

206 MICROECONOMIC ANALYSIS

Winter Term, 2000

(Full Time MBA)

Lecturer:

Associate Professor Vivek Chaudhri

E-Mail: v.chaudhri@mbs.unimelb.edu.au

Broad Aims of Subject:

Students should:

- gain an appreciation of the value of economic reasoning in solving business problems;
- develop the fundamental economic analytical skills required to read the literature in finance, marketing and business strategy.

Assessment:

The assessment for the subject is as follows:

One-Hour Mid-term Exam (Open Book)	40%
Two-Hour Final Exam (Open Book)	60%

The mid-term exam will be held during class on **Friday 16th June**.

Reading:

Reading Pack: The reading pack contains the following:

- *Lecture Notes:* The lecture notes cover all of the slides used in the subject. From time to time these slides will be updated. If you wish to obtain the updated slides or alternatively an electronic copy so that you can modify them yourself, please visit the subject web page.
- *Worked Cases:* For most of the topics there are mini-cases or examples that you should attempt before the class. The process of struggling with the concepts **prior to coming to class** forces an understanding that goes beyond mere rote and recitation.

- *Problem Sets and Solutions*: You may work from these at your own discretion. Note, however, that they (and the worked cases) are your best guide as to the type of questions in the exams.
- *Prescribed Reading*:
 - Joshua Gans, Stephen King and Gregory Mankiw (1998), *Principles of Microeconomics*, Harcourt-Brace: Sydney. [GKM]
 - Brandenburger, A. and B. Nalebuff (1996), *Coopetition*, Doubleday. [BN]
- *Optional Reading*:
 - Besanko, D. et.al., (2000), *The Economics of Strategy*, Wiley.
 - Dixit, A. and B. Nalebuff (1993), *Thinking Strategically*, Norton.
 - Hakes, D.R. and R.B. Harris (1997), *Study Guide to Mankiw's Principles of Economics*, Dryden Press.
 - Landsburg, S. (1993), *The Armchair Economist*, Free Press.

Subject Outline and Guide:

Readings are divided into three types:

- *Pre-reading*: you should read these *before* the commencement of the topic in class
- *Required reading*: it is recommended that you read these *after* the topic has been lectured.
- *Additional reading*: these readings are optional, for those interested in the topic. They are not examinable.

Introduction

(May 19th)

- No pre-reading or worked cases

- Required Reading:

GKM, Chapters 1 and 2

BN, Chapters 1 and 3

Topic 1: Creating Value

(May 19th)

- No pre-reading
- Required Reading:

GKM, Chapter 3

BN, Chapter 2

Topic 2: Added Value in Trade

(May 26th)

- No pre-reading
- Required Reading:

GKM, Chapter 3

- Additional Reading:

Michael Porter, "Clusters and the New Economics of Competition," *Harvard Business Review*, Nov-Dec, 1998, pp.77-90.

Topic 3: Monopolistic Markets

(May 26th)

- No pre-reading
- Required Reading:

BN, Chapters 4 and 5

GKM, Chapter 15 (pp.299 - 303)

- Additional Reading:

John McMillan, "Bidding in Olympic Competition," *Games, Strategies and Managers*, Oxford, 1992, Chpt 13.

"ER could fetch \$14m a show as networks start bidding war," *The Age*, 4 November, 1997, p.B3.

Topic 4: Costs of Producing to Mass Markets (June 2nd)

- Pre-Reading:

GKM, Chapter 13

- No Required Reading
- Additional Reading:

Shlomo Maital, "Do You Know Where Your Costs Are?" in *Executive Economics*, Free Press, 1994, Chpt 4.

Topic 5: Pricing to Mass Markets (June 2nd)

- Pre-Reading:

GKM, Chapters 5 (pp.87-96), 15 (pp.304-329)

- Required Reading:

BN, Chapter 6

Topic 6: Pricing with Multiple Buyers and Sellers (June 9th)

- Pre-Reading:

GKM, Chapters 4 and 5

- Required Reading

GKM, Chapter 6

- Additional Reading:

GKM, Chapter 7

Topic 7: Production in Perfectly Competitive Markets (June 16th)

- Pre-Reading:

GKM, Chapter 14

- No Required Reading
- No Additional Reading

Topic 8: Barriers to Entry and Competition (June 23rd)

- Pre-Reading:

GKM, Chapter 17

- No Required Reading
- Additional Reading:

Carl Shapiro and Hal Varian, "Versioning: The Smart Way to Sell Information," *Harvard Business Review*, Nov-Dec., 1998, pp.106-114.

Topic 9: Game Theory Revisited (June 30th)

- No Pre-Reading
- Required Reading:

GKM, Chapter 16 (pp.333-350)

- Additional Reading:

Robert Gibbons, "An Introduction to Applicable Game Theory," *Journal of Economic Perspectives*, 11 (1), 1997, pp.127-149.

A. Dixit and B. Nalebuff, "Anticipating Your Rival's Response," in *Thinking Strategically*, Norton, 1993, Chapters 2 and 3.

Topic 10: Oligopoly (July 7- July 14th)

- Pre-Reading

GKM, Chapter 16 (Appendix)

- Required Reading:

GKM, Chapter 16 (pp.350-356)

- Additional Reading:

D. Besanko et.al., "Market Structure and Competition," in *The Economics of Strategy*, Wiley, 2000, Chpts 7,8 and 9.

Scott Adams, "Marketing in the Future," *The Dilbert Future*, Harper, 1997, Chpt 9.

Review and Extensions to Business Strategy (July 21st)

