuminating advice on the dark art of “drip pricing”, Tim Harford, August 21, 2010, The Financial Times (see www.timharford.com)
- “Netflix customers subscribe to unlimited screaming”, WSJ Blog, July 12, 2011

Topic 7: Oligopoly and Monopolistic Competition

What you should know / be able to do

- The impact of collusion (cartels) on market equilibrium and industry characteristics that are conducive to collusion
- Traditional models of non-cooperative oligopoly (Cournot, Bertrand, Stackelberg) and their applicability to specific sectors
- Characterize monopolistic competition

Reading

- 12. Oligopoly
- “Pumped up”, James Surowiecki, The New Yorker, June 12, 2006
- “Busting the Cartels”, The Economist, March 4, 2010
- “T-Mobile Antitrust Challenge Leaves AT&T With Little Recourse on Takeover”, Bloomberg.com, September 1, 2011
ANNEX

Case study alternative for the final exam
Students have the opportunity to write a short economics case study instead of doing the final exam. The study should discuss a real-life business case in light of the material covered in this class (e.g. cost, competitive strategy, pricing or the impact of shifts in supply and demand). Students can write the case-study in self-chosen pairs. There will be one score per case study and the score will have a forty percent weight in your final grade, just like the final exam.

Content requirements
A case study should contain of a write-up of about three to four pages, plus any tables, figures and exhibits as applicable. The case should also include three to four case questions that invite discussion of economic concepts we discuss in class. Cases may be based purely on archival research or on a combination of archival research and interviews. They should include quantitative data and at least some data analysis to support an argument that is made in the case.

Specifically, the case should consist of:
- Three to four pages of text (single-spaced, 1 inch margins, 12 point font)
- Tables, figures or exhibits that support the case analysis or illustrate the connection between the case and economic concepts (some data-collection is a requirement; a case cannot be purely conceptual).
- Three to four questions for discussion with suggested answers. The questions may be conceptual or quantitative.
- A list of references that contains all archival sources used in the case study and, if applicable, a list of interviews. Archival sources and interviews should also be cited in the text using APA format (http://owl.english.purdue.edu/owl/resource/560/01/). Direct quotes from interviews or archival sources are permitted, but you should not use more than about three short ones (one or two lines).

Procedures
- If you would like to write a case-study, you have to let me know no later than week 3 of the course with a proposed topic (which has to be pre-approved).
- A complete draft of the case-study has to be submitted by week 6 (December 2). I will return the draft with written comments no later than December 6.
- The final case-study has to be submitted before the start time of the final exam for MBAD 6242. If you do not submit the case study, you are expected to do the exam.
- By submitting the case study, you give me permission to use it in future classes (with proper attribution of your work of course).