

ABSE205 – Managerial Economics

Course Title	Managerial Economics			
Course Code	ABSE205			
Course Type	Elective			
Level	BSc (Level 1)			
Year / Semester	2 nd /Fall			
Teacher's Name	Dr Petia Tanova / Dr Bernard Musyck / Dr Vasiliki Bozani			
ECTS	6	Lectures / week	3	Laboratories/week
Course Purpose	<p>The course builds on the principles obtained in the previous module in Introduction to Microeconomics. It is an introduction to the major issues facing the firms, to the methods and analytical techniques, that economists use to study these issues, and to the policy problems that these issues create.</p> <p>The course is fundamental in enabling students to pursue further modules in the field of business decision making. It is not intended to give students all the answers or all of the the professional skills of a business economist, but provides them with a tool bag of basic analytical techniques which they would need to effectively function as business managers.</p> <p>A major objective of the course is to help students develop systematic, critical and independent thinking on current problems of the business environment. . This means that students are expected to:</p> <ul style="list-style-type: none"> • Achieve a basic understanding of the vocabulary, concepts, and principles of managerial economics; • Cope with evaluating different beliefs and opinions when discussing microeconomic issues and develop their own set of arguments and values; • Make sense of economic reality, transform theoretical knowledge into practical skills, and apply theories to problems and policy issues. 			
Learning Outcomes	<p>Upon the successful completion of this course, students will be able to:</p> <ol style="list-style-type: none"> 1. Analyze the demand for a firm's product and familiarize with the techniques of demand estimation and discuss their pros and cons. 2. Identify the goals of the firm and basic determinants of producer decision-making. 3. Compare and contrast economic and accounting costs and revenues, and economic and accounting profit. 4. Examine the dynamics and structure of short run and long run costs and apply graphical models to problem solving. 5. Identify the conditions of profit maximization and short run loss minimization and apply them to problem solving. 			

	<ol style="list-style-type: none"> 6. Analyze the determinants of industrial organization and outline different market structures. 7. Compare and contrast firm's conduct and performance under different market structures: perfect competition, pure monopoly, monopolistic competition and oligopoly. 8. Scrutinize firms' pricing decisions. 9. Discuss the impact of industry structure on firms' performance 10. Realize the nature and constraints of antimonopoly policy 11. Debate theories of the firm; 12. Evaluate the determinants of factor income: analyze the labor market, capital market and land market. 		
Prerequisites	ABSE101	Corequisites	None
Course Content	<p>1. Introduction to Managerial Economics</p> <p>Articulate the core problems that a company has to handle based on economic theory and on empirical evidence.</p> <p>Outline the types of issue which are addressed by managerial economics.</p> <p>Explain why managerial economics is important and useful as an area of study.</p> <p>Realize how Managerial Economics relates to other disciplines, what its core areas are, and the methods of analysis which it uses.</p> <p>Explain principles of economic decision making and apply them to a chosen problem in a written assignment.</p> <p>Recognize the functions of a business economist.</p> <p>2. Demand Analysis and Estimation</p> <p>Analyze the demand for a firm's product and familiarize with the techniques of demand estimation.</p> <p>Examine different methods of demand estimation.</p> <p>Familiarize with the forecasting methods.</p> <p>Explain a problem-solving approach that enables students to use empirical studies as an aid to managerial decision-making</p> <p>Assess the impact of price elasticity of demand and cross price elasticity of demand for firms' decision-making.</p> <p>Appreciate yield management and its relevance to business decision making.</p> <p>3. Producer Decision Making</p>		

Identify the nature and basic determinants of producer decision making. Define the firm as a profit maximizer. Understand and explain the production function.

Distinguish between economic and accounting costs and apply them to problem solving. Compare and contrast economic profit and accounting profit. Understand the meaning of normal profit.

Compare and contrast short run and long run decisions. Articulate the law of diminishing returns. Analyze the dynamics of total, marginal and average product. Determine factors, affecting technological choice and the least cost factor combination for a given output. Distinguish between increasing, constant and decreasing returns to scale.

Analyze the dynamics of a firm's costs in the short run and estimate marginal and average costs. Determine the conditions for profit maximization and loss minimization in the short run.

Analyze the terms of profit maximization in the long run. Relate graphical and formal analysis to problem selecting the optimum production decisions in the short run and in the long run.

4. Analysis of perfectly competitive markets

Identify the determinants of industrial organization within the framework of the "structure – conduct - performance" paradigm.

Examine the structural conditions of competition. Define and distinguish perfectly competitive markets from the perspective of industrial structure.

Assess the dynamics of marginal revenue under perfect competition. Analyze the constraints for the firm's supply under perfect competition. Derive the firm's supply curve and apply it to problem solving.

Assess the behaviour of perfectly competitive industry.

Critically evaluate the performance of perfectly competitive markets. Categorize efficiency criteria and distinguish between allocative and production efficiency. Debate the concept of efficiency in distribution. Differentiate between the static and the dynamic approach to efficiency assessment.

Apply graphical analysis to problem solving. Simulate perfectly competitive profit maximizing decision making.

5. Decision making of the pure monopoly

Identify the sources of market imperfection and distinguish between natural and institutional monopoly. Find empirical evidence of natural and institutional monopoly and present it in a debate on the future of natural monopoly based on the technological and institutional developments in the world economy.

Define the structural conditions for the pure monopoly. Compare and contrast the dynamics of the marginal revenue under the pure monopoly and under perfect competition.

Analyze the profit maximization solution under the pure monopoly and apply formal and graphical analysis to problem solving.

Assess the performance of the pure monopoly: compare and contrast the solution of the three economic problems under the pure monopoly and under perfect competition; evaluate the welfare loss of the monopoly and apply formal and graphical analysis to problem solving.

