

Course Code: Econ 5110

Course Title: Managerial Microeconomics (DiMBA)

Instructor: Martin Szydlowski, Department of Economics

Email: mszydlowski@ust.hk

Course Credit: 2-credit

Course Grading: Letter Grade

COURSE OVERVIEW

Warren Buffet once said: "When an industry with a reputation for difficult economics meets a manager with a reputation for excellence, it is usually the industry that keeps its reputation intact." Many managers fail to appreciate the numerous ways in which economic behavior and competition can destroy profitability. This course focuses on understanding individual economic behavior, competition, and market characteristics that are relevant to business and management.

The approach toward teaching and learning managerial economics is primarily inductive. That is, you will learn many concepts and topics largely through lectures, cases, examples, and some simple models — this is the essence of the case study method. The goal is to carefully study specific business situations and decisions to extract broader principles, which will then be available to you in a wide variety of managerial contexts.

COURSE OBJECTIVES / LEARNING OUTCOMES

Students are expected to:

- Analyze key trade-offs in pricing and compare different pricing strategies, based on the understanding of **consumer** demand.
- Apply demand and supply analysis in predicting market price and use game-theoretic methods to analyze strategic decisions, based on the understanding of **competitors'** actions and reactions.
- Analyze organization strategies based on the understanding of **agents'** incentives.
- Examine the impact of asymmetric **information** on markets and firm decisions.
- Be able to communicate microeconomic analysis in business decisions to multiple stakeholder groups.

COURSE OUTLINE

Week 1 — Consumer Demand and Market Structure; Monopoly and Market Power I: Pricing
Preparation: Background Notes on Demand Estimation; Case on "Medicines Co."

Week 2 — Monopoly and Market Power II: Price Discrimination and Distortion
Preparation: Case on "UNIQLO"

Week 3 — Monopoly and Market Power III: Pricing and Incentives; Free Entry Market: Demand-Supply Analysis
Preparation: Case on "Aperture Investors"; Case on "Subsidies and the Global Cotton Trade"; *Group Assignment 1 due*

Week 4 — Oligopoly Market I: Strategic Decisions
Preparation: Note on "Auto-fuel Firms in Hong Kong"

Week 5 — Oligopoly Market II: Innovation and Entry
Preparation: Case on "Netflix Inc.: Disruptor Faces Disruption"; *Individual Assignment due*

Week 6 — Agents and Organization
Preparation: Cases on "P&G Organization" and "P&G Proxy Fight"

Week 7 — Information Economics
Preparation: Case on "Rural Taobao"; *Group Assignment 2 due*

Week 8 — Final Exam
The final is via Zoom from 9:00 to 11:00 on Dec. 19.

GRADING / ASSESSMENT

The grade is made up of five components:

1. **Final Exam (55%):** The final is via Zoom from 9:00 to 11:00 on Dec. 19.
2. **Group Assignment I (10%):** Each group submits answers to a few questions by 9 am on Nov. 14, on the self-learning website.
3. **Individual Simulation (10%):** A link to the online simulation (with instructions) will be available on the self-learning website. Please finish the game by 4 pm on Nov. 27 (Friday).
4. **Group Assignment II (10%):** Each group submits answers to a few questions by 9 am on Dec. 12, on the self-learning website.

5. **Active Class Participation and Contribution (15%):** Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Active engagement also means listening carefully to the comments of other students and seeking opportunities to make comments that move the class discussion forward.

COURSE MATERIALS

The key materials are the lecture notes, cases, and additional readings. You should not distribute these materials outside our class.

(A) Required Reading

- Background Notes on Demand Estimation
- Case on "Medicines Co."
- Case on "UNIQLO"
- Case on "Aperture Investors"
- Case on "Subsidies and the Global Cotton Trade"
- Note on "Auto-fuel Firms in Hong Kong"
- Case on "Netflix Inc.: Disruptor Faces Disruption"
- Cases on "P&G Organization" and "P&G Proxy Fight"
- Case on "Rural Taobao"
- News on T-Mobile (Oct 17, 2023, Wall Street Journal)

(B) Optional Reading

- Png: *Managerial Economics*, 6th Edition, by Ivan Png, Routledge
- BDSS: *The Economics of Strategy*, 7th Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer, Wiley

INSTRUCTOR'S BIO

Martin Szydlowski is an associate professor of economics at the School of Business and Management, The Hong Kong University of Science and Technology. His research is in the areas of game theory, industrial organization, and finance. His recent work examines the design of internet platforms, the emergence of hype cycles, the market for SPACs, and algorithmic trading. Professor Szydlowski's work has been published in *the Journal of Political Economy*, *the Journal of Finance*, and *the Journal of Financial Economics*.

Before joining HKUST, Szydlowski was on the faculty at the University of Minnesota. He received a Ph.D. in economics from Northwestern University, and holds a diploma in economics from the University of Mannheim, Germany. He currently teaches microeconomic theory and corporate finance.

OTHER REMARKS

HKUST Honor Code, Classroom Etiquette and Policies on AI

The HKUST Academic Integrity and Honor Code apply to this course. Also, you should not get any course material from the classes in previous years.

Students are expected to join the online class on time, and the instructor will start the class according to schedule. Students are expected to uphold the same standards of professionalism in online classes as they would in person. Turning off the camera for 15 minutes or longer, using avatars, or adopting any form of pretense can be marked as absent, subject to the instructor's discretion.

For the exam and the preparation of case discussions, generative AI products are NOT allowed. For the group assignments, you can use generative AI products, for example, to search and organize information or data. However, you should state which part of your report is generated by AI and which part is purely based on your group analysis.

Grouping and Learning Activities

The MBA Office will create study groups. The groups are responsible for working on cases and group assignments. Good cases are necessarily complex and ambiguous (but not necessarily new). The problems presented in the case discussion may not have one correct answer. However, there will generally be a set of insights and solutions that are better than others. For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases and readings assigned for that class.