

**ST. JOHN'S UNIVERSITY
NEW YORK**

THE PETER J. TOBIN COLLEGE OF BUSINESS

Department of Economics and Finance

SYLLABUS

ECO 4340: Managerial Economics CRN: 70410
Fall 2020: T, F, 10:40 am – 12:05 pm; BH 224

This is a hybrid course. The class is divided into two sections, A and B. Section A will attend in-class the first week, B the second, etc. Others are taking the course fully remotely. Zoom or another platform will be used to facilitate the learning of those not attending class.

Instructor: Cameron M. Weber, PhD
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DEPARTMENT: Economics and Finance

COURSE NAME: Managerial Economics

COURSE NUMBER: ECO 4340

COURSE DESCRIPTION

Managerial economics explores the potential contribution of economic theory and analysis to the formulation of business policies and decisions. The course concentrates on those economic concepts which can be applied to management problems, especially those related to the theory of the firm and market structure, production and cost decisions, the rationale for regulation, and strategic behaviour under monopolistic competition.

We also discuss the economics of market externalities and public goods, networks, asymmetric information, moral hazard and adverse selection during the semester, in order to give students a solid economics foundation to understand our business environment.

PREREQUISITES: ECO 1302 and MTH 1320

CREDITS: 3 credit hours

OBJECTIVES OF THE COURSE

Students will learn to:

1. Study the market structure facing a firm in order to understand the competitive environment.
2. Analyze the application of microeconomics to firm and policy behaviour.
3. Define the differences between perfect competition, monopolistic competition, and oligopoly, and in relation to the price elasticity of demand.
4. Understand different approaches to firm price-setting based on market conditions
5. Discover the sources of monopoly-power which can bring above-normal profits
6. Learn how to reduce market externalities in order create economic wealth

7. Explore the economics of networks and intellectual property
8. Evaluate firm regulation in a political economy context
9. Apply economic thought to analyze and understand current events from a business and citizen perspective
10. Learn of other schools of economic thought different from mainstream economics in order to understand the differing views of societal economic organization and the role of the firm that these perspectives offer

RESOURCES AND READINGS

Main Text (required)

Ivan Png. *Managerial Economics*, 5th Edition, NY: Routledge.

Students should stay current on topical events in the economy by reading the *Economist* magazine, the *New York Times*, the *Wall Street Journal* and/or the *Financial Times* and/or industry publications relating to specific areas of study in order to better enable class comprehension and discussion. In addition, students should be familiar with all materials on the instructor's website related to the course.

References

Anat R. Admati (2017). "A Skeptical View of Financialized Corporate Governance", *Journal of Economic Perspectives* 31 (3): 131-150, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992751

Benjamin M. Blau, et al. (2017)). "Lobbying, political connections and emergency lending by the Federal Reserve", *Public Choice*, <https://link.springer.com/article/10.1007/s11127-017-0446-8?no-access=true>

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Robert H. Bork (1993). *The Anti-Trust Paradox*, 2nd Edition, NY: Free Press.

Jeffrey Brown and Jiekun Huang (2017). "All the President's Friends: Political Access and Firm Value", <https://www.cato.org/publications/research-briefs-economic-policy/all-presidents-friends-political-access-firm-valu>

James Buchanan (1969). *Cost and Choice: An Inquiry in Economic Theory*, Chicago: Markham Publishing Co.

Luis Cabral (2000). *Introduction to Industrial Organization*, Cambridge, MA: MIT Press

Ronald Coase (1937). “Nature of the Firm”,
<http://cameroneconomics.com/coase%201937.pdf>

Ronald Coase (1960). “The Problem of Social Cost”,
<https://www.law.uchicago.edu/files/file/coase-problem.pdf>

Keith Collins. (2018). “Net Neutrality Has Officially Been Repealed. Here’s How That Could Affect You”, <https://www.nytimes.com/2018/06/11/technology/net-neutrality-repeal.html>

Thomas J. DiLorenzo (1982). “Utility Profits, Fiscal Illusion, and Local Public Expenditures”, *Public Choice* 38 (3): 243-252.

