

# MGEC 603 BACKGROUND INFORMATION AND READING LIST

## I. INTRODUCTION TO MGEC 603

Welcome to Foundations of Microeconomics for Managers, a preparatory course for MGEC 621, Managerial Economics, one of the first core courses in the MBA sequence at the Wharton School. The mission of this course is to develop your skills in the basic concepts and managerial applications of microeconomics (demand, supply, production, cost, competitive markets, and monopolistic markets). We want to give you the **tools** to think about managerial problems from an economic perspective. This is our mission for the first seven lectures. Because the materials in MGEC 603 will be the building blocks for MGEC 621 (as well as other courses at Wharton), it is extremely important that the material be understood. We will provide extensive support mechanisms (teaching assistant and faculty office hours) to assist you in this learning process.

**ALL LECTURES IN MGEC 603 CONTAIN MATERIAL THAT CAN BE TESTED ON IN MGEC 621. WHILE THE TESTING WILL NOT SOLELY BE BASED ON MGEC 603 MATERIAL, USING MGEC 603 MATERIAL MAY FORM THE BASIS FOR YOUR ANALYSIS OF THE PROBLEM REQUIRING SOLUTION IN THE CONTEXT OF MGEC 621 MATERIAL.**

The basic mathematical skills (as developed in the Preterm math camp) will be **assumed** and **NOT covered** in MGEC 603.

## II. COURSE POLICIES

### A. Our Contract

The instructors will come to class prepared to lecture on/discuss the materials assigned for that class session in a manner designed to transmit/discuss the material in the most professional manner.

**Students will be expected to be prepared for all classes.** This includes having done the readings and being prepared to answer questions/participate in discussions (this includes going over the notes that are relevant for the lecture). *Students should arrive at class on time, not leave the class during the session, and not perform any other activity that is unrelated to the course during class-time. Not arriving on time, leaving the class, or engaging in non-course related activities is disruptive to the class and inconsiderate of your fellow classmates and*

*your instructor.*

The model of co-production practiced at the Wharton School requires an active participation by both students and faculty. Either party not being prepared is a violation of our contract and our policy of co-production.

## B. Waivers

There is no formal waiver process for MGE 603. You have self selected into MGE 603 based on your assessment of your prior knowledge of microeconomics. It is important to note that it is your responsibility to know the material in MGE 603. MGE 603 prepares you for MGE 621. Those not prepared for MGE 621 should recognize that this lack of preparation will probably mean that you will take less away from the course, that you may have to work harder in MGE 621 to make up for your deficit, and that your grade evaluation in MGE 621 may suffer. If you self selected into MGE 608 (the MGE 621 waiver prep course), whether you pass the waiver exam or do not pass the waiver exam, you are responsible for the MGE 603 material in later courses at Wharton (MGE 621 if you don't pass the waiver and other courses at Wharton whether you do or don't pass the waiver). Also remember that you will be held responsible (i.e., testable to the extent that 621 material builds on 603 material) for the content of MGE 603 in MGE 621.

It is important to remember that waiving any core course excuses the student from taking the course, but does not excuse the student from mastery of the material. In subsequent Wharton courses, it will be assumed that all students understand and can use the tools and insights developed in MGE 603.

## C. Assignments and Evaluation

The course *per se* is not graded. That is, there is no permanent record of your performance in MGE 603 on your transcript. However, to inform you and give you feedback on your progress, we will give you two assignments (see reading list below). Each assignment will be evaluated (so that you know how you did) and correct answers and explanations will be distributed in Web Cafe. The faculty and teaching assistants will be available for debriefings for all of the assignments. The grading of the assignment also introduces you to how we will grade assignments in MGE 621.

