Course description:

This course will employ the marginal analysis and the consumers-firms-markets perspectives provided by economics principles to enhance your understanding of the business environments in which you will be working and the important strategic issues that arise in those environments. Issues of when and how markets work, when and how market failures can arise, and the consequences and opportunities for enterprises in those environments will be prominent.

*The course structure assumes that you have had some economics and calculus background. You should be comfortable with quantitative concepts and approaches and with graphical/geometric ways of presenting quantitative information, as well as with basic algebra and calculus concepts, including systems of equations, logarithms, NPV calculations, and simple derivatives.*

There are a number of important themes/concepts that will pervade the course:

-- Marginal analysis, incentives, and opportunity cost (all as related to the maximizing process), and elasticities as a measuring device
-- Strategic thinking (e.g., look forward and reason back; search for dominant and dominated strategies)
  -- The concept of equilibrium
  -- The presence or absence of market power, and its consequences
  -- The presence or absence of information, and its consequences
  -- The consequences of “spillovers” or externalities.

Class sessions will often begin with brief discussions of recent articles in *The Wall Street Journal, The New York Times*, and/or other publications that illuminate or are illuminated by the topics covered in the course. You are encouraged (though not required) to read one or more of these publications and to contribute to the discussions.

All class sessions will be videotaped and will be available digitally on a Stern server. The URLs for each class session will be posted within a day or two of the class session. The videos are not a substitute for class attendance and participation but can be used for review and for instances where missing a class is unavoidable.
Teaching assistants:

The teaching assistants for this course will be Cliff Choute (e-mail: clifford.choute@stern.nyu.edu) for Block 4 (T/Th 9:00am) and Abhi Gupta (e-mail: abhimanyu_gupta@stern.nyu.edu) for Block 6 (T/Th 10:30am). The specific times and places for their office hours will be announced and posted.

Course requirements/grading information:

Final grades for the course will be determined on the basis of the following components and weights:

Two mid-term exams (2 x 30%) 60%
Two group projects (2 x 10%) 20%
One group presentation 10%
Class participation 10%

The two mid-term exams will be closed-book exams, but you can bring a single 8-1/2" x 11" sheet of notes and a hand-held calculator to the exams. Copies of former exams (and former answer keys) are part of the course materials, and review sessions will be held prior to the mid-term exams.

The two group projects are the responsibility of each study group, and the grade for each group project applies to each group member. Although some specialty of effort is inevitable, all group members are responsible for their group’s final draft submitted, and you should (at a minimum) participate in reading and editing drafts of each of your group’s project reports. Similarly, group presentations are the responsibility of all members of each study group, and your participation is expected in gathering and assessing material, designing and checking the presentation, and participating in the presentation. A separate group presentations document discusses the group presentations in more detail.

Your participation in classroom discussions is important and will be graded. Thoughtful comments/questions count favorably; quality is more important than quantity. Advance review of class materials and readings is likely to help.

Six individual homework 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. Detailed answers will be distributed with the returned homeworks. Performance on the homeworks will serve as a “tie-breaker” for the final grade if you are otherwise on a borderline. 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 (typed is strongly preferred) and stapled. Submission of a hard copy in class is strongly preferred; but an e-mail attachment sent before class (in the event that you cannot attend class and cannot ask a classmate to bring the hard copy) is acceptable.

Final grades will follow Stern's guideline for core courses: no more than 35% of the class will receive grades of A or A-. 
Texts and other materials:

There is no assigned text for this course. The *strongly recommended* text for this course will be: *Managerial Economics and Business Strategy*, 7th edn., by Michael R. Baye (McGraw-Hill, 2010). *The text should be very useful for enhancing your understanding of the course. The text also has additional end-of-chapter questions/problems, which should provide extra practice and extra preparation for exams.* There is also a *Study Guide* for the text, which is sold separately. The text and the study guide are on sale at the NYU bookstore.

Course materials (including this syllabus, plus class notes, handouts, homework problem sets, group assignments, former exams, etc. -- but not the Baye text or the study guide) are available in the course binder and on Blackboard, Stern's course management system:

[http://sternclasses.nyu.edu/](http://sternclasses.nyu.edu/)

You can log in using your Stern ID and password and look in “My Courses” for “Firms and Markets”. Also available online on the Blackboard website are the answers to the end-of-chapter questions in the Baye text.

As additional materials (e.g., answers to homework assignments, to group projects, to midterm exams) become available, *they will be distributed in class and posted on the Blackboard website.*

Honor code:

As is true for all courses at Stern, you are expected to adhere to the Stern Honor Code.

