



**Managerial Economics (EC 501)
PGDM-I [2014-2016]**

Course Outline and Session Plan

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Introduction

In a constantly changing business environment, managerial decision making becomes increasingly intricate especially in a fiercely competitive market economy. Overall understanding of the economic environment, therefore, becomes a pre-requisite for any conscious and rational decision making process. In this context, managerial economics course emphasizes on application of micro economic theories in analyzing business problems of enterprises. The main focus of this course will be to show how economic concepts can be used to the advantage of decision making process. The basic economic concepts such as demand, supply, production, revenue, costs and profits provide a base to analyse behavior of firms. Theories of optimal pricing under competitive market environment will help in a robust reasoning process to managerial decision making. Throughout the course the emphasis will on applications and sharpening of reasoning skills of the student in a competitive business environment. The student should expect to leave the course with a firm grip on how economists think about business problems and the ability to apply tools from the course to a variety of decision making scenarios.

Objectives

At the end of the course, the student will:

- Demonstrate an understanding of methods, content and scope of micro economic principles in managerial decision making.
- Be familiar with the principles of rational decision making
- Be able to analyse and interpret economic data for use in decision making and comprehend solutions to business problems.
- Show an awareness of the range of applicability of microeconomic economic theory in the process of decision making.

Pedagogy

As this course is considered to be a foundation for most of the functional areas in management, emphasis will be on conceptual clarity. So, the course will be mostly delivered through a combination of lectures and classroom discussions. However, a few cases and research papers which are relevant to managerial decision making process will be discussed from the perspectives of competitive market environment. Depending on the interest level of the students, group exercises will be used to develop further insights. Students are expected to come prepared for the class by reading the prescribed materials. Power point slides of class lectures and all other relevant material will be shared with students.

Course Reading Materials

Text book(s)

MANAGERIAL ECONOMICS: APPLICATIONS, STRATEGY AND TACTICS: McGuigan, Moyer and Harris (2011): Cengage Learning 10th edition.

Reference book(s)

1. MANAGERIAL ECONOMICS: PRINCIPLES AND WORLDWIDE APPLICATIONS: Dominick Salvatore (2008), Oxford University Press, 6th edition.
2. MANAGERIAL ECONOMICS AND BUSINESS STRATEGY: Michael R Baye (2011), McGraw Hill Higher Education, 7th edition.
3. MODERN MICROECONOMICS:A Koutsoyiannis (2008), McMillan, 2nd edition.

Internet Sources:

There are several websites that have interesting economic information and analysis. The students are advised to visit www.economist.com (The Economist). The economic data pertaining to Indian economy can be obtained from www.rbi.org.in and other government websites. The students will be advised to follow specific websites from time to time

List of Reading Materials

Paper 1: – “Where is the Beef? Statistical Demand Estimation using Supermarket Scanner data”, Fred H. Hays and Stephen A DeLurgio, Jr. of Case Research in Business and Economics

Paper 2:- “Does studying Economics inhibit Co-operation?”, Thomas Gillovich and Denis Regan, Journal of Economic Perspectives, Vol.7(2), Spring 1993, Pp.159-171.

List of Cases

Case 1:- “Metabical: Pricing, Packaging, and Demand Forecasting for a New Weight Loss Drug”, HBS Case 4183

Case 2:- “Special Economic Zones in India: Public Purpose and Private Property (A)”, HBS Case 9-709-027

Case 3:- “Cola Wars Continue: Coke and Pepsi in 2010”, HBS Case 9-711-462

Case 4:- “Maruti Suzuki India Limited: Sustaining Profitability”, IMI Case

Case 5:- “Airbus vs. Boeing (A)”, HBS Case 9-707-447

Evaluation Criteria

The evaluation for the course will have various components like quizzes, class presentation, End-term and Mid-term examinations as well as class participation. The final grade will be calculated as follows:

Components		Weight
01	End Term Exam	30%
02	Mid-Term Exam	20%
03	Quiz (2)	20%
04	Individual Class participation*	10%
05	Assignment/Class Presentation (2)	20%

*The student is expected to come prepared to class by reading the materials provided by faculty and constructively contribute to class discussions. Similarly, for case discussions, the student is expected to read the case and advised to surf the net to have a grip on specific case-related company (and its competitors) and contribute to the discussion. The students are advised to keep themselves updated on any latest news/happenings nationally/internationally. The student is expected to be proactive in enriching the discussion for this component. Please note that *mere attendance* has no weightage for this component.