Thomas J. DiLorenzo (1985). “The Origins of Anti-Trust: An Interest-Group Perspective”, *International Review of Law and Economics*, 5 (1): 73-90,
https://econpapers.repec.org/article/eeeirlaec/v_3a5_3ay_3a1985_3ai_3a1_3ap_3a73-90.htm

Thomas J. DiLorenzo (1996). “The Myth of Natural Monopoly”,
<https://mises.org/library/myth-natural-monopoly>

Lee Drutman (2015). *The Business of America is Lobbying: How Corporations Became Politicized and Politics Became More Corporate*, Oxford: OUP.

Gérard Duménil and Dominique Lévy (2018). *Managerial Capitalism, Ownership, Management and the Coming New Mode of Production*,
<https://www.plutobooks.com/9780745337531/managerial-capitalism/>

Economist (2017). “What if large tech firms were regulated like sewage companies?: Being treated as utilities is Big Tech’s biggest long-term threat”,
<https://www.economist.com/business/2017/09/23/what-if-large-tech-firms-were-regulated-like-sewage-companies>

Economist (2018a). “FAANGs v BATs: America’s tech giants vie with China’s in third countries: The most titanic commercial battle in the world”.

Economist (2018b). “Special Report: Competition”, Nov. 17.

Milton Friedman (1962, 1982). “Monopoly and the Social Responsibility of Business and Labor”, in *Capitalism and Freedom*, Chicago: University of Chicago,
<http://faculty.wvu.edu/dunnc3/rprnts.friedman.dunn.pdf>

John Kenneth Galbraith (1998). *The Affluent Society*, Fortieth Anniversary Edition,

NY: Houghton Mifflin Company.

Roger Garrison (1986). "Hayekian Trade Cycle Theory: A Reappraisal", *Cato Journal*, <https://www.auburn.edu/~garriro/c4refah.htm>

Oliver Hart (2011). "Thinking about the Firm: A Review of Daniel Spulber's *The Theory of the Firm*", *Journal of Economic Literature* 49 (1): 101-113, <https://scholar.harvard.edu/files/hart/files/reviewofspulberstheory-firm.pdf>

Friedrich Hayek (1945). "The Use of Knowledge in Society." <http://www.econlib.org/library/Essays/hykKnw1.html>

Thomas Hazlett (2017). "We could have had cell phones 40 years earlier", <https://fee.org/articles/we-could-have-had-cell-phones-40-years-earlier/>

Anne O. Krueger (1974). "The Political Economy of the Rent-Seeking Society." <http://cameroneconomics.com/krueger%201974.pdf>

Thomas Lambert (2015). "Lobbying on Regulatory Enforcement Actions: Evidence from U.S. Commercial and Savings Banks", https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2517235

Richard N. Langlois (2013). "The Austrian Theory of the Firm: Retrospect and Prospect," <https://organizationsandmarkets.com/2008/04/19/langlois-paper-on-the-theory-of-the-firm-and-austrian-econ/>

Brink Lindsey & S. M. Teles (2017). *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality*. Oxford University Press.

Alfred Marshal (1920). *Principles of Economics*, New York: MacMillan Co.

Paul Matzko (2018). "The Real Reason Facebook and Netflix Support Net Neutrality", FEE.org

Nolan McCarty (2013). "Complexity, Capacity, and Capture." In *Preventing Regulatory Capture: Special Interest Influence and How to Limit It*, edited by Daniel Carpenter and David Moss, Cambridge: CUP.

William Niskanen (1971). *Bureaucracy and Representative Government*. London

and NY: Routledge.

G. Warren Nutter and Henry Adler Einhorn (1969). *Enterprise Monopoly in the United States: 1899-1958*. Columbia University Press.

Jeffrey Pompe, Lawrence Tamburri and Johnathan Munn (2018), “Double Jeopardy: More Flexible Subscription Tickets and Higher Ticket Prices”, <https://economiststalkart.org/2018/05/09/double-jeopardy-more-flexible-subscription-tickets-and-higher-ticket-prices/>

Jonathon Rothwell (2017). “Myths of the 1 Percent: What Puts Some People at the Top”, *New York Times*, November 24, available on instructor’s website.

