

Academic Year: ( 2023 / 2024 )

Review date: 27-04-2023

Department assigned to the subject: Business Administration Department

Coordinating teacher: ORTEGA DIEGO, JAIME

Type: Compulsory ECTS Credits : 3.0

Year : 1 Semester : 1

**REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)**

There are no pre-requisites for this course.

**OBJECTIVES**

1. Perform basic economic analyses of production and pricing decisions.
2. Perform basic economic analysis of market competition.
3. Identify economically relevant variables in organizational problems that involve potentially many aspects.
4. Understand organizational problems in terms of the incentives of the parties involved.

**DESCRIPTION OF CONTENTS: PROGRAMME**

This course presents the main microeconomic tools that are useful to inform business decision making. These tools are relevant to production and pricing decisions and are also important to understanding the market environment in which firms operate. The main emphasis of the course is in developing analytical skills to understand a range of problems commonly faced by firms and the costs and benefits of alternative solutions that managers can consider.

Each 3-hour session will have two parts. The first part will be structured as a participative lecture and its main objective will be to present problems for which economics has provided interesting insights, to explain the solutions suggested by economics, and to understand their applicability to business. During this part of the session, you are encouraged to participate asking clarification questions and relating your own work experience to the topics.

The second part of the session will be a discussion session. We will generally discuss a case study, except for two sessions in which we will discuss the results of a game played during the previous days. In both cases, the second part of the session will be related to the contents of the previous week's lecture.

After each session, you are expected to (a) study the class notes, making sure to understand the concepts and analytical tools; and (b) carefully read the case material to be discussed in the following session or (in case of games) (c) actively participate in the game to be played during the week.

There are ten topics covered in this course, corresponding to the ten weeks in which the course takes place:

**1. ECONOMICS, MARKETS AND ORGANIZATIONS**

Readings:

- Milgrom and Roberts (1992), Chapter 1.
- Brickley, Smith, and Zimmerman (2009), Chapters 2-3.

**2. DEMAND**

Readings:

- Brickley, Smith and Zimmerman (2009), Chapter 4.

Exercise: Expatriation Game - Instructions.

### 3. PRODUCTION AND COST

Readings:

- Pyndick and Rubinfeld (2015), Chapters 6-7.
- Brickley, Smith and Zimmerman (2009), Chapter 5.

Exercise: Expatriation Game - Discussion of results.

### 4. COMPETITIVE MARKETS

Readings:

- Brickley, Smith and Zimmerman (2009), Chapter 6 (pp. 180-185).
- Horngren, Foster and Datar (2015), Chapter 25.
- Milgrom and Roberts (1992), Chapter 3.

Case: FinePrint Company

### 5. PRICING WITH MARKET POWER

Readings:

- Brickley, Smith and Zimmerman (2009), Chapter 7.
- Milgrom and Roberts (1992), Chapter 3 (pp. 73-77) and Chapter 4.

Case: Transfer Pricing at Timken

### 6. BUSINESS STRATEGIES: A GAME THEORY PERSPECTIVE

Readings:

- Brickley, Smith and Zimmerman (2009), Chapter 9.

Exercise: Sequential game - Instructions

### 7. EXTERNALITIES

Reading:

- Pindyck and Rubinfeld (2015), Chapter 18.

Exercise: Sequential game - Discussion of results

### 8. ASYMMETRIC INFORMATION

Readings:

- Milgrom and Roberts (1992), Chapter 5 (adverse selection).
- Milgrom and Roberts (1992), Chapter 6 (moral hazard).

Case: India's Alibaba: IndiaMART Network Effects

### 9. EMPLOYEE COMPENSATION

Readings:

- Brickley, Smith, and Zimmerman (2009), Chapter 14

Case: Innovation at Progressive (A): Pay-As-You-Go Insurance

### 10. INCENTIVE COMPENSATION

Readings:

- Brickley, Smith, and Zimmerman (2009), Chapter 15.

Wrap-up session in preparation for final exam.

## LEARNING ACTIVITIES AND METHODOLOGY

1. Lectures
2. Simulation games
3. Class discussions
4. Office hours
5. Individual student work
6. Student teamwork

## ASSESSMENT SYSTEM

50%: Two surprise exams (25 percent each).

These exams will be written and will be related with the case studies.

50%: Final exam.

The final exam will be designed to assess your ability to use the concepts and tools developed in this course to explain and solve managerial problems.

<b>% end-of-term-examination:</b>	50
<b>% of continuous assessment (assignments, laboratory, practicals...):</b>	50

## BASIC BIBLIOGRAPHY

- Brickley, James A.; Smith, Clifford W.; and Zimmerman, Jerold L. Managerial Economics and Organizational Architecture, McGraw-Hill, 2016
- Milgrom, Paul; and Roberts, John Economics, Organization, and Management, Prentice-Hall, 1992
- Pindyck, Robert S.; and Rubinfeld, Daniel L. Microeconomics, Pearson, 2015

## ADDITIONAL BIBLIOGRAPHY

- Horngren, C., G. Foster y S. Datar Cost Accounting: A Managerial Emphasis, Pearson, 2015