

Lincoln University  
ECON 20B – Principles of Economics II  
Fall 2011 Course Syllabus  
3 units = 45 lecture hours

Daniel Sevall  
Adjunct Professor, Applied Economics  
Class Hours: Saturday, 12:30 – 3:15 pm  
Office Hours: 11:30am Every Saturday  
Office: 650-380-0518  
[dsevall@lincolnuca.edu](mailto:dsevall@lincolnuca.edu) or [dsevall@yahoo.com](mailto:dsevall@yahoo.com)

## COURSE OUTLINE

### Foreword

Economics for Managers synthesizes, expands upon, and applies to managerial decision-making the concepts of economics. While in some areas this involves a review of information from your prior courses, new applications are presented in AE 328 along with material that has not been extensively covered. Equally important are the economic ways of perceiving, evaluating and understanding that are conveyed in this course: in order to make good decisions, managers need to have a deeper comprehension of issues than that which is afforded through intuition or “common sense.” AE 328 will help students view managerial issues in new ways, ask insightful questions, and make more efficient decisions due to their enhanced understanding of economics as it applies in a management context.

### Course Description

Attention is given to microeconomic theory. A study of market structures, resource allocation, cost analysis, and socio-economic problems. Also assessed is the impact of each market arrangement upon price and output levels, resource allocation, and the rate of technological advance. Socio-economic problems as poverty, antitrust regulation, and urban problems are discussed. (3 units)

### Required Texts

Brickley, Smith, and Zimmerman (2004), *Managerial Economics and Organizational Architecture*, 3<sup>rd</sup> ed. (Irwin/McGraw-Hill). (“Brickley”)

Other readings as assigned by instructor.

## Course Overview

Economics for Managers retraces and expands upon economics concepts; particularly those discussed in Microeconomics, and applies them to current managerial problems. Throughout the course, the workings of the market system are analyzed, with emphasis on the role of markets in efficiently allocating scarce resources. The concepts of supply and demand, elasticity, production, cost, and market structures (ranging from perfect competition to monopoly) are covered at a more advanced level than in the Microeconomics course. Most of these concepts are presented in the context of issues faced by firms and their managers, and you will be expected to apply the concepts to the firms and industries with which you are familiar.

Beyond these basic building blocks, the course takes several directions. First, the concepts are refined to include more complex situations. For example, the optimal pricing rule used by firms with market power (produce to the level at which marginal revenue equals marginal cost) learned in the Microeconomics course is modified for situations in which managers are able to charge different prices for different sets of customers.

Second, important ideas relating to incentives are introduced, including the use of incentives to encourage desired behaviors and the challenges that arise when there are conflicts between individual preferences and organizational objectives. This is an area of tremendous recent innovation within economics, and has yielded important insights that managers find valuable. Examples of practical applications include the use of game theory to examine pricing decisions, and considerations in using incentive-based compensation to pay employees.

Third, economic tools are used to analyze the pros and cons of using markets versus firms to facilitate the exchange of goods and services. The “transaction continuum” – with individual “spot” market transactions (where a particular buyer and seller conduct only a single, anonymous transaction) at one extreme, ranging through long-term contracts (joint ventures, strategic alliances, franchise contracts) to vertical integration (where “buyer” and “seller” are within the same company) at the other extreme – is among the concepts covered. Whether particular types of transactions are best organized via markets or firms depends on the costs and benefits of organizing in each way. In the wake of repeated waves of corporate reorganizations, layoffs, spin-offs, mergers, outsourcing, and restructuring, students will find it useful to analyze situations under which, say, outsourcing to the spot market is likely to be more (or less) efficient than producing a service in-house.

Finally, concepts at the intersection of economics, organizational analysis, finance, and accounting are introduced to analyze the important role that firm

structuring plays in economic decision-making. These involve choices about “organizational architecture,” reflected in the degree to which a company’s decision authority is centralized, the manner in which functions are divided (as by product or geographic region), as well as how the firm evaluates and rewards the performance of its employees. In practice, many factors will influence such choices, including management “fads.” Among the objectives of this course are the provision of a framework for managers wishing to improve the “architecture” of their respective organizations, as well as to develop greater capability to look beyond buzz words and “pop” theories to the substance of generating true economic value for their stakeholders.

### **Learning Outcomes**

Specific objectives will be provided for each session. In general, this course will prepare you to do the following:

1. Understand core concepts in microeconomics, including the “basic building blocks” of supply/demand, industry structure, and pricing models.
2. Understand how microeconomic analysis, including an understanding of the strengths and weaknesses of the market system can be extended to examine managerial issues such as incentive compensation, outsourcing, the role of government, organizational structure, and organizational ethics in.
3. Define key concepts including incentives, constraints, opportunity costs, gains from trade, price mechanism, elasticity, production function, cost curve, market structure, market power, consumer surplus, price discrimination, human capital, incentive conflicts, incentive compensation, vertical integration vs. long-term contracts, organizational architecture, and transfer pricing.
4. Apply economic concepts to managerial problems in a manner that will enhance decision-making and help students address issues with which they will be confronted in their respective organizations and careers.

### **Course Requirements**

1. All readings must be completed prior to class. It will be helpful to take note of the review questions at the end of each chapter. Although a summary is provided at the conclusion of each chapter, the entire chapter must be read for a full understanding of its concepts. (Be sure to read the “Tips for More Effective Reading and Understanding” which appear in this syllabus following the “Class Assignments” table.)

