Course Objectives and Overview: This course will demonstrate how economic logic offers powerful and elegant insights into business decision making. Our approach will be to develop a number of basic microeconomic principles and then analyze them in various contexts of relevance to managers. You will see that a fundamental working knowledge of the firm’s economic environment can improve both day-to-day managerial decision making and long-term strategic planning. You will also see the relevance of an economics perspective for the many functional areas of business.

The course begins with an analysis of supply & demand, including the effect of taxes, regulations, changes in competition, new input prices, and so on. We also develop and study the relevant cost concepts for decision making, which are critical for understanding how organizations should “economically” respond to changes in their environment.

Bringing together the firm’s demand for its product and its costs, we next address optimal pricing strategies for firms with market power. Shifting from a position of studying our firm in isolation, we next move to a game-theoretic investigation of interdependent multi-firm decision making, providing further insights into the performance of firms and industries. Extending a theme in the course that prices influence behavior, we also develop several economic principles of incentive compensation.

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Textbook: The textbook for the course is:

Website: Course materials and various optional readings will all be posted at our course website, which can be accessed at: [http://courses.bus.wisc.edu](http://courses.bus.wisc.edu)

Expectations: You are expected to: 1) be prepared for class by having read and thought about the relevant sections from the textbooks so that we can intelligently discuss the material; 2) do several assignments based on this material; 3) be prepared to discuss our Harvard Business School cases; 4) write two quizzes; and 5) write a report connecting your work and the economic concepts from class. All these are important and require a commitment on your part to the course. What it means to be prepared for class is probably quite clear. Assignments, cases, quizzes and reports are briefly described below, and I will say more in class.
Assignments: A TEAM homework assignment is due on each of the five Fridays that we meet. A hard copy of your team’s work needs to be submitted at the beginning of class on the due date. Please submit just one copy of your solutions for your entire team. NO credit is given for late homework because I distribute solutions during class on the due date. You are expected to work cooperatively within your team on the homework, with everyone involved in the work. You are invited to discuss the problems with me; indeed, you are encouraged to do so. My only request is that questions about the assignments be somewhat specific. Please do not ask me to review your work before it is handed in, just to see if everything is OK. Also, do NOT discuss the homework with anyone outside your team, which includes members of other teams, co-workers, people who took this course in years past, etc.

Cases: We will analyze several Harvard Business School cases. All class members need to be prepared to discuss each case. As a group, you will discuss the case and prepare answers to a set of questions that I will circulate for each case. Those answers need to be submitted just ahead of our in-class discussion of the case. Please keep your group’s write-up to a maximum of two pages single-spaced. If you want to provide more analysis and discussion, please use an appendix to your two-page report. Also, while I am pleased to respond to questions about the homework, I want to restrict questions about the cases to issues of clarification. We will spend a lot of class time on case discussion, but if everyone ends up taking the same approach in their analysis, then we don’t have much to discuss in class.

Do NOT discuss the cases with anyone outside your team, which includes members of other teams, co-workers, people who took this course in years past, etc. Finally, do NOT take advantage of analyses of any case that might exist, including work by EMBA students in prior years or that might be (and are likely) available online.

Quizzes: It’s probably been a long time since you wrote an exam and the prospect of writing quizzes may leave you a bit uneasy. But exams are important for several reasons:

First, they motivate one to work hard on the exam material. Now I know that all of you are eager to learn all that you can in this program but, as an economist, I also appreciate (and expect nothing less from you) that you intelligently allocate your very scarce time so as to best manage your personal, job, community and school commitments. Exams provide a short-term basis for focusing on economics over the rest of your life. Not that I want you to ignore the other parts of your life, but I do want you to have an immediate and compelling reason to spend time on economics.

Second, exams are a wonderful opportunity for those who have mastered the material to demonstrate that to themselves and others.

Finally, exams are a way that I learn whether you’ve grasped the material, so that, if needed, I can rethink the approaches I use and the material for the remainder of the course.

There are two quizzes, one on Saturday, September 7 covering material from the first half of the course, and the second on Saturday, October 19 covering material from the second half.
Report: There are six broad topics in this course: markets, demand, costs, pricing, game theory, and incentive compensation. Select one of them and discuss how it relates to and informs – or doesn't -- an issue or activity in your organization. The report should be no more than 4 pages double-spaced.

Academic Conduct: The University holds its students and faculty to very high standards of academic behavior. And I need to be very clear about the details of those standards for our class.

For the homework: 1) all team members are expected to contribute in preparing the single group solutions; 2) teams are not to discuss the homeworks outside their groups, except with me; and 3) some of the homework problems may have been assigned in past years, so you are NOT allowed to review EMBA homework solutions from earlier years.

For the cases: 1) case write-ups are a group effort and all team members are expected to be involved in the case write-up and be prepared to discuss the case in class; and 2) you will not refer to a write-up from an earlier EMBA class or use an analysis of the case that is available from other sources, including online sources.

For the quizzes: they are strictly individual efforts, and are closed-book and closed-notes.

Violations of these rules are very serious. The University aggressively punishes academic misconduct and is especially quick to impose harsh penalties on graduate students, such as failing a course and expulsion from the university. If you have questions about the academic conduct rules in this class, please just ask. That’s the best way to proceed if you are the least bit unsure about the rules in general or how the rules apply to some specific situation.

