

# Managers, Markets & Prices

## MNGT 4601

(Core)

Associate Professor Chongwoo Choe

Session 1, 2007

Class Dates: 24-27, 29-31 Mar; 1 Apr  
Examination: 2 May 2007  
Payment Due: 23 February 2007

### Course aims / objectives:

The aim of this course is to provide managers with an understanding of the economic environment in which firms operate and to provide them with some of the analytical tools helpful for managerial decision making.

The course is split into three parts: markets, behaviour of firms, and strategy.

The first part covers several key ideas in microeconomics (the behaviour of buyers and sellers in the market). The central tool to understanding microeconomics is demand, supply and market equilibrium, which should be at every MBA's fingertips. In this part, demand and supply models are used to analyze markets, managerial decisions and various policy issues.

The second part looks more closely at the behaviour of firms. The firm's bottom line is the difference between revenue and cost. Determination of cost and the relevance of various cost concepts are first discussed. We then analyze the behaviour of firms in various market settings ranging from competition to monopoly. Additional topics include diverse pricing techniques and economics of information technology.

Strategy part is an introduction to game theory, and is motivated by the behaviour of firms in markets with a few players. Game theory is a tool to understand, predict and prescribe behaviour in strategically interdependent situations. This part will cover various topics such as strategic interaction, credible commitment, cooperation, coordination and reputation. In the end, you will learn to think strategically, which every manager should do, whether dealing with competitors or various stakeholders.

### Assessment:

The assessment for the course is based on the following weights:

Two class presentations (in group)	20%
Group assignment	20%
Final examination	60%

The group assignment is to be worked out and submitted in groups (one for each group). The same mark will be given to each member of a group. There will be a penalty for late submission.

### Course details / modules:

The following is a general outline of the course. Depending on circumstances, topics may be reshuffled or modified. Readings labelled 'course pack' can be found in the course pack.

#### Day 1: Saturday, 24 March 2007

(2.00pm – 8.00pm)

1. Introduction to economic thinking
2. Economic models and concepts
3. Analysis of demand and supply

#### Readings:

- Gans, J., King, S. and G. Mankiw, Chapters 2 (optional), 3 (optional), 4
- "Back to business school", The Economist, October 25, 2001 (course pack)
- "The great hollowing-out myth", The Economist print edition, Feb 19, 2004 (course pack)
- "The disappearing drinker", "Glug, glug, glut", from The Economist print edition (course pack)
- "Wine war", pp 36-42, BusinessWeek, September 3, 2001 (optional – course pack)

**Day 2: Sunday, 25 March 2007****(10.00am – 7.00pm)**

1. Elasticities
2. Market equilibrium and government policies I
3. Market efficiency and government policies II

**Readings:**

- Gans, J., King, S. and G. Mankiw, Chapters 5, 6, 7, 8, 9
- “The great Manhattan rip-off”, The Economist print edition, June 5, 2003 (course pack)
- “The case for flat taxes”, The Economist print edition, April 14, 2005 (course pack)
- Mansfield, E., “The cocaine epidemic” (for assignment – course pack)

**Day 3: Monday, 26 March 2007****(7:00pm – 10:15pm)**

1. The costs of production
2. Firms in competitive markets

**Readings:**

- Gans, J., King, S. and G. Mankiw, Chapter 13, 14

**Day 4: Tuesday, 27 March 2007****(7:00pm – 10:15pm)**

1. Monopoly
2. Topics in pricing

**Readings:**

- Gans, J., King, S. and G. Mankiw, Chapter 15
- “Microsoft Accused”, The Economist, 23 March 1998, pp 19-21 (course pack)
- “Bill Gates Replies”, The Economist, 13 June 1998, pp 17-19 (course pack)
- Mansfield E. and G. Yohe, Microeconomics, pp 345-358 (course pack)

**Day 5: Thursday, 29 March 2007****(7:00pm – 10:15pm)**

1. Economics of information technology
2. Monopolistic competition and oligopoly

**Readings:**

- Shapiro, C. and H. Varian, “Versioning: The Smart Way To Sell Information”, Harvard Business Review, November – December 1998, pp 106-114 (course pack)
- Gans, J., King, S. and G. Mankiw, Chapters 16, 17
- Benson-Armer, R. et al., “Global Beer: What’s on Tap”, The McKinsey Quarterly, 1999, pp 3-13 (course pack)

**Day 6: Friday, 30 March 2007****(7:00pm – 10:15pm)**

1. Introduction to game theory

**Readings:**

- Managers, Markets and Prices, Unit 6, pp 39-53 (course pack)
- Dixit, A. and B. Nalebuff, Chapters 2, 3, 4 (optional)

**Day 7: Saturday, 31 March 2007****(2.00pm – 8.00pm)**

1. Games with sequential and simultaneous moves
2. Nash equilibrium

**Readings:**

- Dixit, A. and B. Nalebuff, Chapters 2, 3, 4 (optional)
- Managers, Markets and Prices, Unit 6, pp 39-53 (course pack)
- Australian domestic airline industry (course pack)

1. Coordination and cooperation
2. Dynamic oligopoly
3. Strategic moves and credible commitment
4. Application to business strategies
5. Review of the course

**Readings:**

- Dixit, A. and B. Nalebuff, Chapters 5, 6 (optional)
- Besanko, D. et al., 309 – 312 (course pack)
- Choe, C., “Two for the Road: Lion Nathan and the Australian Beer Industry” (course pack)
- Brandenburger, A. and B. Nalebuff, “The Right Game: Use Game Theory To Shape Strategy”, Harvard Business Review, July – August 1995, pp 57-71 (course pack)
- Field, A. and A. Schulz, “Video Game Console Wars” (course pack)

**Course materials and text/s:**

**Books**

Required text:

Either: Gans, Joshua, King, Stephen & Gregory, N. Mankiw (2005), *Principles of Microeconomics*, 3<sup>rd</sup> edition (2<sup>nd</sup> edition is also fine), Thomson;

or: Gregory, N. Mankiw (2003), *Principles of Microeconomics*, 3rd edition, International edition.

Recommended reading for game theory – Dixit, Avinash K. and Barry, J. Nalebuff (1991), *Thinking Strategically*, Norton.

**Course Pack**

Course pack contains cases and other material that will be discussed in the lectures.

**Lecture Slides**

Hardcopies of lecture slides will be distributed so that you can save writing time during class and concentrate more on discussions.

**Optional Reading**

Some of the readings contained in the course pack are drawn from the following books. They are for your optional perusal. I also encourage you to make a habit of reading (or at least browsing) business/economics magazines and papers such as *the Asian Wall Street Journal*, *Business Week*, *Economist*, *Far Eastern Economic Review*, *Fortune*, *Harvard Business Review* and *McKinsey Quarterly*, among others.

- Besanko, D., Dranove, D., Shanley, M. and S. Shaefer (2003), *Economics of Strategy*, 3<sup>rd</sup> edition, Wiley.
- Mansfield, E. (1997), *Applied Microeconomics*, 2<sup>nd</sup> edition, Norton.
- Mansfield, E. and G. Yohe (2000), *Microeconomics*, 10<sup>th</sup> edition, Norton

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