Course outline and calendar:

Tues Sept 7: Introduction; key concepts  
Baye ch. 1; extra notes "Calculus Review"  
Class notes; be prepared to discuss “A CONSULTANT’S TASK”

Thurs Sept 9: NO CLASS SESSION

Tues Sept 14: Review of basic supply and demand; elasticities; equilibrium  
Baye ch. 2, 3 (skip pp. 95-106)  
Class notes

Thurs Sept 16: Demand in greater depth: utility maximization; indifference curves; consumer’s surplus  
Baye ch. 4 (and pp. 44-46)  
Class notes  
Individual homework #1 due
Tues Sept 21: Supply in greater depth (I): production analysis; economies and diseconomies of scale; demand and supply for inputs
   Baye ch. 5 (pp. 155-175, 199-201 only)
   Class notes

Thurs Sept 23: Supply in greater depth (II): cost analysis; the importance of marginal cost; horizontal, vertical, and scope economies/diseconomies; the role of technological change; the learning curve
   Baye ch. 5 (pp. 175-190 only), ch. 6 (skip pp. 219-225)
   Class notes
   Individual homework #2 due

Tues Sept 28: Monopoly and monopsony
   Baye ch. 7, ch. 8 (pp. 277-293 only), ch. 14 (pp. 507-517 only)
   Class notes

Thurs Sept 30: Pricing with market power: market segmentation, price discrimination
   Baye ch. 11 (pp. 395-399, 402-419 only)
   Class notes; be prepared to discuss “Variable Pricing and the New York Mets” (mini-case)
   Group project #1 (Cinemex) due

Tues Oct 5: Pricing with market power: extensions
   Class notes; be prepared to discuss “AIRLINES AND THE VALUE OF RESTRICTIONS”
   and “THE GAINS FROM ‘BUNDLING’”
   Individual homework #3 due

Thurs Oct 7: Perfect competition: conditions in commodity markets with lots of producers
   Baye ch. 8 (pp. 264-277 only)
   Class notes

Tues Oct 12: Monopolistic (imperfect) competition
   Baye ch. 8 (pp. 293-302 only)
   Class notes
   Individual homework #4 due

Thurs Oct 14: Review
   Review recent first mid-term exam and answer key; come with questions

Tues Oct 19: First mid-term exam

Thurs Oct 21: Game theory and strategic analysis: basic concepts
   Baye ch. 10
   Class notes

Tues Oct 26: Game theory and strategic analysis: extensions
Class notes

Thurs Oct 28: Oligopoly: basic concepts; the consequences of mutual interdependence; some “simple” solutions
Baye ch. 9 (pp. 313-316, 334-341 only; skim pp. 316-334), ch. 11 (pp. 419-423 only)
Class notes

Class notes

Tues Nov 2: Oligopoly: the prisoner’s dilemma applied; strategic extensions
Class notes; be prepared to discuss “THE MONOPOLIST AND THE STRATEGIC ENTRANT”

Class notes

Thurs Nov 4: Uncertainty and risk; introduction to asymmetric information: agency, moral hazard, adverse selection, etc.;
Baye ch. 12 (pp. 433-447 only)
Class notes

Tues Nov 9: Asymmetric information applied: output markets; insurance markets; input (labor) markets
Baye, ch. 6 (pp. 219-226 only), ch. 12 (pp. 448-454 only), ch. 14 (pp. 526-530 only)
Class notes; be prepared to discuss “AN EXAMPLE OF THE ADVERSE SELECTION PROBLEM IN INSURANCE”
Individual homework #5 due

Thurs Nov 11: Asymmetric information applied: input (capital) markets
Class notes; article, “Financial Services in the U.S.: The Next Decade”
Group project #2 (Newspaper wars) due
Group presentations: (early)

Tues Nov 16: Auctions; why auctions? types of auctions; properties of auctions
Baye ch. 12 (pp. 433, 454-465 only)
Class notes; be prepared to discuss “BIDDERS’ KNOWLEDGE/INFORMATION AND THE ‘WINNER’S CURSE’ IN AUCTIONS”
Group presentations: (early)

Thurs Nov 18: Externalities and public goods; why they arise; private and social problems; strategic responses
Baye ch. 14 (pp. 518-526 only)
Class notes; article, “Saving Fisheries with Free Markets”
Individual homework #6 due
Group presentations: (early)

Tues Nov 23 & Thurs Nov 25: NO CLASS SESSIONS

Tues Nov 30: Externalities applied: intellectual property; networks: their importance for industry structure and behavior; the importance of externalities; of economies of scale.
Baye, pp. 163, 281, 283, ch. 13 (pp. 493-499 only);
Class notes: article “Network Economics & Public Policy”
Group presentations: (early)

Thurs Dec 2: Review
Review recent second mid-term exam and answer key; come with questions

Tues Dec 7: Second mid-term exam

Thurs Dec 9: Group presentations: (late)

Tues Dec 14: Group presentations: (late)