- Your instructor will give you written assignments to complete, four in all. For full credit they must be turned in on the day prior to the next class. E-mail the assignments to [dlsevall@usfca.edu](mailto:dlsevall@usfca.edu) or [dsevall@yahoo.com](mailto:dsevall@yahoo.com). Each week an assignment is late will lead to a one-grade deduction in the score for the assignment.

Answers can and should be brief: Only rarely will a question demand more than a half page to answer, and usually it can be answered in less. Clarity in answers matters; thus, please type your assignments and edit your writing.

- Students are expected to participate in class discussions. With its limited class time, the AE program makes special demands on students – most course work must be done independently and students must be well-prepared for each class.

In addition, this is an accelerated course requiring more time than the usual college class. Applications of the economic concepts in this course abound, and these applications will be discussed in class. Therefore, students should read at least the business pages of a major daily newspaper, and preferably the Wall Street Journal. Only by staying on top of social, political and commercial developments can students hope to generate enough economic literacy to fully apply the course's offerings.

- Please feel free to contact me at any time if you are experiencing difficulties in the course.
- Grading:
  - 40% weekly assignments (due weeks 3, 6, 10, 12)
  - 20% take-home midterm (due week 8)
  - 30% take-home final (due following last class)
  - 10% class participation

### Class Assignments

<u>Session</u>	<u>Class Focus</u>	<u>Reading</u>
1 and 2	Economics for Effective Management Economic Behavior Economics of Markets and Organizations The Market Economy, Externalities, and Contracting Costs	Brickley, Chapter 1, Chapter 2 (to p. 34 and Case Studies on p. 12 and 37), Chapter 3

3 and 4	Demand and its Influences Network Effects, Product Attributes, Demand Estimation Production Functions, Inputs, Costs <i>Submit Weekly Assignment #1</i>	Brickley, Ch. 4, 5 (Case studies on p. 99 and 131)
5 and 6	Market Structure, Competition and Competitive Constraints Pricing, Price Discrimination, Bundling <i>Submit Weekly Assignment #2</i>	Brickley, Ch. 6, 7
7 and 8	Value Creation and Capture Benefits and Costs of Diversification Strategy Formulation Vertical Integration and Outsourcing <i>Submit Weekly Assignment #3</i>	Brickley, Ch. 8, 19 (Case studies p. 221 and 545)  <i>Submit Midterm Exam Answers by the following class</i>
9 and 10	Incentive Conflicts and Contracts Labor Markets and Employee Pay The Incentive Problem and Incentive Contracting Individual Performance Evaluation	Brickley, Ch. 10, 14, 15, 16 except pages 434- 445 (“Team Performance” through “Appendix Problem”). (Case study p. 275)
11 and 12	Business and Government Ethics and the Organization of Economic Activity <i>Submit Weekly Assignment #4</i>	Brickley, Ch. 21, 22 (Case study p. 624)
13 and 14	Centralization vs. Decentralization Assignment of Decision Rights Bundling Tasks and Jobs Tradeoffs in Structuring Organizations Organizational Architecture <i>Review of the course to prepare for the take-home final, with weight on chapters since the midterm</i>	Brickley, Ch. 11, 12, 13 Scan all previously assigned chapters  (Case studies p. 298 and 325)

### **Tips for More Effective Reading and Understanding**

#### *Equations & Graphs*

Traditionally, this type of course is taught using algebraic and other mathematical tools to illustrate the concepts. However, due to the accelerated

nature of the Applied Economics program and in deference to the practical interests of AE students, this course is taught with minimal use of math. Text materials have been selected that are compatible with this approach. However, students will find that the texts still contain mathematical equations in some chapters. The instructor will point out those few equations that he/she views as critical to understanding the material; whenever other equations appear, students should concentrate on learning the underlying concepts but can skim past the equations, as desired. Other types of quantitative tools, however -- principally graphs and tables -- are important to this course, and students should work towards understanding the information being conveyed.

### *Terminology and Theory*

Some students may find the sheer quantity of specialized terminology and economics jargon to be nearly as difficult as mathematical equations. As you have already learned in prior AE courses, the land of economics has its own language, with precise terms and meanings. You will find that learning to speak the language of economics like a native will pay dividends in your understanding of the concepts; the glossary at the back of the Brickley text should be helpful. Brickley, in particular, contains numerous real-world case examples; the student may find it useful to read the case “boxes” in order to get an applied view of the concept being covered.

### **Plagiarism Policy**

Whenever you quote from, make reference to, or use ideas attributable to others in your writing, you must identify these sources in citations or bibliography, or both. If you do not, whether deliberately or accidentally, you have committed plagiarism. Plagiarism, defined as the act of stealing or using, as one’s own, the ideas of another, is not permitted in college or university work or in any published writing. “Plagiarism may take the form of repeating another’s sentences as your own, adopting a particular apt phrase as your own, paraphrasing someone else’s argument as though it were your own.” (Modern Language Association Handbook, New York: MLA, 1977, p.4.) The sanctions for plagiarism range from reprimands and counseling to expulsion from the University. The appropriate sanction is determined by the University Committee on Academic Dishonesty. The University faculty may use internet-based services to identify those portions of student written assignments that might not meet the full standards of academic integrity as defined in this statement.

Syllabus revised: 9/9/2011