This course is designed to help MBA students become familiar with and adept at using basic economic principles, both with respect to microeconomic and macroeconomic situations. The microeconomic material can be thought of helping businesspeople make better decisions, as economics revolves around deploying scarce resources among alternative uses to achieve given ends. This is the essence of decision making in business but also in one’s personal life.

The macroeconomics material is designed to help students develop a framework for thinking about how the national economy works, within, of course, the limitations of economic knowledge. The material and the professor specifically will not purport to help you make money via predicting “what the economy is going to do.”

The set of lecture notes is the primary source for the microeconomics section; they are available for purchase in room CBB321A. The Michael R. Baye, Managerial Economics and Business Strategy textbook, either the 4th or 5th edition, is an optional supplement; the two editions are very similar, and you can purchase used copies of the 4th edition very cheaply on Amazon.com (there may be occasional differences in terminology and topics). For the macroeconomics section, I recommend that you purchase Abel, Bernanke, and Croushore’s Macroeconomics, 7th or 8th edition. The 7th edition can be purchased on Amazon.com for a fraction of the cost of the 8th edition. The two editions are similar, but the later edition has more recent examples (some of which we’ll cover in class).

Try and read Lectures 1 and 2 in the course packet before the first class meeting, and high-light the material that you don’t understand. Try to read the Lectures/Chapters before we cover them in class. This means a fair amount of work up front, but by February, there won’t be too much reading.

Because this is a graduate level course, I expect students to assume the responsibility of teaching themselves. I will cover the important points in the lectures, but you may have to learn some of the details both through careful reading and through working on the problems.

In order to master the material and to do well on the examinations, you need to work as many problems as possible. You should also begin creating your note sheets for the exams early on, using them to answer problems (in order to ascertain whether you have the necessary material on the sheets). You are encouraged to work together in groups on the problems.

The Microeconomic lecture notes have plenty of homework and practice exam problems. Some of the practice problems will not be relevant for
the class. I will identify the problems that are irrelevant. To prepare
for the midterm, you should use both the “Midterm” and “Final Exam”

The Macroeconomic textbook has several Summary tables that you may put
on your note sheets. The tables are very useful. There will be a
certain amount of algebra in some of the questions. You may also put
examples of problems on your note sheets. I will hand out macroeconomic
practice problems well before the final exam.

The homework sets and practice exams in the packet are representative
of the exam questions. In order to truly understand the material, you
should master these problems. Although I provide answers, you should
struggle with the problem before consulting the answers. While the
practice exams have some similarity, future exams will differ from past
examinations.

YOUR GRADE IS BASED ON A MIDTERM (250 POINTS) AND FINAL EXAM (250
POINTS). YOU ARE ALLOWED TWO 8.5X11” SHEETS (Both Sides) OF NOTES FOR
THE MIDTERM AND TWO SHEETS (Both Sides) FOR THE FINAL EXAM. YOU MAY NOT
TAKE AN EXAM LATER THAN THE SCHEDULED TIME, EXCEPT WITH A PHYSICIAN’S
NOTE. THE MIDTERM COVERS ONLY MICROECONOMICS; THE FINAL EXAM COVERS
ONLY MACROECONOMICS.

THERE WILL ALSO BE EXERCISES. I WILL ASSIGN EACH ONE OF YOU TO AN
EXERCISE, ALTHOUGH EVERYONE IN CLASS SHOULD WORK OUT ALL OF
THE EXERCISES. YOU WILL MAKE A PRESENTATION TO THE CLASS (ROUGHLY FIVE
MINUTES). THE EXERCISES ARE WORTH TWENTY POINTS. THESE POINTS WILL NOT
AFFECT THE GRADE DISTRIBUTION BUT WILL BE USED TO BOLSTER YOUR GRADE IN
CASE YOU END UP WITH LESS THAN A B-.

Review Assignment before first meeting: read “Lecture One” and “Gains
from Trade” in Lecture Five in the course packet. Do Homework Set 1 as
a way of testing whether you understand the requisite material.

