

Economics 351x: Microeconomics for Business

Fall 2018

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Course Information

Textbook

Some students prefer to have a textbook, but others find it unnecessary. Hence, the text is recommended but not required. The recommended textbook for our class is Microeconomics for Business (Third Custom Edition for USC). This book was custom made for our class. It contains 15 chapters from the book Microeconomics by Pindyck and Rubinfeld, 9th edition, and 3 chapters from the book Microeconomics by Hubbard and O'Brien, 6th edition. I provide book chapter type lecture notes in the form of online pdf files. Many may find that these notes are sufficient to learn the material. The notes form a succinct book on microeconomics for business decisions and they contain problems. The text is expensive, so that those who prefer to read a book might consider buying an older edition of Pindyck and Rubinfeld online. The three chapters from Hubbard can be skipped, as they cover background material which is discussed in my lecture notes.

My Lecture Notes

These are available at my web page in pdf form and they are password protected. The link for my page is

<http://www-bcf.usc.edu/~amarino/>

Please click on the teaching link in the cover page and then click on the 351x link in the course page. All other course materials can also be downloaded from this page.

Grading Scheme

Your grade will be based on the following scheme:

- Four out of five quizzes worth 40% of your grade.
- A midterm exam worth 25% of your grade. (Tuesday 10/9/18)
- A final exam worth 35% of your grade. (8AM Section: Tuesday 12/11/18 4:30-6:30 PM. 10 AM Section: Thursday 12/6/18 11-1PM)

Examination Policy

University policy requires the final exam to be given at the time indicated by the University's final exam schedule. Instructors do not have discretion to grant exceptions to this policy. No student is allowed to take the final exam earlier or to skip the final exam.

There will be no make-up tests. By enrolling in the course you are committing to take the tests on the scheduled dates. If a quiz is missed, it receives an automatic zero. If the **midterm** is missed for an approved reason, the weight of the final exam is increased to compensate for the missed midterm. Approval for a missed midterm will be **rare**, and only with appropriate written documentation from an authoritative source indicating why the student was unable to appear for the midterm. Normally, only a doctor's certification of a severe medical problem will suffice.

Each quiz will address the subject matter that precedes it. The midterm covers the first part of the course. The final exam is cumulative.

Regrades must be requested within one week of the day the exam was returned to the class. The student must submit a written and precise explanation of why he/she thinks the grade should be modified. The entire exam will be regraded and the final mark may go up or down.

Returned paperwork, unclaimed by a student, will be discarded after 4 weeks and hence, will not be available should a grade appeal be pursued by a student following receipt of his/her course grade.

Office Hours: Tuesday and Thursday 2-3:30 pm.

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web page: <http://www-rcf.usc.edu/~amarino/> or <http://www-rcf.usc.edu/~amarino/main.html> (the second version has no frames)

Topics and Readings

1. Introduction.

- a. Models and Economic Theory - Ch 1 and Lecture Notes [LN 1](#).
- b. Supply and Demand Analysis - Ch 4 and [LN 1](#).
- c. Mathematics Review - [LN 2](#).

2. Consumer Choice and Demand.

a. The Consumer's Choice Problem and the Derivation of an Individual's Demand - Ch 5 and [LN 3](#).

b. Individual and Market Demand - Ch 6 and [LN 3](#).

c. Two Topics in Consumer Theory- Ch 6 and [LN 4](#).

d. Choice Under Uncertainty - Ch 7 and [LN 5](#).

3. Production and Cost

a. Production Theory- Ch 8 and [LN 6](#).

b. Cost Theory- Ch 9 and [LN 7](#).

4. Perfect Competition

a. The Competitive Firm - Ch 10, Ch16 and [LN 8](#).

b. Applications of Perfect Competition - Ch 11 and [LN 8](#).

5. Imperfect Competition

a. The Profit Maximizing Monopoly and Monopsony - Ch12, Ch16 and [LN 9](#)

b. Pricing Strategy with Market Power - Ch 13 and [LN 10](#).

c. Oligopoly - Ch 14 and [LN 11](#).

d. Game Theory and Competitive Strategy - Ch 15 and [LN 12](#).

7. Markets with Asymmetric Information and Public Goods

a. Asymmetric Information – Ch 17 and [LN 13](#).

b. Externalities and Public Goods - Ch 18 and [LN 14](#).