Tibor Scitovsky (1976). *The Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction*, Paperback Edition, New York: Oxford University Press.

Adam Smith (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*, <https://www.econlib.org/library/Smith/smWN.html>

Ramadan Jose Aly Tovar (2018). “Divide and Conquer: Price Discrimination vs. Flat Rate in Music Streaming Services, Working Paper”, available on instructor’s website.

Herman Trabish (2018). “Is a residential three-part rate the way to a modern grid or bad news for utility customers?: Policymakers struggle toward common ground on new rate designs”, <https://www.utilitydive.com/news/is-a-residential-three-part-rate-the-way-to-a-modern-grid-or-bad-news-for/518856/>

US GAO (2018). “Event Tickets: Market Characteristics and Consumer Protection Issues”, <https://www.gao.gov/products/GAO-18-347>

Wall Street Journal (2014). “Regulatory Capture Theory 101”, October 16, available on instructor’s website.

Cameron Weber (2010). *Economics for Everyone*, 2nd Edition, Brooklyn: Cameron Weber Publishing, available on instructor’s website.

Cameron Weber (2012). “Absentee Ownership in America”, available on instructor’s website.

Cameron Weber (2017a). “The ‘App Economy’ versus Vested Interests,” *Global*

Business Research Symposium Proceedings 11, available on instructor's website.

Cameron Weber (2017b). "What's Good for General Motors is Bad for America: A Case Study on John Heskett's Design-Oriented Theory of Value in Retrospect," *She Ji: The Journal of Design, Economics, and Innovation*, available on instructor's website.

Cameron Weber (2019). "When is a Monopoly not a Monopolist? A Case-Study on Ticketmaster," *Global Business Research Symposium Proceedings 13*, available on instructor's website.

Oliver E. Williamson (1985). *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*,
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1496720

Elizabeth Wurtzel (2014). *Creatocracy: How the Constitution Invented Hollywood*. Brooklyn: Thought Catalog Books.

Luigi Zingales (2017). "Towards a Political Theory of the Firm",
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2999910

Youtube.com videos as supplementary materials

F.A. Hayek and James Buchanan on positivism versus pattern prediction
<https://www.youtube.com/watch?v=kzNpD9DXU2wF.A>.

Hayek and Robert Bork on "intellectuals", positivism and anti-trust regulation,
<https://www.youtube.com/watch?v=km0-La2gGt4>

"Chicago's Best Ideas: Theory of the Firm", U Chicago Law School, available through instructor's website

David Friedman on "Price Theory",
<https://www.youtube.com/watch?v=VKG9jPylGAg&t=95s>

Hardfire TV (various). "Why trade barriers harm everyone while helping only certain people", "The problem with macroeconomics", "Economics of Disasters",

“A simple explanation for the business cycle”

METHODS OF INSTRUCTION

- Lectures and related readings
- Discussion of current events
- Exams and review of exams
- Group research and presentation
- Writing assignments
- Review of text material

STUDENT PERFORMANCE EVALUATION:

Class attendance and participation	10%
Homework essays	10%
Quiz on Supply and Demand	15%
Group research and presentation	15%
Midterm Exam	20%
Final Exam	<u>30%</u>
	100%

The course meets three hours per week for 14 weeks. Class preparation and readings outside of class should require at least three hours of study for each hour of class time.

GRADING PROTOCOL

Class attendance and participation: 10%

For the class participation grade students are encouraged to discuss issues based on the readings for each class period, course-relevant topics relating to current events and to ask clarification for lecture ideas as presented in class (there are no irrelevant questions). It is preferred that students ask clarifying questions during class, both on course subject matter as presented and course grading procedures so that other students can benefit from discussions / clarifications on general course content.

All discussions initiated by students will add to a student’s grade for class participation. To get an “A” for this portion of the grading protocol a student must participate in class discussion.

Homework: 10%

There are two homework assignments. For these assignments students will choose one “story” from the Foundation for Economic Education (FEE.org) to write about. The writing assignment should be about 250 words (use a word count and show it on the assignment) and submitted on the due-date via the email. The assignment should address, 1) how does the story relate to managerial economics?, 2) why did the student choose this story?, and 3) does the student agree with the author, why or why not?

