This course provides an intensive overview of the economic analysis of firms, industries, and markets. The overriding general constraint is the scarcity of resources. We examine the rationales for decisions by individual buyers and sellers, as well as how these decisions are aggregated through markets. Among other things, we explore the forms that competition can take, the role of industry structure, and the influences of government policies.

The course is intended to provide the participants with tools and conceptual frameworks that they can use to better understand and analyze business decision-making and the market and government-policy environment within which businesses operate. In addition, the course develops analytical tools and logic that are useful in the study of finance, marketing and other business areas.

Some of the key concepts we will introduce include opportunity cost (which costs matter), economic incentives, optimizing within constraints imposed by scarcity, marginal analysis, strategic behavior (how to predict and respond to your rivals’ decisions), market efficiency (what does it mean for a market to work really well), asymmetric information (what happens when others know something you do not), and externalities (spillover cost or benefits, beyond direct market exchange).
Required Reading

Most of the required reading is in the textbook for the course:


Excerpts from several other books are also assigned. Students do not need to buy any of this other material. Hard copies of the excerpts will be distributed in class. (Note: These excerpts will only be available in hard copy—I will not post them on the Blackboard site.)

I strongly suggest that you read (perhaps quickly) the assigned reading before the class discussion of the topic. In the class discussion I will usually cover the concepts and issues that are most important and most challenging, reinforcing and extending what is in the required reading. I suggest that after the class session you review the assigned reading to solidify your understanding.

It is highly recommended to keep up with current economic developments, both for class purposes and for your own benefit. You can do this by reading the relevant articles in a good newspaper (e.g., Financial Times, Wall Street Journal, New York Times) or weekly magazine (e.g., Economist). You are encouraged to bring up relevant current events and issues for discussion in class, as time permits.

Problem Sets and Slides Used in Class

It is important that you develop the ability to use and apply the concepts and tools developed in the course. The best way to do this is to practice actively outside of the class sessions.

• Several problem sets will be distributed, with suggested answers attached. The problem sets are for your use in your efforts to master the material; answers need not be turned in.
• I will post examples of exam questions along with suggested answers, on the Blackboard web site.
• Questions and problems in the textbook are another source of practice items. If an entire chapter is assigned as required reading, then all questions and problems at the end of this chapter are relevant. If only a part of a chapter is assigned as required reading, then the course outline indicates the relevant questions and problems.

One way to get active with this material is to work with a few other people in the class (as a study group) to discuss the problem sets, the sample exam questions, and/or the text questions.

Hard copies of the slides used in the class sessions will be distributed at the beginning of the discussion of each topic.
Course Requirements and Evaluation

Evaluation is based on the following items, with weights noted.

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-term exam, session 6</td>
<td>36%</td>
</tr>
<tr>
<td>Final examination, session 12</td>
<td>36%</td>
</tr>
<tr>
<td>In-class group presentation</td>
<td>18%</td>
</tr>
<tr>
<td>Contributions to class discussion</td>
<td>10%</td>
</tr>
</tbody>
</table>

Final grades will follow the School’s guidelines for core courses: no more than 35% of the class will receive an A or A-. These guidelines were instituted to address student concerns that different sections of a course might be graded by different standards.

Exams

The midterm exam covers material in Sessions 1, 2, 3, and 4. The final exam covers material in Sessions 5 through 11 (assuming that you have already mastered the material in Sessions 1 through 4).

For the midterm exam, each participant is permitted to bring one sheet of paper (8½ by 11 inches) with notes on both sides, to refer to during the exam. For the final exam, each participant is permitted to bring two sheets of paper (8½ by 11 inches) with notes on both sides, to refer to during the exam.

For each exam, you may also use a calculator. But, you may not use any device that is capable of wireless transmission.

Otherwise, the exams are closed-book.

You may find the exams difficult. My goal in creating an exam is to provide you with a substantial challenge. I want to see how far you can go with the material. The best answers to exam questions often are based on the abilities:

- to apply concepts and tools
- to use judgment
- to develop new insights about problems that you have not seen before the exam
- to make connections to find the most relevant concepts and tools to use in your answers
- to answer the question that is asked, not some other question
**In-Class Group Presentation**

At the preterm orientation you formed study groups, and we will use these groups for one of the deliverables for the course. (If there is any question about group membership, please let me know.)

