

620 Managerial Economics

Introduction

620 MANAGERIAL ECONOMICS provides students with an understanding of basic economic principles of production and exchange – essential tools in making business decisions in today’s global economy. The subject presents the foundation to understanding how the economy works, covering microeconomic descriptions of business applications, including pricing for profit maximisation, price elasticity, market structures and modelling of businesses in varying economic climates. The focus is on market economies, the organisations that operate in them and their business strategies.

Case studies

Real-life case studies are incorporated into the subject to provide opportunities for students to apply theory into practice in an authentic context. Examples of cases include

Moon, Y.
Online Music Distribution in a Post-Napster World
 Case #9-502-093
 Harvard Business School Publishing
 19 June 2002

Kennedy, R.E.
The Pharmaceutical Industry and the AIDS Crisis in Developing Countries
 Case #9-702-010
 Harvard Business School Publishing
 13 August 2001

Coughlan, P.J.
Note on the Home Video Game Technology and Industry Structure
 Case #9-700-107
 Harvard Business School Publishing
 13 June 2001

Who should attend

- Executives wishing to enhance their business management skills
- Managers seeking to improve their understanding of the general business environment
- Decision makers who need to evaluate and formulate business strategies

Learning objectives

Upon completion of this subject, students should be able to

- formulate business policies based on fundamental understanding of supply and demand conditions
- develop optimal strategies to compete with rivals and co-operate with partners in a competitive business environment
- identify economic trends and business currents that affect individual firms and the wider industry
- apply basic economic reasoning to other related topics, such as marketing, finance and organisation in business studies

Delivery method

The subject is delivered online over a 12-week period, with an assigned Professor acting as mentor. The class will comprise students from different countries and industry backgrounds. Practical case studies and discussions help to stimulate learning and knowledge exchange, while an examination at the end of the subject will help students review and apply the knowledge and skills learnt.

Assessment

Case analyses (team and individual)	45%
Discussion board activities	30%
Final examination	25%

Prerequisites

None

Syllabus

Segment 1: Introduction

Students are introduced to the syllabus, the resources and communication tools available within the course.

Segment 2: Value and Trade

The segment explains that value is created when the exchange of goods and services brings more in total to each party than each would obtain if the exchange did not take place. Students are encouraged to consider potential gains from trade and to apply the concept of added value to determine price in business negotiations. Issues considered are the buyer's willingness to pay for a product or service, a seller's willingness to sell and the terms of that trade. The impact of monopolies and oligopolies on overall market efficiencies are discussed.

Segment 3: Demand and Costs

The segment expands on the key concepts of economics and price formation to analyse demand and supply. The value-added model of negotiations enables students to understand the roles of a firm's inputs and outputs in its production function. Students learn to perform calculations to find the total, average and marginal product of labour for a firm, and to find the differences between total, average and marginal costs in the short-term and long-term.

Segment 4: Pricing in Mass Markets

The segment explores price fixing and profit maximisation strategies, given demand and supply conditions in a mass market. The nature of competition in the market, price elasticity and short-term costs are some of the issues considered. Students learn to evaluate the effectiveness of alternative pricing strategies, including group pricing, two-part tariffs and bundling. Students also learn to apply the tools of demand and supply to forecast changes in equilibrium prices and quantities in a competitive market.

Segment 5: Game Theory

Students are introduced to the concept of applying game theory as a formal analysis of strategic interdependence. Through the use of game models, decision makers can predict the actions and reactions of competitors, partners, customers and other market players, to an extent. Students learn to formulate a competitive situation in game theoretic terms, enabling the analysis of the equilibrium outcome. Issues of oligopolistic pricing are examined, using game theory.

Segment 6: Incentives

The segment introduces the economics of information by focusing on the employment relationship. Market imperfections arise from asymmetric information, which can be overcome by screening (by employers) and signalling (by employees). Students learn about setting incentives to motivate employees, through pay-for-performance contracts and other productivity inducements. A discussion of contractual obligations and potential hold-up problems ends the segment.

Required textbook

Png, I. *Managerial Economics* (2nd ed). Oxford: Blackwell, 2002.

Global Faculty

Subject Author

Professor Joshua Gans
University of Melbourne

U21Global subjects are created by acknowledged experts in their field, usually senior academics who have strong understanding of postgraduate requirements. The subject content is further reviewed by academic specialists who appraise the subject from an independent perspective, ensuring a high-quality, professional product.

620 MANAGERIAL ECONOMICS was created for U21Global by **Joshua Gans**, Professor of Management (Information Economics) at the Melbourne Business School, University of Melbourne. Dr Gans is a Director of Melbourne Business School Ltd and the co-founding Managing Director of CoRE Research, as well as an Associate Director at the Intellectual Property Research Institute of Australia and the Economic Theory Centre at the University of Melbourne. He specialises in industrial organisation and regulatory theory, and has consulted for the Australian Competition and Consumer Commission, government organisations and private corporations. He is co-editor of the *Journal of Economics and Management Strategy* and sits on the editorial boards of two other journals. Dr Gans earned his PhD from Stanford University.

Subject Reviewer

Professor Maxim Engers
University of Virginia

The subject was reviewed by **Maxim Engers**, Professor of Economics at the University of Virginia. His teaching and research interests are in microeconomics, economics of information and uncertainty, mathematical economics and applications of game theory to international economics and industrial organisations. He has served as a consultant at the World Bank and Research Fellow at the Brookings Institute. Dr Engers has published extensively in international academic journals. He earned his PhD in Economics and MA at the University of California, Los Angeles, and obtained his BA and BSc from the University of Cape Town, South Africa.

Professors

Students' progress will be guided by dedicated Professor Facilitators based around the world. They provide an international perspective and impart knowledge through a wealth of experience in their field of specialisation. Our Professor Facilitators will help students make sense of the information to enable students to transform the information into knowledge and creative solutions.



Alok RAY

Alok Ray is a visiting faculty member at the Indian Institute of Management (IIM), Calcutta where he was a Professor of Economics in 1977–2006. He is also a Visiting Professor of Economics, University of Pittsburgh (US) for academic year 2007–2008. He was a Visiting Professor of Economics at University of Rochester (US) for academic year 2004–2005. Dr Ray's areas of teaching and research interests are in international economics, economic theory, economic development, globalisation, economic reforms in developing countries like India and transition economies like China and the former Soviet countries. He earned his PhD in Economics from the University of Rochester, New York.



Yusaf AKBAR

Yusaf Akbar is Associate Professor of International Business at Southern New Hampshire University in the US. Prior to that, Dr Akbar taught at Central European University's Graduate School of Business in Budapest, CERAM Graduate School of Management in Nice, France and European Business School, London, UK. His main teaching and research interests are in international trade, strategy and the politics of multinational enterprise strategy. He has published two books on the regional and global trade and regulations, while his articles have been published in peer-reviewed journals. Dr Akbar received his doctorate from the Sussex European Institute, University of Sussex, UK.