Quiz on Supply and Demand: 15%

There will be one quiz on October 30. Class will not be held that day and the quiz will be taken remotely. The quiz will cover one or more of the Supply and Demand scenarios as discussed in-class.

Group research and presentation: 15%

There will be 4 student groups who will do research on a specific topic in managerial economics and present their findings to the class. The group assignments are available on the instructor’s website. Presentations will be the last two days of class (November 13 and 17), and should be between 15 and 20 minutes long, with a group-lead Q&A session after each presentation. The groups should have at least four scholarly sources (wiki and FEE can count in this case for one source each, think-tanks can also be used as sources as well as can class lectures). Sources should be shown during and at the end of the presentation.

Half of the group grade will come from the instructor and half from students. Turning in a peer-review also adds to the class participation grade for the semester. The peer review grade should be according to the Grading Policy as listed below.

Exams: 50%

The Midterm Exam will be 25 T/F and multiple-choice questions and will count as 15% of the course grade. The midterm will be on September 28, there will be no class that day and the exam will be taken remotely. The Final Exam will be held remotely during assessment week as determined by the university. The final will be 40 T/F and multiple-choice questions and will count as 30% of the course grade.

Grading Policy:

“A”: 91-100% of possible points for the semester, “A-“: 90 points, “B+”: 89 points, “B”: 81-88 points, “B-“: 80 points, “C+“: 79 points, “C“: 71-78 points, “C-“: 70 points, “D” 60-69 points. Everything below 60 points is an “F”.

Class Rules:

There will be no phone or txt use during class; computers (and tablets etc.) are acceptable if they are used to keep notes on class discussion and/or to do research in order to participate in class discussion. There will be no prolonged “side conversations” during class as this distracts from the learning of others. Anyone who persists in disrupting the class should leave the classroom.

There will be no make-up exams, quizzes or homework assignments. Missed deadlines due to documented medical or other emergencies mean that we re-weight the grading schedule to account for missed work. Students must submit documentation for missed deadlines to the instructor as soon as possible after missed work, failure to do so will mean that the student will lose the points for the missing grade. This is a hybrid class using zoom or another platform. See the instructor’s website and class announcements for further information on hybrid learning.

TOPICS AND REFERENCES

The following topics will be discussed in class in the order that they appear here (there may be exceptions based on current events and how the semester unfolds). The Png textbook chapter(s) cross-referenced to each topic are from the 5th edition. Students are encouraged to study these topics and references before they are presented in class so that they may participate in class discussion and understand the material as it is being presented.

Topic	Reference
I. Review of Relevant Microeconomics	Chs. 5, 6
A. Supply and Demand, equilibrium, assumptions for perfect competition	Lecture
B. Consumer & Producer Surplus as value-added	Ch.1, Lecture
C. Why the firm? Information and other transaction costs	Coase 1937
D. Capital structure and firm organization, vertical and horizontal integration	Chs. 1, 6 Bork 1993
E. Capital structure and firm organization, vertical and horizontal integration	Chs. 1, 6 Bork 1993
G. Price elasticity of demand (ϵ_d), long- and short-run, OPEC example, Niskanen on rent-seeking	Chs. 2, 3 Niskanen 2008
F. Market structure: Continuum from Perfect Competition to Monopoly, with needed assumptions	Lecture Nutter etal, 1969
G. Real world: monopolistic competition and imperfect markets	
H. Regulation, i. new economy v. vested interests, ii. min. wage & unions, iii. trade barriers & rent-seeking	Weber 2017a Lecture, Hardfire TV

