



Econ 5110: Managerial Microeconomics
Syllabus for the Bi-weekly Class
Fall 2025

Time and Venue:

9:30-13:00 and 14:30-18:00, Aug 30, Sep 13, 27, and Oct 18
Exam on Oct 18 (afternoon)

Instructor:

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Department of Economics

Email is always a great way to reach me.

Office Hours: By appointment

TA:

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Course Web Site: canvas.ust.hk

Course credits: 2

Intended Learning Outcomes

This course uses economic analysis to understand individual economic behavior, competition, and market characteristics that are relevant to business and management.

Students are expected to

- Analyze trade-offs in decision-making based on the understanding of **consumer** demand.
- Analyze strategic decisions using demand-supply analysis and/or game-theoretic methods based on the understanding of **competitors'** interactions.
- Analyze organization strategies based on the understanding of **agents'** incentives.
- Be able to communicate microeconomic analysis to multiple stakeholder groups.

Study Groups and the Case Study Method

Please create groups by yourself. Each group should have **at least four but no more than seven members**. The groups are responsible for working on cases and group assignments.

The approach toward teaching and learning managerial economics is primarily inductive. That is, you will learn many concepts and topics outlined above largely through cases, examples, and some simple models – this is the essence of **the case study method**. Good cases are necessarily complex and ambiguous (but not necessarily new). It is in working through the messy details to find these insights and solutions – both in your preparation and in-class discussions – that the concepts and principles introduced in the readings and lectures will come alive and be enriched for you. **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.**

What Materials Will We Use?

The key materials are the lecture notes, cases, and additional readings. You should not distribute these materials outside our class. The following books are just for reference:

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.

How Will You Be Graded?

The grade is made up of five components:

- 1. Final Exam (55%):** The final will be on **Oct 18 (afternoon)**.
- 2. Group Assignment I (10%):** By **9:30 am on Sep 13**, all groups please submit answers to a few questions (to be distributed).
- 3. Individual Simulation (10%):** A URL will be sent to the whole class. Please finish the game by **4 pm on Sep 26**.
- 4. Group Assignment II (10%):** By **9:30 am on Oct 18**, all groups please submit answers to a few questions (to be distributed).
- 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. Class participation will also be evaluated on (1) the effort and incentives to prepare and participate in class discussion, and (2) the evaluation of content:
 - **Relevance:** Are your comments related to the case and the comments of others?
 - **Advancement:** Does your comment move the class discussion forward?
 - **Fact-Based and logical:** Have you used specific data from the case, from readings, or from personal experience to support the assertions that you are making? Is your reasoning logical?

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 class on time and the instructor will start the class according to schedule. Students should demonstrate respect for the instructor and fellow students during the class period. Please try to avoid side conversations when your classmates raise questions or give comments.

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

Brief Course Outline

(Please read the cases but do not spend more than 2.5 hours on each major case. The readings shown in *italic* are only for future reference and are NOT required.)

	Topic	Reading and preparation
Aug 30 AM	Consumers and Market Power I: Pricing	Case on Porsche Drive (B) Case on UNIQLO <i>Case on SHEIN (optional)</i> <i>Png: Chapters 2 and 8 (optional)</i>
Aug 30 PM	Consumers and Market Power II: Price Discrimination	Case on SuperMonkey <i>Png: Chapter 8 (optional)</i>
Sep 13 AM	Competitors and Free/Easy Entry Markets: Demand-Supply Analysis	Case on Graphic Packaging: Project Cowboy Group Assignment I due (9:30 am on Sep 13) <i>Png: Chapters 4 and 5 (optional)</i>
Sep 13 PM	Competitors and Oligopoly Market I: Strategic Decisions	<i>BDSS: Chapters 5 and 7 (optional)</i>
Sep 27 AM	Competitors and Oligopoly Market I: Strategic Decisions (cont'd) Competitors and Oligopoly Market II: Entry	Case on the a2 Milk Company Individual Assignment due (4 pm on Sep 26) <i>BDSS: Chapter 6 (optional)</i>
Sep 27 PM	Agents and Organization I: Decision Rights Agents and Organization II: Incentives	Cases on P&G Organization and Proxy Fight <i>BDSS: Chapter 13 (optional)</i>
Oct 18 AM	Agents and Organization II: Incentives (cont'd) Information Economics	Case on Aperture Investors Group Assignment II due (9:30 on Oct 18) <i>BDSS: Chapter 12 (optional)</i>
Oct 18 PM	Exam	