Derive the necessity of antimonopoly policy and regulation. Familiarize with the pillars of the antimonopoly policy.

Define and examine price discrimination. Find empirical evidence and assess the application of price discrimination in the hospitality industry in a team presentation.

6. Market power and market rivalry

Examine the conduct under monopolistic competition, determined by the industry structure.

Based on empirical evidence, outline sources and nature of product differentiation.

Outline excess capacity as a salient feature of imperfect competition.

Identify the basic types of oligopoly: the tight oligopoly and the dominant firm oligopoly.

Distinguish between Followship and Non-Followship demand curve under oligopoly and assess its impact on the firm's conduct. Examine pricing decisions under oligopoly and relate them to the industry's performance.

Assess advantages and disadvantages of oligopoly from the perspective of economic dynamics. Understand the main arguments of the Austrian approach in the analysis of the big firm.

Familiarize with the basics of game theory and its application.

7. The Theory of the Firm

Compare and contrast firm coordination and market resource allocation.

Identify transaction costs and discuss their nature, sources and dimensions.

Dispute the limits of the firm theoretically and based on empirical evidence.

Discuss the constraints and controversies of the neoclassical approach to firm's decision making.

Debate different rationales for decision making

Identify asymmetric information as a basis for bounded rationality.

	<p>Articulate and discuss the “principal-agent problem” on the basis of theoretical analysis and empirical evidence.</p> <p>Familiarize with the main managerial theories of the firm: sales maximization vs. managerial utility maximization and discuss their practical implications.</p> <p>8. Factor markets</p> <p>Identify factor markets and the determinants of factor supply and factor demand.</p> <p>Derive the demand curve for production factors and assess the concept of the derived demand and its impact on producer decision making.</p> <p>Distinguish between transfer returns and pure economic rent and assess their importance for factor pricing.</p> <p>Evaluate determinants of profit maximization in the production factor markets.</p> <p>Compare and contrast the purchase price and the rent price of capital. Analyze the determinants of the interest and interest rate. Distinguish between real and nominal interest rate and apply them in problem solving. Estimate the time value of money and implement it in problem solving.</p> <p>Identify the main determinants of the price of land</p> <p>Discuss the equilibrium in the labour market and wage differentials under perfect and imperfect competition. Critically evaluate the role of Trade Unions and the economic consequences of their activities. Discuss the key concepts of labour discrimination.</p>
Teaching Methodology	<p>The taught part of course is delivered to the students by means of <i>ex cathedra</i> lectures and discussions in class, by means of traditional tools and using computer demonstrations. Some of the key issues are revealed on the basis of simulation games. Role playing and teamwork are incorporated in the simulations.</p> <p>Auditory exercises, where examples regarding matter represented at the lectures, are solved and further questions related to particular open-ended topic issues are compiled by the students and answered, during the lecture or assigned as homework.</p> <p>Topic notes are compiled by students, during the lecture. Lecture notes and slide shows can also be downloaded from the lecturer’s webpage. Tutorial problems are submitted as homework and these are solved during lectures or privately during lecturer’s office hours.</p> <p>Further literature search is encouraged by assigning students to identify a specific problem related to some issue, gather relevant scientific information about how others have addressed the problem and report this information in written or orally.</p>
Bibliography	<u>(a) Textbooks:</u>

	<ul style="list-style-type: none"> • Salvatore D. (2018) Managerial Economics in a Global Economy. Ninth Edition, Oxford University Press. • Samuelson & Nordhaus, Economics, McGraw Hill, 19th edition <p><u>(b)References:</u></p> <ul style="list-style-type: none"> • Parkin M., M. Powell and K. Matthews. Economics, Pearson, 9th edition • Crystal A. & R. Lipsey. Economics, Oxford University Press, 13th edition • Heather K. (2002) The Economics of Industries and Firms. Pearson Education Ltd.
Assessment	<p><u>(a) Methods:</u></p> <p>Students are assessed with coursework that involves homework assignments and class participation, two written quizzes, a midterm and a final exam. The assessment involves explaining theoretical concepts, examining real life situations, solving numerical problems and applying graphical analysis.</p> <p>Students are assessed continuously and their knowledge is checked through tests with their assessment weight, date and time being set at the beginning of the semester via the course syllabus.</p> <p>Students are prepared for final exam, by revision on the matter taught, problem solving and concept testing and are trained to be able to deal with time constraints and revision timetable.</p> <p>The final assessment of the students is formative and cumulative and is assured to comply with the subject's expected learning outcomes and the quality of the course.</p> <p><u>(b) Criteria:</u></p> <p>The assessment criteria can be generalized as follows concerning the area assessed:</p> <ul style="list-style-type: none"> • 86% or more – Excellent application of problem solving skills. • 76%-85% - Very good application of problem solving skills. • 66%-75% - Good application of problem solving skills. • 56%-65% - Satisfactory with some success in applying problem solving skills • 50%-55% -Satisfactory with limited success in applying problem solving skills • Below 50% -Little or no application of problem solving skills.

	<p>Assessment criteria are available in each written assignment, midterm or in the final exam.</p> <p><u>(c) Weights:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Final Exam</td> <td style="text-align: right;">60 %</td> </tr> <tr> <td>2 Quizzes</td> <td style="text-align: right;">10 %</td> </tr> <tr> <td>Mid-term</td> <td style="text-align: right;">20 %</td> </tr> <tr> <td>Homework assignments and participation</td> <td style="text-align: right;">10 %</td> </tr> </table>	Final Exam	60 %	2 Quizzes	10 %	Mid-term	20 %	Homework assignments and participation	10 %
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