II. Introduction to Managerial Economics	Chs. 1, 2
A. Decision-making	
1. Average v. marginal benefits and costs, substitutability, versus 'asset-specificity'	Williamson 1985
2. Opportunity cost	Buchanan 1969
3. Marginal Productivity Theory of Distribution (MPTD)	Lecture
4. Bounded rationality (sunk costs, framing, status quo bias)	
5. Subjective entrepreneurial awareness	
6. Time-preference, discounting & Net Present Value	
7. "Markets" v. "industries" and capital structure, introduction to firm decision-making	Lecture
8. Transactions costs, make or buy, outsourcing, blockages, bottlenecks	
III. Competitive Markets	Chs.2, 6
A. Demand	Lecture
1. Revealed preferences, aggregating demand, demand curve shifts, econometrics	Buchanan&Hayek youtube
2.General v. Partial Equilibrium	
a. One person consumption (and firm) demand	
b. Aggregated consumption (and firm) demand	
3. Firm demand	Lecture
a. factors and structure of production	
b. substitutability, LF market, interest rates and business cycle effects on firm demand	Garrison 1986 Weber 2010 Hardfire TV on macro Skyscraper index
c. Firm price theory	David Friedman youtube
4. Elasticity	Ch. 3, Lecture
a. Price elasticity of demand (ϵ_d), normal & addictive goods	
b. Price elasticity, luxury goods, example of similar sales tax on normal, luxury goods	
c. Calculating own-price elasticity	
d. Elasticity and forecasting	
B. Supply	Chs. 4, 6, Lecture
1. Supply curve & shifts	
2. Cost of production, subjective v. objective costs	Buchanan 1969 Marshall 1920
3. Marshallian cost curves (short-run)	
a. Perfect competition ($\epsilon_d > 1$)	
b. Monopolistic competition ($\epsilon_d < 1$) and profit-maximizing production	

- c. First Mover Advantage (FMA, or, “experience curve”) and above-normal profits under perfect competition absent regulatory capture
 - d. Cost-based firm supply in short-run
 - 4. Price-elasticity of supply Ch. 4
 - C. Equilibrium Ch. 5, Lecture
 - 1. Kirzner critique of equilibrium Lecture, Kirzner 2011
 - 2. Relationship between S & D elasticities
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- IV. **Economic Efficiency and Theory of the Firm** **Ch. 7, Lecture**
 - A. Econ profit = accounting profit – opportunity cost plus sunk cost (one period model, ie no planning)
 - B. First-mover (dis)advantage and the theory of the firm: Lindsey & Teles 2017 from innovation to rent-seeking Matzko 2018, FEE
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- V. **Monopoly (Monopolistic Competition) & Market Power ($\epsilon_d < 1$)**
 - A. Sources of market power Ch. 8, Lecture
 - 1. Market structure continuum (redux) & assumptions
 - a. Product differentiation & innovation (R&D, FMA)
 - b. Superior consumer-oriented design Weber 2017a
 - c. Economies of scale, high-fixed costs, “natural monopolies”, “last-mile” problem Economist 2018a
 - d. Regulation, rent-seeking & barriers to competition Krueger 1974
 - e. Advertising & promotion, novelty, experience & normal goods Scitovsky 1976
Galbraith 1998
 - f. Intellectual property (IP) & trade secrecy
 - 1. Neoclassical model of IP Lecture
 - 2. Debate over IP Boldrin & Levine 2008
Wurtzel 2014
 - 3. “Patent thickets” & Apple-Qualcomm case Weber 2019
 - B. Profit Maximization Ch. 8, Lecture
 - 1. Profit-maximizing scale & Marshallian cost curves
 - C. Contestable markets v. market power Chs. 8, 15
 - 1. Monopoly, monopsony, duopoly, oligopoly, competition removes market power along stages of production, bottlenecks & structural regulation, privatization Lecture
 - 2. Measuring market power
 - a. Definitions, disaggregated to stages of production, vertical v. horizontal integration Bork 1993

b. Simple aggregation Lecture, Cabrell 2000

$$C_m = \sum_{i=1}^M S_i$$

c. Herfindahl index

$$H = \sum_{i=1}^n S_i^2$$

VI. Pricing

- A. “What market will bear” v. Marshallian cost-curves Ch. 9, Lecture
1. Perfect competition ($\epsilon_d \rightarrow \infty$); firm is “price-taker”
 2. Monop. competition ($\epsilon_d \rightarrow 0$); firm is “price-maker”
 - a. Price-setting when MC & ϵ_d are known
 - b. “Cannibalization”
 - i. Price discrimination v flat rate in music streaming Tovar 2018
 - ii. Orchestras & subscription sales Pompe etal 2018
 - c. Event ticket sales Weber 2019