Session Plan: Managerial Economics

Session	Topic	Readings
Module -1: Introduction to Managerial Economics		
1-2	<p><u>Topic:</u> Introduction to Economic Problems; Rationale and Goals of the Firm; Economic Profit; Economics and Decision making Process; Profit Maximization; Basic economics Concepts.</p> <p><u>Objective:</u> To make the student conversant with basic economic concepts used in rational decision making process</p> <p><u>Activities:</u> Class room discussions, Examples to clarify the concepts</p> <p><u>Takeaways:</u> The student will learn the concepts in economics and rationale behind managerial decision making and core objectives of an enterprise.</p>	<p>Chapter-1; Chapter-2 and Appendix 2A of the Textbook</p> <p>Any additional material provided by the faculty prior to the class</p>
Module-2: Demand and Supply Analysis		
3-6	<p><u>Topic:</u> Demand and Supply; Equilibrium; Price Mechanism; Theory of Consumer Choice; Indifference Curves; Price, Income, Cross Elasticity, revenue and elasticity; Demand Forecasting.</p> <p><u>Objective:</u> To make student appreciate the importance of consumer behaviour in firm's objective of profit maximization.</p> <p><u>Activities:</u> Classroom Discussions, Solving problems</p>	<p>Chapter-3 and Appendix 3A of the Textbook</p> <p>“Where is the Beef? Statistical Estimation using Supermarket Scanner data” provided in the kit</p> <p>Case: Metabical: Pricing, Packaging and Demand</p>

	<p>Case: Metabical: Pricing, Packaging and Demand Forecasting for a New Weight Loss Drug</p> <p>Takeaways: The student will learn maximization of consumer welfare, how demand is sensitive to price, Income and prices and the role of price in economic equilibrium</p>	<p>Forecasting for a New Weight Loss Drug</p> <p>Any additional material provided by the faculty prior to the class</p>
<p>Module:3: Government Intervention and Business</p>		
7-8	<p>Topic: Free Market Equilibrium Output and Price; Government Intervention; Welfare Loss.</p> <p>Objective: To make student appreciate the importance of government intervention and its implications for economy and its welfare.</p> <p>Activities: Classroom Discussions, Case discussions</p> <p>Case: Special Economic Zones in India: Public Purpose and Private Property</p> <p>Takeaways: The student will learn free market solutions and how government intervention in any form results in welfare loss in an economy</p>	<p>Case: Special Economic Zones in India: Public Purpose and Private Property</p> <p>Any additional material provided by the faculty prior to the class</p>
<p>Module-4: Production and Cost Analysis in Manufacturing and Services Sector</p>		
9-11	<p>Topic: Production Function; Production Iso-quants, MRTS, Optimal levels; Cost Concepts; Cost function; Short-run and Long-run cost functions; Economies of Scale and Scope; Empirical Production and Cost Functions; Cost Volume Analysis: Breakeven analysis; Contribution Analysis; Mass customization and Learning Curve.</p>	<p>Chapter 7 and Appendix 7A from the Textbook</p> <p>Chapter 8 and Appendix 8A from the Textbook</p>

	<p><u>Objective:</u> To provide an understanding of optimal production with cost implications and how the cost can be minimized with scale economies.</p> <p><u>Activities:</u> Class room discussions and examples</p> <p><u>Takeaways:</u> The student will learn how production and costs are intertwined and any managerial decision regarding them cannot be taken in isolation.</p>	<p>Chapter 9 and Appendix 9A from the Textbook</p> <p>Any additional material provided by the faculty prior to the class</p>
<p>Module-5: Market Structures and Pricing Decisions</p>		
12-14	<p><u>Topic:</u> Market Structures; Price and Output Decision in perfect competition; Price and Output decision in Monopoly; Price and Output decision in Monopolistic Competition; Pricing of goods and Services: Price discrimination.</p> <p><u>Objective:</u> To make student understand pricing decisions under different market structures and how all the decisions will have only goal of profit maximization</p> <p><u>Activities:</u> Class room discussion and examples</p> <p><u>Takeaways:</u> The student will learn the market dynamics and profit maximization by firms under various market structures</p>	<p>Chapter-10 and 11 from the Textbook</p> <p>Any additional material provided by the faculty prior to the class</p>
<p>Module-6: Interdependence of Firms and Managerial Decisions</p>		
	<p><u>Topic:</u> Oligopoly Markets; Price War; Sticky Price; Firm Interdependence; Non-Collusive and Collusive Oligopoly; Game Theory and Strategic Behaviour</p>	<p>Chapter 12 and 13 from the Textbook</p> <p>Paper-2: Does studying Economics inhibit</p>

15-18	<p><u>Objective:</u> To make student understand how firms behave and take decisions both under collusive and non-collusive market structures</p> <p><u>Activities:</u> Class room discussion and problems</p> <p>Case: Maruti Suzuki India Limited</p> <p>Case:- Cola Wars Continue: Coke and Pepsi in 2010</p> <p>Case: Airbus vs. Boeing</p> <p><u>Takeaways:</u> The student will learn the behaviour of the firms and how optimal managerial decisions are made under asymmetric information</p>	<p>Co-operation?</p> <p>Case: Maruti Suzuki India Limited</p> <p>Case:- Cola Wars Continue: Coke and Pepsi in 2010</p> <p>Case: Airbus vs. Boeing</p> <p>Any additional material provided by the faculty prior to the class</p>
Class Presentations		
19-20	Class presentations	