### III. HOW TO GET THE MOST OUT OF THIS COURSE

#### A. Be Prepared

MGEC 603 is designed to thoroughly expose you to the economic tools which become the basis for a way of thinking about managerial problems. Most students will find this--at least at the beginning--to be challenging and sometimes difficult, especially those students with little economics – business - mathematical backgrounds. **As such, it is important to read the material before each class and also to work the problems in the problem sets** contained in Web Café and at the end of each chapter of Allen, Doherty, Weigelt, and Mansfield (the text). Answers are provided in Web Café (except, of course, for the assignments--those answers will be in Web Café after the due date of the assignment). The teaching assistants and faculty are available for consultation. You are also encouraged to learn from each other, to form study groups, etc.

For each concept, we will give you four things:

1. The motivator--why should a businessperson care about this concept? Who uses it?
2. The intuition behind the rule--most economic concepts are articulations of rational behavior
3. A demonstration that the intuition is correct
4. An example of the rule in the form of solving a problem

#### B. Ask Questions

Given the nature of the course, you will have questions. Ask them.

1. In class, if possible (thereby permitting your classmates to also benefit from your thinking--they probably have the same questions) or
2. During your instructor's office hours (to be announced in class and in Web Café) or during the teaching assistants' office hours (listed below).

The first step in gaining understanding is clearly framing and articulating a question. Try to take advantage of the course's teaching resources to this end. Students often find it useful to also discuss the material among themselves or to form study groups.

### C. Build A Strong Foundation

Because every concept and lecture in MGEC 603 builds on the insights developed earlier, **it is essential not to fall behind in the readings or problems.** It is literally true that each lecture's material becomes the foundation of the next lecture's material.

### D. Work Problems

As you will see from the diagnostic exercises given to you here-- see copies of exercises (with solutions--included in Web Café), this is a problem oriented course. The point of this is that, as a manager, while you will sometimes be asked for your intuition, you will (almost certainly) never be asked for a formal proof, but you will be asked to price services, determine how much product to produce, make decisions to invest, etc. Thus, our emphasis is on **how** to answer these types of problems. Of course, since the problems differ, you must **understand** the intuition and the solution method in order to solve the problem. Whereas typical economics courses stop after giving you the intuition and a proof, we want to see if you can put the concepts into action.

Because of this orientation, we have provided many problems (with solutions) in the MGEC Problem Sets in Web Cafe. The course pack also has mini-cases and thought exercises with solutions. Our advice is PRACTICE, PRACTICE, PRACTICE and use the instructor and teaching assistant office hours.

### E. Use the Course Teaching Assistants

On every weekday from August 6 to August 27, a Teaching Assistant will be available in the locations shown below from 9AM to 5PM. If you are experiencing difficulty with the class concepts/course assignments or wish to be debriefed with respect to your MGEC assignments, utilize this resource.

It is crucial that you do not fall behind, as the material is cumulative. **Please be aware that this is the only time that the 603 material will be covered. MGEC 621 builds on this material but this material will *NOT* be reviewed in MGEC 621.**

The TA's for MGEC 603 are:

- Jaesung Choi
- David Muir
- Francesc Dilme
- Janet Lee

Their office hours are as follows (9AM to 5PM with a slight break around lunch time):

- August 9, 10, 11, 12\* Jaesung Choi, 557 McNeil
- August 12\*\*, 13, 16, 17 David Muir, JMHH 370
- August 18, 19, 20, 23\* Francesc Dilme, 424 McNeail
- August 23\*\*, 24, 25, 26 Janet Lee, 551 McNeil

McNeil is right across Locust Walk from Huntsman

\* = from 9AM to 1PM

\*\* = from 1PM to 5PM

MGEC 603 Reading List-Preterm 2010

Instructors:

Neil Doherty, 3000 SH/DH tel 215 898 7652

[doherty@wharton.upenn.edu](mailto:doherty@wharton.upenn.edu)

Alon.eizenberg 1453 SHDH; tel 215 898 0926

[eizalon@2wharton.upenn.edu](mailto:eizalon@2wharton.upenn.edu)

The text is *Managerial Economics*, Seventh Edition, by W. Bruce Allen, Neil Doherty, Keith Weigelt, and Edwin Mansfield, W. W. Norton, New York, 2009. It is denoted as ADWM in the reading list. It is available at the University of Pennsylvania Bookstore. **This will also be the text in MGEC 621. The seventh edition is substantially different than the sixth edition (especially for the MGEC 621 material and for lectures 8 and 9 in MGEC 603).**

(CP) = material which is available in the course pack (available at study.net)

There will be instructor notes available at study.net. Notes are instructor specific so be sure to get your instructor's notes.