VII. Market Externalities

- A. Positive & negative spillovers Ch. 12, Lecture
1. Redress of negative spillovers: “command and control v. property rights and Coase Theorem” Lecture, Hayek 1945
Coase 1960
 2. Positive spillovers: subsidies?, who decides and how, rent-seeking Adam Smith 1776
Hayek 1945, Galbraith 1998
- B. Economics of networks Lecture

VIII. The Firm: Incentives and Organization

Ch. 14, Lecture

- A. Forms of business enterprise
1. Sole proprietorship, partnership, corporation
 2. Debt and equity capitalization
- B. Why, and what is, the firm? Coase 1937, Williamson 1985
1. Transactions cost approach U Chicago youtube
 2. Capital structure approach Langlois 2013
 3. Survey of mainstream economics of the firm Hart 2011
- C. Moral Hazard
1. Tax incentives, debt capitalization, size of the firm, economic efficiency and absentee ownership Lecture
Weber 2012
Duménil, Lévy 2018
 - a. Vertical integration
 - b. “Outsourcing” (make or buy)
 - c. Mergers and acquisitions

2. Executive compensation & incentive compatibility; monitoring, performance pay, performance quota, employee ownership & residuals

IX. Political Economy and the Firm

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| A. The firm and its political power | Zingales 2017, Admati 2017 |
| 1. Rent-seeking examples | Brown & Huang 2017
Blau 2017, Lambert 2015 |
| 2. Asset specificity example | Weber 2017 |
| 3. Firm as profit-maximizer | Friedman 1982, Drutman 2015 |
| B. Regulation and Agency Capture | Ch. 15, Lecture |
| 1. Examples, asymmetric info | Hayek 1945 |
| a. SEC and Madoff | Lecture, McCarty 2013 |
| b. Bond ratings and the Great Recession | |
| c. Dept. of Interior and Deepwater Horizon | |
| d. Affordable Care Act of 2010 | Lecture, <i>WSJ</i> 2014 |
| e. Electrical regulation, CA wildfires, and returns to equity | |
| 2. Continuum of economic and paternalistic roles for the state | Weber 2010 |
| C. Corporate welfare and “economic development” | Lecture |
| 1. Tax subsidies for ‘job creation’ & beggar-thy-neighbor | |
| 2. Barclay’s Center & Amazon HQ2 as examples | |
| D. Anti-trust (competition) regulation | Bork, Hayek youtube |
| 1. Consumer protection or political power? | |
| a. Who decides: consumer sovereignty or experts? | |
| 2. The special interest origins of “anti-trust” | DiLorenzo 1985 |
| 3. The case of the new economy | Economist 2017, 2018b |

X. Natural Monopolies

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|---|--|
| A. Public goods and ‘rivalness’ | Ch. 15, Lecture
Lecture, Png Figure 12.3 |
| B. High ‘last mile’ fixed costs, economies of scale, congestion & market disruption | Text: Figure 12.3 |
| C. Critique of “natural” monopoly theory | DiLorenzo 1996
DiLorenzo 1982 |
| 1. As rent-seeking | |
| 2. As fiscal illusion | |
| D. Regulation of Natural Monopolies | Hayek 1945 |
| 1. Price regulation; marginal cost and average cost pricing (“cost plus”) | |
| 2. Rate-of-return regulation | Economist 2017 |
| 3. Structural regulation; upstream, downstream | |

E. Case studies

1. Net Neutrality: Is the internet a natural monopoly?
2. Electricity & peak pricing

Gattuso 2018
Collins 2018
Trabish 2018

Class group presentations, peer reviews

Final Exam

SUMMARY OF CLASS SCHEDULE:

First day of class: August 25, 2020

Homework One due: September 1

Homework Two due: Sept. 8

Midterm Exam: Sept. 29 (no class, exam is remote)

Quiz on Supply and Demand: Oct. 23 (no class, quiz is remote)

“Election day”, no class: November 3

Group presentations (remotely during class-time): Nov. 13 and 17

Study/Snow Day: Dec. 1

Final Exam/Assessment week: Dec. 2-8, held remotely