Grading: Final grades will be based on the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Assignments</td>
<td>20%</td>
</tr>
<tr>
<td>Case Reports</td>
<td>20%</td>
</tr>
<tr>
<td>Quiz 1</td>
<td>20%</td>
</tr>
<tr>
<td>Quiz 2</td>
<td>25%</td>
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<tr>
<td>Report</td>
<td>15%</td>
</tr>
</tbody>
</table>

The distribution of grades varies year to year but a rough average over the last several years is:

- **A:** 30 - 35%
- **AB:** 30 - 35%
- **B:** 30 - 35%
- **below B:** 0 - 6%

Class participation is expected of everyone and is necessary to achieve the most learning possible in this class. It is not explicitly captured in the grading scheme, but I do reserve the right to adjust scores that are at a break in the letter grades based on classroom participation (with the quality of the participation much more important than the quantity).

PowerPoints: We'll develop many of our economic concepts by using a graphical analysis that involves a sequence of steps, each one based on economic logical. The final product – a graph with lots of curves – is often hard to understand. Learning only comes from working through and understanding the logic of each step. But drawing graphs from scratch takes time. So there's a tradeoff: provide you with more complete graphs, which lets us cover the material faster but without the benefits of learning-by-doing OR ask you to create the graphs step-by-step, which enhances learning but slows us down. Our solution is to provide you with graphs that have the basics already drawn for you, but then have you introduce the critical ideas. This puts a burden on you to carefully augment and annotate your graphs as the class progresses. Doing this well will keep you more engaged during class, lead to more discussion, probably slow things down in class (which is terrific if we’re focused on the issues), and give you notes that are valuable for reviewing.
SCHEDULE

*** WEEK 1: August 21-24 ***

WEDNESDAY, AUGUST 21

Session 1: How Do Markets Work?
  Demand, supply & equilibrium
  Prices
  Producer and consumer surplus
  Efficiency

Session 2: How Do Markets Work? Examples
  Taxes
  Price ceilings, floors

Readings: Ch 1, Ch 2 (pg. 13-42), Ch 3

THURSDAY, AUGUST 22

Sessions 3/4: How Do Customers Value Our Product?
  Demand function
  Total, average and marginal revenue
  Price elasticity, short-run and long-run
  Other forms of elasticity
  Demand Estimation

Readings: Ch 2 (pg. 42-55), Ch 5 (pg. 199-203)

SATURDAY, AUGUST 24

Due: HOMEWORK #1

Sessions 5/6: What Are The Relevant Costs For Decision Making?
  Total cost, average cost, marginal cost, fixed cost
  Long run and short run
  Opportunity cost
  Sunk cost

Readings: Ch 7
*** WEEK 2: September 6-7 ***

FRIDAY, SEPTEMBER 6

Due: HOMEWORK #2

CASE #1 REPORT

Session 7: CASE #1: Blackheath Manufacturing Company

Session 8: What Price Should We Set? (A)
Sources of Market Power
Pricing with market power
Cost-plus pricing

Readings: Ch 9

SATURDAY, SEPTEMBER 7

Session 9: Quiz #1 (1 hour 8:30 AM – 9:30 AM)
The quiz covers the following sections:

- How Do Markets Work?
- What Are The Relevant Costs For Decision Making?
- How Do Customers Value Our Product?

Session 10: What Price Should We Set? (B)
Bundling
Price discrimination
Two-part tariffs

Readings: Ch 10

*** WEEK 3: September 21 ***

FRIDAY, SEPTEMBER 21

Due: HOMEWORK #3

CASE #2 REPORT

Session 11: CASE #2: Atlantic Computer: A Bundle of Pricing Options

Session 12: What Price Should We Set? (C)
Versioning
Vertical Price Constraints

Readings: Reread Ch 10 (pg. 419-421)
*** WEEK 4: October 4-5 ***

FRIDAY, OCTOBER 4

Due: HOMEWORK #4

Sessions 13/14: Strategically Thinking About Others (A)
  Game theory
  Prisoners' dilemma
  Nash equilibrium and Subgame Perfect Nash equilibrium
  Oligopoly

Readings: Ch 11 (pg. 439-461), Ch 12

SATURDAY, OCTOBER 5

Due: CASE #3 REPORT

Session 15: Case #3: Lille Tissages, S.A.

Session 16: Incentive Compensation
  Optimal risk sharing
  Principal-agent relationship
  Informativeness principle
  Multiple-activity principle

Readings: Ch 15 (pg. 617-629)

*** WEEK 5: October 18-19 ***

FRIDAY, OCTOBER 18

Due: HOMEWORK #5

Session 17: Market Imperfections
  Externalities

Session 18: Complete and Review Game Theory

Readings: Ch 16 (pg. 643-671), Review Ch 12

SATURDAY, OCTOBER 19

Due: CASE #4 REPORT

Session 19: Quiz #2 (1 hour from 8:30 AM – 9:30 AM)
  The quiz covers the following sections
  • What Price Should We Set?
  • Strategically Thinking About Others
  • Incentive Compensation

Session 20: Case #4: Performance Pay at Safelite Auto Glass (A)