Tuesday, Nov. 11 (5:30-9:00): What is economics? Economic thinking in
making decisions. Price determination via the interaction of
supply and demand.
Read: Lecture One. Chapters 1 and 2 in Baye (optional).
Homework Set 1.

Thursday, Nov. 13 (5:30-9:00): More on price determination. Examples of
markets at work and interferences with the market.
Read: Lecture Two. Chapter 3 in Baye (optional; ignore regression
analysis).
Homework Set 2.

Thursday, Nov. 20 (5:30-9:00): Lectures 5-6 on Gains from Trade,
Diminishing Marginal Utility and Gambling/Insurance, and Risk and
Role of Time.
Read: Lectures Five and Six (you may skip the first half of
Lecture 5, as well as Lectures 3 and 4; you may skip “Time Cost of
Consumption”). Chapter 4 in Baye (optional).
Homework Sets 5 (you may skip the problems on consumer theory) and 6.

Thursday, Nov. 27: **NO CLASS. THANKSGIVING.**

Read: Lectures Seven and Eight.
Homework Sets 7 and 8.
Read chapters 5, 6, 7, and 8 in Baye (optional).

Tuesday, Dec. 9 (5:30-9:00): Firms with price-setting power: Monopolies, Oligopolies, and Monopolistic Competitive firms.
Read: Lecture Nine. Chapters second part of 8 and 11 in Baye (optional).
Homework Set 9.

Thursday, Dec. 11 (5:30-9:00): Introduction to the Macroeconomy and Productivity, Output, and Employment. You will not be tested directly on the material in Chapters 1 and 2 of Macroeconomics, although the information underlies the later chapters. Some of the material in Lecture 8 of the course packet is useful for Chapter 3.
Read: Chapters 1, 2, and 3 in Macroeconomics.

Tuesday, Dec. 16 (5:30-9:00): Chapters 4 and 5 (“Consumption, Saving, and Investment” and “Saving and Investment in the Open Economy”). Some of the material in Lecture 6 is useful for Chapter 5.

Thursday, Dec. 18 (5:30-9:00): **MIDTERM EXAMINATION (covering the material from microeconomics section, through December 9). You are allowed two 8.5x11" sheets of notes (front and back).**

Thursday, Jan. 15 (5:30-9:00): Chapters 6 and 7 (“Long-Run Economic Growth” and “The Asset Market, Money, and Prices”).

No class on Thursday Jan. 22.

Thursday, Jan. 29 (5:30-9:00): Chapters 8 and 9 (“Business Cycles” and “IS-LM/AD-AS Model”). In Chapter 8, we’ll focus mostly on the AS/AD model in Section 8.4


Thursday, Feb. 12 (5:30-9:00): **FINAL EXAM (250 points).** The final exam covers just the material from Macroeconomics (although the material in Lectures 5, 6 and 8 may help you understand the concepts from Chapters 3, 4, and 6). You are allowed two (8.5x11”) sheets of notes for the final exam.
ADA POLICY

“The Americans with Disabilities Act of 1990 (ADA) provides protection from illegal discrimination for qualified individuals with disabilities. Students requesting instructional accommodations due to disabilities must arrange for such accommodation through the Office of Disability Services. The ODS is located at: 103 Student Health Center, and the phone number is: 273-2676.”
Welcome to the wonderful world of Economics. You may be wondering why you have to take an economics course. There are several good reasons for doing so. Economics can help you understand what is going on in the world; while the economic motive is not the only motive underlying people’s behavior, it is a powerful one. People respond to incentives; they have to, if they want to achieve much satisfaction in life. Economics can help you in your decision making, whether for business or for your personal affairs. The simple decision-making rule weighing marginal benefits and marginal costs is critical. How much incremental benefit will you get from consuming an additional unit of a commodity, relative to its incremental cost? Economic theories underlie many tools in other business classes, such as the Capital Asset Pricing Model (CAP-M).