Case Preparation Questions

When reading the cases, please keep these questions in your mind. There is no need to submit written answers. You can discuss the cases with your group members when preparing for class discussions.

Aug 30 (AM): Porsche Drive

1. Cost-based pricing: If one-year vehicle depreciation accounts for 50% of the total direct costs, and considering all indirect costs as sunk (money that has been spent and cannot be recovered), what is the single-vehicle subscription profit margin for the Porsche Macan S (its MSRP price was \$84,185) in Exhibit 3? Assume that all subscription cars have not been in any accidents and do not have large mileages when they retire after one year of service.
2. Value-based pricing: Suppose that a consumer faces two options, (A) subscribing to a Macan S for 12 months or (B) financing it for 12 months and then selling it. What is the subscription price per month that could maximize the company's profit? The model in the Excel file can be used to analyze the financing option.

Aug 30 (AM): UNIQLO

1. In a vertical relationship between an upstream supplier and a downstream distributor, do you see potential distortions in price that may destroy value? How does UNIQLO solve these distortions?
2. Why do H&M, Zara, and UNIQLO use different strategies to avoid potential distortions in the vertical relationships?

Aug 30 (PM): SuperMonkey

1. Why do most gyms adopt the membership-based model?
2. What are the pros and cons of the pay-per-session model adopted by SuperMonkey? Is the price range of RMB 89 to 179 reasonable?
3. Should SuperMonkey accelerate the opening of new stores?

Sep 13 (AM): Graphic Packaging: Project Cowboy

1. Should Graphic Packaging (GPK) invest in the cowboy project? Are the economic returns sufficiently attractive? What are the potential risks associated with the project? The Excel file contains some data for the case (especially about industry capacity and costs). Some other data from the case might be useful too: the firm's capital cost or discount rate is 7%, corporate tax rate is 21%, the total capital expenditure is \$640 million, the construction of the project

takes two years, and the firm predicts that (given the industry capacity) the market price is likely to be between \$600 and \$900.

Sep 27 (AM): The a2 Milk Company

1. What strategic decisions did a2MC make that enabled it to enter the Australian dairy processing industry successfully? Why didn't incumbents like Fonterra respond to a2MC's entry earlier?
2. What should a2MC do after Nestle started selling a2 products?

Sep 27 (PM): P&G Organization, Proxy Fight, and Updates

1. Why did the US organization structure of P&G shift from (decentralized) product grouping in the 1950s to a matrix in the 1980s? Why did the European organization structure shift from geographic grouping in the 1950s to product (category) grouping in the 1980s? What are the key features of Organization 2005? Think of the pros and cons of each structure.
2. Following the proxy fight in 2017, P&G changed its organization structure again in 2019-2020. David Taylor, CEO of P&G, said "The design eliminates the 3-way matrix and moves to one axis: sector business units." Each of the six sector business units (SBU) takes all the profit, sales, and cost responsibilities for larger geographic markets. Corporate resources are reduced significantly and shifted closer to markets. What were the possible reasons for this change?

Oct 18 (AM): Aperture Investors

1. Most mutual fund companies charge a fee based on AUM (asset under management) and pay their portfolio managers based on AUM. This incentive scheme motivates managers to expand AUM. Would this strategy tend to increase or decrease fund performance (excess returns)? Why?
2. The new fund, Aperture Investors, charges a fee based on profit rates (i.e. excess returns). Would this strategy be successful or not?