**NOTE: ASSIGNMENTS ARE LISTED THROUGHOUT THE READING LIST. PLEASE GO THROUGH THE LIST AND BE FAMILIAR WITH WHEN THE ASSIGNMENTS ARE DUE.**

## MGEC 603 READING AND ASSIGNMENT LIST

### I. The Economics of Managerial Decision Making: The Foundations

#### A. Introduction, Supply and Demand, Market Equilibrium, and Applications

*Class 1* (August 6):

Introduction to Managerial Economics, Demand, and Market Equilibrium: What Determines the Market Price?

ADWM, Chapter 1, Introduction

*Class 2* (August 9):

Introduction (Continued)

ADWM, Chapter 2 Demand Theory, pp. 24-31

*Class 3* (August 11):

Predicting Market Prices: Price Ceilings, Price Floors, and the Mechanics of Demand Curves; Estimating Demand and the Back of the Envelope Calculation

ADWM, Chapter 3, Demand Theory, pp. 31-56

Louie-Louie Case (CP). **Be prepared to discuss. Nothing to be turned in.**

Additional Reading: Read pp. 17-21 and Conclusion (p. 28) and (skim rest) of Stephen Hoch et. al., "Determinants of Store-Level Price Elasticity", Journal of Marketing Research, February, 1995, (CP)

#### B. Production and Cost Functions

*Class 4* (August 13):

Production Analysis I and II

ADWM, Chapter 4, Production Theory

**Problem Set 1 (CP) Associated with Classes 1-3.**

**The following problems are to be turned in for evaluation on August 17: Additional Problems #6 and #7. This is Assignment 1.**

*Class 5 (August 16):*  
Cost Analysis

ADWM, Chapter 5, The Analysis Of Costs

**REMEMBER ASSIGNMENT 1 DUE ON AUGUST 17**

**C. Simple Pricing Strategies to Maximize Profit**

*Class 6 (August 18):*  
Break-even Analysis and Profit Maximization in Competitive Markets: Price as a Datum

Harvard Business School 584-149, Basic Quantitative Analysis for Marketing, 1984, pp. 13-18 (CP)

ADWM, Chapter 6, Perfect Competition

Pro Production Case (CP). **Be prepared to discuss. Nothing to be turned in.**

*Class 7 (August 20):*  
Simple Profit Maximization with Monopoly Power

ADWM, Chapter 7, Monopoly and Monopolistic Competition

ADWM, Chapter 16, Government and Business, pp. 534-557

Philly Cheesesteak Case (CP). **Be prepared to discuss. Nothing to be turned in.**

**Problem Set 2 (CP) Associated with Classes 4 through 8. The following problems are to be turned in for grading on August 27: Additional Problems #12 and #13. This is Assignment 2**

*Class 8* (August 24):

Sophisticated Profit Maximization with Monopoly Power: Price Discrimination

ADWM, Chapter 8, The Managerial Use of Price Discrimination, pp. 242-260

**REMINDER: ASSIGNMENT 2 DUE AUGUST 27**

*Class 9* (August 26):

Sophisticated Profit Maximization with Monopoly Power: Bundling

ADWM, Chapter 9, Bundling and Intra-firm Pricing, pp. 288-317

Philly Culture Case (CP). **Be prepared to discuss. Nothing to be turned in.**

Problem Set 3 (CP) Associated with Classes 7-9. No problems to be turned in for grading