Fortunately for you, you’ve been practicing economic thinking for many years. You’ve had a strong incentive to weigh marginal benefits and marginal costs throughout your life. Consider when you were a child, and a relative gave you some money and unleashed you upon a candy store. There were so many different kinds of appealing candies, and you quickly realized that you could buy only a minute selection of those available. You had to consider the fact that buying a chocolate bar meant being unable to purchase a caramel bar. The realization that could not satisfy all of your wants was a frustrating, even painful, experience.

The fundamental characteristic of economics, then, is scarcity. Everyone faces scarcity, whether of money, time, ability, knowledge, energy, health, or love. If there wasn’t any scarcity (a “scarcity of scarcity”), then there would not be any reason to learn economics. I would be out of a job, but I would not care since I would be living in a world without scarcity.

Because of scarcity, every time you use a resource for one endeavor, you are relinquishing the opportunity to use it for any other endeavor. There is an opportunity cost involved: the cost of the best foregone alternative. Your younger self in the candy store discovered this concept, when you were unable to buy both the chocolate and the caramel bars. If you bought the chocolate bar, you could not have the caramel bar and vice versa. Most people learned at a very early age, then, that one must be very careful in allocating their scarce resources among the various uses available in order to achieve their goals.

In making decisions involving deploying scarce resources among various uses, you should employ the marginal benefit-marginal cost rule. You keep obtaining additional units of a commodity as long as the marginal benefit exceeds or equals the marginal cost. Since the marginal benefit eventually typically diminishes with additional units, you will obtain a finite number of units. This marginal benefit equals marginal cost rule is perhaps the most valuable piece of information you will get out of an economics course.
HOW TO LEARN THE MATERIAL

You’ve got to do problems, problems, and still more problems. If you don’t get the answer immediately, go on with the next problem, BUT DO NOT IMMEDIATELY CONSULT THE ANSWER. Struggle with the problem.

Note: on the exams, you do not have to answer the questions in the order presented. You may skip the questions you find difficult and proceed with the problems you find easier. Then go back to the difficult questions. Don’t spend a lot of time getting frustrated on any particular question.

HOW TO ANSWER QUESTIONS

1) Determine what is the key concept(s). “What kind of problem is this?” Is this a utility-maximization problem, an elasticity of demand problem? If you simply identify the applicable equation or definition, the problem sometimes solves itself. If you don’t identify the key concepts, you will not be able to answer the question. The exam problems often closely resemble practice problems. “What have I seen this before?” is a good question to ask of exam problems.

2) Use the assumptions given in the problem. Where necessary, state reasonable assumptions (e.g. ice cream is a “good;” garbage is a “bad”). Assumptions narrow the possibilities. If the question says, “If the price of rice goes up,” you don’t have to worry about whether the price of rice goes down. In most cases, the given assumption(s) will enable you to come up with a definite answer. In some cases, you will need to come up with a reasonable assumption.

3) Use the key concept(s) and assumptions to generate a prediction. On some occasions the answer may be “either/or”—e.g. “if income effect dominates the substitution effect, then...”

Examples

The XYZ Corporation currently charges $200HK for a pizza. The owner asks you, “Should I raise my price in order to increase revenue?”

Step 1: This question relates elasticity of demand and total revenue.
Step 2: Assumption: raise price.
Step 3: Checking the table relating price elasticity of demand and total revenue, you see that if the price elasticity of demand in absolute value is less than one, then total revenue increases as price rises.

Your answer: if the XYZ Corporation faces inelastic demand, then it should raise its price to increase its total revenue.

Example: The XYZ Corporation produces pizza. If the price of cheese increases and the price of root beer increases, what will happen to
price and quantity of pizza?

Step 1: This question deals with shifts in supply and demand. Use the table showing shifts’ effects upon price and quantity.

Step 2: Assumptions-- price of cheese increases; price of root beer increases. Additional assumption: pizza and root beer are complements (they certainly are not substitutes).

Step 3: Price of cheese (factor input) increases => S(Pizza) falls => P rises, Q falls.
Price of root beer increases => D(Pizza) falls => P falls, Q falls.
Overall effect change in price of pizza is ambiguous; quantity of pizza falls.

Note: remember, there is only ambiguity when both supply and demand curves shift simultaneously.
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