Course Description

The goal of this course is to give you some insight into how markets work. The first part of the course starts by unpacking the classic demand-supply diagram and understanding the individual decisions of consumers and firms that underlie it. In the second part of the course, we focus on situations when, for one reason or another, markets don’t work efficiently. We will emphasize the importance of strategic behavior, as modeled by game theory.

Microeconomics (as the topic of this course is frequently referred to) is an important component of an MBA program. First, microeconomics focuses on specific dimensions of optimal firm decision making, such as pricing and entry and exit. Second, the formal economics perspective on business plays an important role in other areas of MBA study, such as finance and marketing. Finally, by studying public policy towards market failures, microeconomics highlights important factors conditioning firm strategy.

Some of the key concepts we will introduce include economic incentives, marginal analysis, opportunity cost (which costs matter), market efficiency (what does it mean for a market to work), strategic behavior (how to predict and respond to your rivals’ decisions), and asymmetric information (what happens when others know something you do not). Our experience with students in prior years is that much of this is intuitive. But much is not, and our hope is that the combination of theoretical structure and practical examples will be useful in the years to come. It will not make you a success on its own, but it might give you an edge a few times when it matters.

Prerequisites

You are expected to be comfortable with basic algebra and calculus, including systems of equations, logarithms and NPV calculations, and derivatives.
Course Materials

- Lecture notes. The notes review the theory relevant to most classes. In a few pages, they outline and explain the conceptual issues for the day, define terms, give examples, and (where it makes sense) work through numerical problems.

- Textbook. There is no required textbook for this course. In case you would like to read more about a particular topic on your own, the following are two of the books that you can check: Michael Baye’s *Managerial Economics and Business Strategy* (McGraw-Hill, 5th edition), and Samuelson and Marks’ *Managerial Economics* (Wiley, 4th edition). I will provide a handout that describes where to find particular topics in each of these textbooks.

- Slides. I will post the slides on Blackboard after each class, but keep in mind that there is much more to the class than what you see in the slides. I recommend that you take notes during the class as a supplement to the slides.

- Additional materials. On occasions, I will post additional materials on Blackboard, such as newspaper articles or research papers.

Deliverables and Grades

The various “deliverables” in the course are designed to develop different skills:

- Class participation. It is important to integrate what you learn and to be able to express it effectively. Moreover, there is a great deal of collective insight and experience in the class and we all benefit from sharing it. Thoughtful comments/questions count favorably; quality is more important than quantity. Attendance, punctuality, feedback about your classmates’ presentations, email correspondence, etc. are also important.

- Exams. There will be two midterm exams. Both exams will be taken during class. You are allowed to consult one (one-sided) page of notes during the exam and you are encouraged to bring a calculator for computations.

- Group activities (in groups of about 5 students) – see separate handout.
  - News analysis
  - Group projects
  - Presentation
• Problem sets. Six individual problem sets will be assigned and are required to be submitted on the dates indicated. They will be graded on the basis of a check, check-plus, or check-minus. You may consult with other students with respect to solving homework problems, but your homework submission should be your own submission, typed or handwritten by yourself. Submit your work at the beginning of each class – if you are going to be absent, ask a classmate to bring your work (if this is not possible, you may email your work to the TA).

• Classroom ‘experiments’. Students will participate in classroom activities that are intended to represent real-life economic situations, such as a market or an auction. These ‘experiments’ highlight several economic ideas and allow the students to gain a better understanding of the concepts that we will cover in class. Bonus points will be awarded depending on performance.

Your grade for the course will be based on your contributions to all of these deliverables, weighted as follows (relative importance of each grade to be determined)

Two mid-term exams (2 x 25%)
Three group projects (3 x 10%)
Group presentation
Class participation

Your performance in the problem sets and in the news analysis will serve as a tiebreaker if you are on the border between two grades. Occasionally, I may also increase or decrease your grade if I judge your participation to be either exceptionally valuable to the class or extremely poor. In the latter case, I will give you the chance to correct your behavior by giving you specific feedback during the course.

Final grades will follow the School’s guideline for core courses: no more than 35% of the class will receive A or A–. This guideline was instituted in response to student concerns that different sections of a course might be graded by different standards.

Dates and deadlines for all assignments can be found in the course outline handout.

Exams and re-grading

There are no make-up exams in this course, except under exceptional circumstances. You are responsible for checking the midterm exam dates and for avoiding any conflict with other commitments. During the exams, you are not allowed to consult class notes, books, or any other material. However, you may consult one page of notes (a standard-size sheet of paper written on one side). Questions about grading must be made in writing and no more than a week after the exams are returned.
Honor Code

The Stern community believes that honesty and integrity are necessary for rewarding academic and professional experiences. These qualities form the basis for the strong trust among members of the academic community (students, faculty, and administrators) that is essential for excellence in education. The Honor Code requires that each student act with integrity in all academic activities and endeavor to hold his or her peers to the same standard.

In this course, you may discuss assignments with other classmates (unless explicitly told not to do so, as will be the case, for example, in certain classroom experiments). On exams, you may bring in and consult one piece of paper with anything on it you like, but your answers should be entirely your own work.

Students with disabilities

If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

TA

TAs will hold weekly office hours and will be available to answer your questions by email. They will also help me grade problem sets, exams, presentations, class participation, etc. Please do not send an email to a TA that is not in your section.

Getting Help

There are times when a little help can get you past an obstacle. If you are stuck, send me (jesponda@stern.nyu.edu) or either the TAs (depending on your section) an email or stop by our offices. Our office hours and location will be announced the first week of class.

Unable to attend a lecture

Lectures will be videotaped for students unable to attend a particular lecture. This service is on a “best efforts” basis, because occasionally there is a glitch and the recording of a session does not work. In addition, watching the video is often a poor substitute for attending class, so I encourage you not to miss any class unless it is absolutely necessary.
List of topics

Market equilibrium. Demand and supply, comparative statics.

Demand. Consumer surplus; Sensitivity of demand to prices and income, elasticities, substitutes and complements; Estimating demand, identification problem.

Costs. Opportunity cost, sunk cost, and other cost concepts.

Monopoly pricing. Sources of market power; profit maximization and elasticity rule; deadweight loss and inefficiencies.

Advanced monopoly pricing. Price discrimination, market segmentation, self-selection schemes, versioning, damaged goods, two-part pricing, bundling; pricing durable goods; pricing time-inconsistent consumers.

Perfect competition. Market equilibrium; welfare analysis.

Externalities. Tragedy of the commons, congestion, market solutions.

Game theory. Strategies and payoffs; normal and extensive-form games; dominant and dominated strategies; best responses and Nash equilibrium; backward induction, commitment and credibility.

Strategic pricing. Hazards of price competition: the Bertrand trap and how to avoid it; pricing with differentiated products; price dispersion and obfuscation; switching costs; add-on pricing.

Non-price strategic competition. Product differentiation; spatial competition; entry and barriers to entry; contestable market hypothesis.

Collusion and antitrust. Tacit and explicit collusion; most-favored customer pricing; antitrust and regulation; resale price maintenance; double marginalization; evaluating the effect of mergers.

Auctions. Beauty contests, lotteries, and rent-seeking; Ascending and sealed-bid auctions; winner’s curse; auction design; internet auctions; internet advertising

Information Economics. Adverse selection and moral hazard, insurance markets; Signaling, screening, reputation.

Market Design. Procurement; Prediction markets; Matching markets (residency programs, school choice, kidney transplants)
Two-sided markets. Network effects; Examples: videogame platforms, advertising, payment card systems.