

University of Lethbridge – Department of Economics
ECON 3030(A) – Managerial Economics
Spring 2010

Instructor:	Lectures Michael G. Lanyi	Laboratories Michael G. Lanyi
Class Times:	M. W. F. 11:00 – 11:50	M. 13:00 – 13:50 & 14:00 – 14:50
Place:	B 660	B 650 B 650
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Should I continue to produce or shut down? What is the optimal level of production? What are the optimal levels of inputs to employ? What price should I ask for my product?

These are some of the most important decisions a manager has to make to maximize the profitability of the firm. Structured decision making requires the application of knowledge in a given area to making informed decisions. Managerial economics applies microeconomic theory to business decision making. Although economic theory is not the only tool used by successful managers, it is a powerful and essential tool. In the first part of the class we will develop several microeconomic tools: optimization theory, supply and demand analysis, forecasting, production and cost analysis. In the second part of the class we will bring these tools together to build a framework for making some of the most important decisions affecting the profitability of the firm: how much to produce and what price to charge. In order to apply the decision-making rules developed in managerial economics we will use algebra and calculus. We may also use EXCEL. I will review all of these tools and give you additional handouts for practice.

LEARNING OBJECTIVES

By the end of the course, students will develop skills to:

- Explain the role of economic theory in managerial economics.
- Describe the characteristics of various market structures such as perfect competition and monopoly.
- Know the difference between economic and accounting profit.
- Understand and graphically illustrate the way market forces determine prices and production in competitive markets.
- Learn the fundamental principles of optimization theory for finding the optimal level of business activities.
- Predict how revenue will be affected by a change in the price of a product by using the concept of price elasticity.
- Determine the optimal level of inputs and the cost of production in two different decision-making time frames: short run and long run.
- Analyze how managers make pricing and output decisions in competitive markets and monopoly.
- Understand how techniques of price-discrimination and multi-product pricing can increase profit.

LECTURE/LAB ATTENDANCE etc.

While attendance in class is not mandatory and absences will not factor into the final course grade, randomly circulated class list might provide bonus marks for attendance. Since not all materials are covered in the text book, students are strongly encouraged to attend lectures. **LECTURES AND LAB TIME ARE HOMOGENOUS AND INTERCHANGEABLE**. Certain materials will be posted to the class web page on WebCT. These are made available to assist you during lecture/lab. They are NOT a substitute for attending lectures. You are responsible for printing these (if required) and bring them to class. Out of respect for all students in the class, unnecessary disruption will not be tolerated. Missing lectures is not a valid excuse for inability to answer any exam question.

REQUIRED MATERIAL:

Managerial Economics, by Christopher R. Thomas and S. Charles Maurice, McGraw–Hill Irwin, 9th edition

Students are strongly encouraged to read the course material before attending lectures. Unless otherwise stated in class, students should read the entire chapter corresponding to the various topics outlined below. The course material with chapter references is as follows:

ORDER OF TOPICS

What is managerial economics?

Chapter 1. Managers, Profits and Markets

How do market forces determine prices and production in competitive markets?

Chapter 2. Demand, Supply, and Market Equilibrium

How do we find the optimal level of business activities?

Chapter 3. Marginal Analysis for Optimal Decisions

Why consumers choose to purchase one type of product over another?

Chapter 5. Theory of Consumer Behavior

How does a change in the price of a product affect revenues?

Chapter 6. Elasticity and Demand

How can we determine the optimal level of inputs and the cost of production in two different decision-making time frames: short run and long run?

Chapter 8. Production and Cost in the Short Run

Chapter 9. Production and Cost in the Long Run

How do managers make pricing and output decisions?

Chapter 11. Managerial Decisions in Competitive Markets

Chapter 12. Managerial Decisions for Firms with Market Power

How can techniques of price-discrimination and multi-product pricing increase profit?

Chapter 14. Advanced Pricing Techniques (If time permits)

COURSE REQUIREMENTS

1 – Readings

Most of the required readings are from the course textbook. I expect you to **READ THE TEXTBOOK ACTIVELY. THIS IS A PROBLEM-SOLVING COURSE.** The best way to study is to use pencil and paper and work through each argument by drawing diagrams, writing out the logic of the argument, working out the problems at the end of each chapter, and underlining key ideas. I expect you to read the relevant chapters BEFORE the material is covered in class.

In addition to the textbook chapters, I will hand out during the lecture (and make available on–line) newspaper articles that we discuss in class and supplemental material for practice. Any material given to you during the class is required reading and can show up on the exams.

As optional reading, I strongly encourage you to skim the Business Section of one of the major newspapers/magazines (i.e. *The Economist*, *Financial Times*, *The Wall Street Journal*). You will find articles relevant to your studies and career. Some of these and other magazines/newspapers/journals are accessible on–line through the library. Please let me know if you have difficulty finding them.

2 – Practice problem sets

I will provide practice problem sets that are intended to help you learn the material in this course and prepare for exams. These problem sets will not be graded but it is your responsibility to make sure that you understand the solutions that will be made available. If you have any questions or need further explanation I will be **very happy** to see you in my office (*See Office Hrs. on page 1*).

3 – Exams

There will be 6 Exams. They might include multiple–choice questions, true or false questions, and short answer/graph questions. A missed exam is a zero. **No make–up Exams!**

The content of the exams will be drawn from the lecture notes, readings, and the practice problem sets. Remember that any material given to you during the class is required reading and could show up on the exams.

Details: There will be 6 Exams and I'll drop the lowest mark. The Final Grade is calculated based on the 5 best marks with equal 20% weights. The exams will include multiple–choice questions, true or false questions, and short answer/graph questions.

The dates of these exams will be announced during the class as we proceed with the material. I'll give you at least one week advance notice.

Once again: **I DO NOT GIVE MAKE-UP EXAMS.**

Absence from Exam Policy:

Except under extremely unusual circumstances, if an exam is to be missed for any valid reason (and this does happen), you must give notification before the scheduled time of the exam by calling my office. This is then followed up with appropriate documentation (e.g., a medical certificate) within 48 hours of the missed exam. Failure to do one or both of these will result in a failing grade on the examination.

There will be NO make-up Exams! The weight of any missed Exam will be distributed over the UPCOMING exams but ONLY IF the above mentioned conditions are met.

Except under extremely unusual circumstances, no requests will be entertained for early or delayed exams.

Letter grades will be based on numerical final grades as follows:

A+	90 < A+ <=	C+	66 < C+ <=	70
A	85 < A <=	C	63 < C <=	66
A-	80 < A- <=	C-	60 < C- <=	63
B+	77 < B+ <=	D+	56 < D+ <=	60
B	73 < B <=	D	50 <= D <=	56
B-	70 < B- <=	F	0 <= F <	50

Students should keep all graded exams. In the case of disagreement between your recorded mark and the mark on your exam, the latter will be taken to be correct.