



**INTERNATIONAL MANAGEMENT INSTITUTE, BHUBANESWAR**

**Post Graduate Diploma in Management**

**Managerial Economics (EC 501)**

**3 Credit Course**

**Session Duration: 90/180 minutes**

**Term – I**

**2016-18**

**Batch-I**

### **Course Outline and Session Plan**

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#### **Introduction**

The managerial economics course uses the principles of economics to explain important issues of decision making in business. 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. The objective of this course is to develop managerial talent with an understanding of the major economic concepts, combined with an understanding of how to use economics as a framework in providing solutions to managerial problems. This 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 analyze behavior of firms. Theories of optimal pricing under competitive market environment will help in a robust reasoning process to facilitate managerial decision making. This course will dwell upon various pricing methods adopted by contemporary business houses for maximizing profits. Throughout the course the emphasis will be on applications and sharpening of reasoning skills of the student. The case studies will focus on various issues and constraints in maximization of profits in various market conditions. The student should expect to leave the course with a firm grip on how to use economics as a framework for business problems and the ability to apply tools from the course to a variety of decision making scenarios.

## **Learning Outcomes**

At the end of the course, the student will be able:

1. to demonstrate an understanding of methods, content and scope of micro economic principles in managerial decision making.
2. to be familiar with the principles of rationality in decision making
3. to analyse and interpret economic data for use in decision making and comprehend solutions to business problems.
4. to 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 and group assignments. However, cases, caselets 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 and comprehension level of the students, group exercises will be used to develop further insights. The term papers (under the supervision of faculty) will focus on applications of managerial economics concepts in real time business scenario and will be an extension of classroom learning. Students are expected to come prepared for the class by reading the prescribed study materials. Power point slides of class lectures and all other relevant study materials will be shared with students on O:/drive.

## **Course Reading Materials**

1. MANAGERIAL ECONOMICS: PRINCIPLES AND WORLDWIDE APPLICATIONS: Dominick Salvatore Adapted by Ravikesh Srivastava (2012), Oxford University Press: 7<sup>th</sup> edition, Adapted version
2. MANAGERIAL ECONOMICS: APPLICATIONS, STRATEGY AND TACTICS: McGuigan, Moyer and Harris (2012): Cengage Learning 12<sup>th</sup> edition.
3. MODERN MICROECONOMICS: A Koutsoyiannis (2008), McMillan: 2<sup>nd</sup> edition.
4. MANAGERIAL ECONOMICS, MARK HIRSCHEY (2009), Cengage Learning, 12<sup>th</sup> edition.
5. MANAGERIAL ECONOMICS AND BUSINESS STRATEGY, Michael R Baye and Jeffrey T Prince, McGraw Hill Education, 8<sup>th</sup> Edition.

## **Additional 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.

## **Case Studies**

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

Case- 2:- “Maruti Suzuki India Limited: Sustaining Profitability”, IVEY Publishing Case, 9B14M115

Case -3:- Indigo Airlines: Maximizing Profits, IMI Case

## **Evaluation Criteria**

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

Components		Weight
01	End Term Exam	40%
02	Mid-Term Exam	20%
03	Quiz (2)	20%
04	Group Term Paper*	10%
05	Group Presentation**	10%

\*The group Term paper will be announced and assigned during the course. The guidelines regarding the term paper will be intimated to students.

\*\* The term paper prepared by the group will be presented in the class. The guidelines for presentation will be intimated in advance.

## Session Plan: Managerial Economics (EC-501)

Session No	Topic	Learning Outcomes	Ssuggested Readings
1-2	Introduction to Managerial Economics: <ul style="list-style-type: none"> <li>➤ Basic economics Concepts</li> <li>➤ Goals of the Firm</li> <li>➤ Decision making Process</li> <li>➤ Optimization Techniques</li> </ul>	LO-1, LO-2 and LO 3	Chapter-1; Chapter-2 and Appendix 2 to Chapter 2 of the first book in the List (Salvatore) Awareness and familiarity with the websites for Indian economic data as mentioned in the first book in the list (Salvatore), Pp.29-30
3-6	Theory of Demand <ul style="list-style-type: none"> <li>➤ Theory of Consumer Choice</li> <li>➤ Indifference Curves</li> <li>➤ Elasticity of Demand</li> </ul>	LO-1, LO-2, LO 3 and LO-4	Chapter-3 of the first book in the List (Salvatore)
7-8	Demand Estimation and Forecasting <ul style="list-style-type: none"> <li>➤ Market Experiments</li> <li>➤ Regression Analysis</li> <li>➤ Econometric Tools for Forecasting</li> </ul>	LO-1, LO-2, LO 3 and LO-4	Chapter 3 of the last book (Baye) Chapters 4 and 5 of the first book (Salvatore) <b>The Reading on “Where is the Beef? Statistical Estimation using Supermarket Scanner data”</b> <b>Case: Metabical: Pricing, Packaging and Demand Forecasting for a New Weight Loss Drug</b>
9-10	Theory of Production <ul style="list-style-type: none"> <li>➤ Production Function</li> <li>➤ Production Iso-quants</li> <li>➤ MRTS</li> <li>➤ Returns to Scale</li> <li>➤ Optimal levels of Production</li> </ul>	LO-1, LO-2, LO 3 and LO-4	Chapter 3 of of the 3 <sup>rd</sup> book in the list (Koutsoyiannis) Chapter 6 and Appendix to Chapter 6 from the first book (Salvatore)

11-12	<p>Theory of Cost</p> <ul style="list-style-type: none"> <li>➤ Cost Concepts</li> <li>➤ Cost function</li> <li>➤ Short-run and Long-run cost functions Economies of Scale and Scope</li> <li>➤ Estimation of Cost</li> </ul>	LO-1, LO-2, LO 3 and LO-4	Chapter 8 and Chapter 9 of the 2 <sup>nd</sup> book in the list (McGugan) and Chapter 4 of 3 <sup>rd</sup> book in the list (Koutsoyiannis)
13-15	<p>Market Structures and Pricing Decisions</p> <ul style="list-style-type: none"> <li>➤ Price and Output Decision in perfect competition</li> <li>➤ Price and Output decision in Monopoly</li> <li>➤ Price and Output decision in Monopolistic Competition</li> <li>➤ Price discrimination</li> </ul>	LO-1, LO-2, LO 3 and LO-4	<p>Chapter-10 from the 4<sup>th</sup> book in the list (Hirschey)</p> <p>Chapter 6, 7 and 8 from the 3<sup>rd</sup> book in the list (Koutsoyiannis)</p>
16-18	<p>Firm Interdependence and Oligopoly</p> <ul style="list-style-type: none"> <li>➤ Oligopoly Markets</li> <li>➤ Firm Interdependence</li> <li>➤ Non-Collusive Oligopoly</li> <li>➤ Surge Pricing</li> <li>➤ Price War</li> <li>➤ Sticky Price Model</li> <li>➤ Collusive Oligopoly</li> <li>➤ Game Theory and Strategic Behavior</li> </ul>	LO-1, LO-2, LO 3 and LO-4	<p>Chapter 9 and 10 from the first book in the list</p> <p>Chapter 9 from the 3<sup>rd</sup> book in the list (Koutsoyiannis)</p> <p><b>Case: Maruti Suzuki India Limited</b> (Oligopolistic firm behavior for Products)</p> <p><b>Case: Indigo Airlines</b> (Oligopolistic firm behaviour for Services)</p>
19-20	<b>Overall Summing up of the Course and Group presentations</b>	LO-1, LO-2, LO 3 and LO-4	As per guidelines