Each group will make a presentation to the class from one of the topics in a list that will be distributed during the second class session. You should view your presentation as an opportunity to hone your research and presentation skills, to apply concepts from this course (and possibly from other courses), to attack a real issue, and to show off your creativity.

Presentations will last no longer than 14 minutes. In addition, you will have 2-3 minutes for questions from the class. Evaluation will be based on three criteria:

- Informativeness
- Analysis and Interpretation
- Style

**Class Participation**

Class participation will be evaluated on the basis of contributions to class discussions. In the evaluation, quality is more important than quantity. In addition, the evaluation of class participation could be affected adversely by lack of attendance or creating negative classroom externalities.

**Responsibilities**

We are all adults.

- As the teacher I have the responsibility to organize and present the material and to facilitate your learning.
- As a student you have responsibility for your own learning.
- You are responsible for complying with Stern’s Honor Code. The Honor Code requires each student to act with integrity in all academic activities and to hold his or her peers to the same standard. No lying, cheating, or plagiarism of published work, work posted on the web, or work done by other students will be tolerated. Any suspected case will be referred to the School’s student judiciary committee.
- Actions that have negative effects on others will not be tolerated in the classroom. If you must arrive late or leave early, you must do so as quietly as possible. No cell phones should be audible during class sessions. If you want to use a laptop during class sessions, please take a seat in one of the back two rows.
Blackboard Web Site

I will maintain a web site for the course using Blackboard. The web site will include announcements, downloadable files with nearly all class handouts, and links to videos of the class sessions, as well as sample exam questions and suggested answers.

Contacting Professor Pugel

My office hours…I will also usually be available for quick questions in the classroom during the several minutes before the class session begins and after it ends, as well as during the brief break in the middle of the class session.

My office telephone is 212-998-0424. My fax is 212-995-4221. My e-mail is tpugel@stern.nyu.edu I usually respond quickly to e-mail messages, so this is an excellent way to contact me.

Teaching Assistant
SESSION 1: INTRODUCTION AND DEMAND ANALYSIS  
September 17

Topical Outline

Introduction  
Market demand  
Determinants of quantity demanded by household consumers [or by user firms]  
  Product price  
  Buyer income [or quantity of user-firm output]  
  Substitutes and complements  
  Preferences and the role of advertising [or technologies available to user firms]  
Responsiveness: elasticities  
Consumer surplus

Required Preparation

Baye, chapter 1.

Baye, pp. 36-46. [Relevant Problems on pp. 67-72 are 1, 4, and 5.]

Baye, pp. 74-95. [Relevant Problems on pp. 110-116 are 1, 2, 3, 4, 5, 6, 9, 11, 12, 13, 14, and 19.]

SESSION 2: COST ANALYSIS; PROCURING INPUTS; PRINCIPAL-AGENT ISSUES  
September 24

Topical Outline

Opportunity cost: explicit and implicit  
Generic cost analysis: short-run  
  Total, fixed, and variable costs  
  Average and marginal costs  
Generic cost analysis: long run  
  Economies of scale  
  Economies of scope  
  Learning economies  
The firm: acquiring and using resource inputs  
  Transaction costs  
  Specialized investments  
  Opportunism  
  Spot exchange, long-term contract, vertical integration
Principal-agent problems
   Ideal resolution and why it is unlikely
   Partial resolution

Required Preparation

Baye, pp. 157-158 and 177-191. [Relevant Problems on pp. 192-199 are 4, 6, 7, 8, 14, 15, 16, and 20.]

Baye, Chapter 6 (excluding Appendix).

SESSION 3: MONOPOLY: USING SELLER’S MARKET POWER
October 1

Topical Outline

Industry analysis
Monopoly: structural conditions
Pricing for profit maximization
   Uniform price to all buyers
   Perfect (or first-degree) price discrimination
   Group or segment (or third-degree) discrimination
   Indirect segment discrimination
   Two-part pricing
   Block pricing

Advertising

Required Preparation

Baye, Chapter 7.

Baye, pp. 278-292 and 301-303. [Relevant Problems on pp. 304-311 are 4, 8, 12, 13, 16, 17, 19, and 21.]

