

KANSAS STATE UNIVERSITY
Department of Economics

ECONOMIC ANALYSIS FOR BUSINESS
(Economics 815)

Spring 2003
W 6:00-8:30
Waters 41

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PURPOSE OF COURSE

This course is partitioned into two segments. The first segment covers the basic concepts in microeconomic theory, including demand analysis, production, cost measures, pricing, and analysis of different market structures. The second segment covers several microeconomic applications, including price discrimination, elementary concepts in game theory and strategic behavior, markets with asymmetric information, and (time permitting) analysis of markets for factor inputs, and (time permitting) selected topics in government regulation and public policy.

PREREQUISITES

Economics 110, Economics 120, and one semester of calculus.

READINGS

The primary textbook for this course is Robert Pindyck and Daniel Rubinfeld, *Microeconomics*, Prentice Hall, 2001, Fifth Edition. You are responsible for the pages assigned regardless of whether they are covered specifically in class. Additional readings may be assigned at various intervals throughout the semester to supplement the material in the textbook. Students are responsible for the pages assigned regardless of whether they are covered in class.

One goal of this course is to help students understand and analyze current economic issues in the news. Occasional references to articles from the *Wall Street Journal* will be made during the course of the semester. You may want to consider subscribing to the *Wall Street Journal*, but you are not required to do so.

COURSE REQUIREMENTS

Your grade in this course will be based on (i) two examinations during the term and (ii) a final examination. Each of the three examinations will account for approximately one-third of your total grade. Problem sets will be assigned on a regular basis. These problem sets are essential to mastering the analytic techniques covered in the lectures. Problem sets from Spring 2002 are shown on this website. Current problem sets (which I will grade and return to you) will be assigned later. Regular attendance at all lectures is highly recommended. Lecture material not

specifically covered in your readings may appear on the examinations. Examinations during the term will be given on February 26 and April 9. **I reserve the right to change these dates if circumstances warrant changes. Please consult my website regularly so that you can see if any changes have been made.** The final examination will be given at the time specified by the University, which is 6:00 – 8:30 PM, Wednesday, May 14, Waters 41.

Your grade in this course will be determined by your class standing at the end of the semester. It is anticipated that the cutoffs for letter grades will be approximately 90 for an A, 80 for a B, 70 for a C, and 60 for a D.

TEACHING PHILOSOPHY

I expect you to spend considerable time studying for this course. This includes completing all work assigned in problem sets. My goal is to give you an “edge” in the employment market place for MBA graduates. You will perhaps be working alongside people who have graduated from Harvard, Stanford, Northwestern, and other top-ranked business schools. As far as economic analysis is concerned, I see no reason why you will need to take a back seat compared with graduates from those schools, but you will have to work— even when you think (at the moment) that the task is *boring*. You might find it is not as boring as pounding the pavements looking for work.

OFFICE HOURS

Tuesday and Thursday, 1:00 - 2:30, and by appointment.

COURSE OUTLINE

The following is an outline of the major topics that will be covered in this course, along with the associated readings in the textbook by Pindyck and Rubinfeld (P&R).

1. Overview and Introduction to Microeconomics (Self-Directed Study)

P&R, Chapter 1

2. Mathematical Review

- a. Algebra Fundamentals
- b. Univariate and Multivariate Calculus

3. Demand and Supply

- a. Elasticity of Demand and Supply
- b. Changes in Market Equilibrium
- c. Government Intervention— Price Controls

P&R, Chapter 2 and 4 (pp. 117-124)

4. Consumer Behavior
 - a. Marginal Rate of Substitution
 - b. Indifference Curves
 - c. Marginal Utility and Consumer Choice

P&R, Chapter 3

5. Choice Under Uncertainty
 - a. Probability Theory
 - b. Preferences Toward Risk
 - c. Insurance

P&R, Chapter 5

6. Cost and Production Decisions
 - a. Optimal production Decisions
 - b. Derivation of Cost Functions
 - c. Cost Concepts

P&R, Chapter 6 - 7

7. Perfect Competition
 - a. Pricing
 - b. Equilibrium Outcomes
 - c. Short- and Long-Run Decisions

P&R, Chapter 8

8. Monopoly
 - a. Pricing
 - b. Equilibrium Outcomes
 - c. Comparisons with Perfect Competition

P&R, Chapter 10

9. Pricing with Market Power
 - a. Measurement of Market Power
 - b. Price Discrimination
 - c. Economic Welfare Considerations

d. Price Discrimination

P&R, Chapter 11

10. Introduction to Game Theory and Strategic Behavior

- a. Nash Equilibrium
- b. Prisoners' Dilemma
- c. Oligopoly Models
- d. Bargaining Strategies

P&R, Chapter 12

11. Markets with Asymmetric Information

- a. Quality Uncertainty and the Market for Lemons
- b. Market Signaling
- c. Moral Hazard
- d. Efficiency Wage Theory

P&R, Chapter 17

12. Markets for Factor Inputs (time permitting)

- a. Competitive Factor Markets
- b. Factor Markets with Monopoly Power
- c. Unionized and Nonunionized Workers

13. Regulation and Antitrust (time permitting)

- a. Recent Trends in Industry Consolidation
- b. Department of Justice Merger Guidelines
- c. Allocative vs. Technical Efficiency Trade-Offs

Honesty: The faculty Senate and the Provost have requested that the following statement appear on course outlines:

“Plagiarism and cheating are serious offenses and may be punished by failure on the exam, paper or project; failure in the course; and/or expulsion from the university. For more information refer to the ‘Academic Dishonesty’ policy in Inside KSU.”