Baye, pp. 397-401, 404-419 (stop at the sub-section on “Transfer Pricing”), and 426 (Answering the Headline). [Relevant Problems on pp. 427-433 are 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, and 18.]
SESSION 4: COMPETITIVE INDUSTRY: NO MARKET POWER
October 15

Topical Outline

Perfect competition: structural conditions
Firm profit maximization
Individual firm supply curve
Short run market supply curve
Responsiveness: price elasticity of supply
Producer surplus
Demand and supply
   Competitive market equilibrium: short run
   Long-run competitive market equilibrium
   Dynamics: supply shift, demand shift; short run and long run
Product differentiation and monopolistic competition

Required Preparation

Baye, pp. 266-278. [Relevant Problems on pp. 304-311 are 1, 2, 9, 10, and 18.]
Baye, pp. 35 (Headline), 46-54, and 60-65. [Relevant Problems on pp. 67-72 are 3, 9, 10, 11, 12, 13, 15, 17, and 18.]
Baye, pp. 265 (Headline), 294-301, and 303 (Answering the Headline). [Relevant Problems on pp. 304-311 are 3, 5, 7, 11, and 14.]

SESSION 5: OLIGOPOLY AND STRATEGY: COMPETITION AMONG A SMALL NUMBER OF FIRMS
October 22

Topical Outline

Firm decision-making: strategy
Game theory
Defending sellers’ market power: barriers to entry
   Scale economies
   Absolute cost advantages
   Aspects of product differentiation
Required Preparation


Baye, pp. 316-318.

Baye, chapter 10.

**SESSION 6: EXAM; OLIGOPOLY (continued)**
October 29

First 95 minutes: Midterm exam (covers material in Sessions 1, 2, 3, and 4)

Topical Outline

Oligopoly pricing
- Rivalry: prisoners’ dilemma
- Coordination and repetition
- Limit-pricing, predatory pricing, penetration pricing

Oligopoly: non-price decisions
- Rivalry: first-mover advantage

Required Preparation

Baye, pp. 422-426.


**SESSION 7: ECONOMIC EFFICIENCY; GOVERNMENT POLICIES CAN DESTROY EFFICIENCY**
November 5

Topical Outline

Economic efficiency
- The effects of taxation: excise tax
- Price floor
- Price support
Price ceiling
International trade: gains from trade, winners and losers
Government policies that limit imports: effects of a tariff

Required Preparation

Baye, pp. 48-49 (sub-section on taxes) and 54-60. [Relevant Problems on pp. 67-72 are 2, 6, 7, 8, 14, 16, 20, and 21.]


SESSION 8: MARKETS MAY FAIL: MONOPOLY AND EXTERNALITIES
November 12

Topical Outline

Monopoly, competition laws, and regulation
Externalities
Resolving externalities
Internalize by expansion, acquisition, or merger
Joint private action
Government policies

Required Preparation

Baye, pp. 292-294. [Relevant Problem on pp. 304-311 is 6.]

Baye, pp. 509-520, and 539 (Answering Headline). [Relevant Problems on pp. 540-545 are 1, 2, 5, 8, 9, 10, 11, and 21.]


SESSION 9: MARKETS MAY FAIL: PUBLIC GOODS AND ASYMMETRIC INFORMATION
November 19

Topical Outline

Public goods
Asymmetric information, adverse selection, and moral hazard
Signaling, screening, and regulation

Required Preparation

Baye, pp. 450-456. [Relevant Problems on pp. 468-473 are 5, 8, 11, 13, 15, 16, 20, and 21.]
Baye, pp. 524-534. [Relevant Problems on pp. 540-545 are 4, 5, 12, 14, 15, and 19.]

SESSION 10: GROUP PRESENTATIONS
December 3

The early part of this session will be used to complete the topic from the previous session, as needed. Then, much of this session will be devoted to in-class group presentations.

SESSION 11: GROUP PRESENTATIONS
December 10

Most of this session will be devoted to in-class group presentations.

SESSION 12: FINAL EXAM
December 17

First 95 minutes: Final exam (focuses on material in Sessions 5 through 11; assuming that you know and can use all material from the first part of the course).

After the break: Two or three in-class group presentations.