Tentative Schedule

Session	Date	Topic	PR	Marino
1 T	8/21	Methodology, The Market System, Supply and Demand, 1.a,1.b	Ch1,4	LN1
2 Th	8/23	Supply and Demand, 1.b, and Math Review, 1.c	Ch1,4	LN1, LN2
3 T	8/28	Math Review, 1.c, Demand, 2.a	Ch5	LN2, LN3
4 Th	8/30	Demand 2.a, 2.b	Ch5, Ch6	LN3
5 T	9/4	Demand, 2.b	Ch6	LN3
6 Th	9/6	Consumer Theory Topics, 2.c Quiz 1*****	Ch6	LN4
7 T	9/11	Consumer Theory Topics, 2.c, Uncertainty, 2.d	Ch6, Ch7	LN4, LN5
8 Th	9/13	Uncertainty, 2.d	Ch7	LN5
9 T	9/18	Uncertainty, 2.d, Production, 3.a	Ch7, Ch8	LN5, LN6
10 Th	9/20	Production, 3.a, Cost, 3.b Quiz 2*****	Ch8, Ch9	LN6, LN7
11 T	9/25	Cost, 3.b	Ch9	LN7
12 Th	9/27	Perfect Competition, 3.a	Ch10	LN8
13 T	10/2	Perfect Competition,3.a, 3.b	Ch10,Ch11,Ch16	LN8
14 Th	10/4	Perfect Competition, 3.b	Ch11	LN8
15 T	10/9	Midterm*****		
16 Th	10/11	Monopoly, 5.a	Ch12	LN9
17 T	10/16	Monopoly, 5.a	Ch12	LN9
18 Th	10/18	Monopsony, 5.a and Pricing, 5.b	Ch12,Ch13,Ch16	LN9, LN10
19 T	10/23	Pricing, 5.b	Ch13	LN10
20 Th	10/25	Oligopoly Quiz 3*****	Ch14	LN11
21 T	10/30	Oligopoly	Ch14	LN11
22 Th	11/1	Oligopoly	Ch14	LN11
23 T	11/6	Games and Competitive Strategy	Ch15	LN12
24 Th	11/8	Games and Competitive Strategy Quiz 4*****	Ch15	LN12
25 T	11/13	Auctions	Ch15	LN12
26 Th	11/15	Auctions, Asymmetric Information	Ch15, Ch17	LN12, LN13
27 T	11/20	Asymmetric Information, Externalities and Public Goods	Ch17, Ch 18	LN13, LN14
28 T	11/27	Externalities and Public Goods Quiz 5*****	Ch18	LN14
29 Th	11/29	Review *****	*****	*****

*******Final Exam: 8AM section: Tuesday 12/11/18 4:30-6:30PM. 10AM Section Thursday 12/6/18 11-1PM*******

Course Description

1. The goal of this course is to provide the student with an understanding of the operation of a system of prices and markets in determining an allocation of resources in a market economy. We will discuss the properties of such an allocation and the circumstances under which a market system cannot provide an efficient allocation.
2. In our description of the market economy, various sectors or decision making units will be modeled. For example, we will describe the derivation of market demand through a theory of consumer behavior and choice. We will describe the production technology and cost structure of the firm in an effort to characterize the market supply schedule. We will discuss market supply under different market organizations, pricing strategies and the economics of competitive strategy. Finally, we will provide a complete discussion of decision making, demand and supply in input or resource markets. We will also discuss asymmetric information and public goods.
3. The above decision making problems will provide the student with a foundation for the study of choice in many areas of business. For example, the economics of consumer choice underlies much of modern marketing strategy, including pricing, segmentation and advertising. The theory of the firm contributes to a sound understanding of cost accounting as well as production decisions. Economic analysis of intertemporal decisions and behavior in a risky environment form the foundation of finance. Finally, the study of market failure and industrial structure is necessary for an understanding of government's role in a market economy and the political environment for business..
4. This course is designed to examine all of the areas in which microeconomic reasoning is a necessary basis for making informed business decisions. With this course you should be able to apply microeconomic analysis to issues of real world interest both within and beyond the area of business.

Prerequisites

Although our focus will be on the intuition behind the microeconomic models and their real world consequences, the use of mathematics (in particular, algebra and calculus) will be necessary to analyze and understand such models. For example, you may be asked to draw and interpret graphs representing demand and supply, to solve a system of equations describing a competitive market, or to compute the derivative of a profit function. MATH 118 is a prerequisite for ECON 351x. Therefore, I expect students to have a good understanding of the material covered in that class.

Learning Objectives

Upon completion of this course you will be able to:

1. Apply graphical and algebraic analytical technics to the analysis of resource allocation through an understanding of economic theories and models.
2. Apply the basic demand-supply market model to goods markets and factor markets by identifying and analyzing the values of equilibrium prices and quantities as determined by market forces.
3. Differentiate and apply different aspects of neoclassical economic theory by examining the dynamics of consumer, firm, and market forces and calculating their impacts.
4. Apply the model of behavior in risky circumstances by calculating expected utility, expected income, and certainty equivalents.
5. Explain the role of game theory in economic models by representing various game-theoretic interactions.
6. Explore market power by examining the impact of monopoly, monopsony, and oligopoly on resource allocation.
7. Analyze the impact of various forms of government interference in markets by calculating the changes in consumer and producer surplus, and deadweight loss.
8. Analyze the impact of asymmetric information on market efficiency by explaining examples of adverse selection, moral hazard, and the principal-agent problem.

Alignment with Marshall School of Business Program Learning Goals

Learning Goals: In this class, emphasis will be placed on the USC Marshall School of Business learning goals as follows:

Goal	Description	Course Emphasis
1	Our graduates will understand types of markets and key business areas and their interaction <i>to effectively manage different types of enterprises</i>	High
2	Our graduates will develop a global business perspective. They will understand how local, regional, and international markets, and economic, social and cultural issues impact business decisions <i>so as to anticipate new opportunities in any marketplace</i>	Moderate
3	Our graduates will demonstrate critical thinking skills <i>so as to become future-oriented decision makers, problem solvers and innovators</i>	High

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| 4 | Our graduates will develop people and leadership skills to promote their effectiveness as <i>business managers and leaders</i> . | Low |
| 5 | Our graduates will demonstrate ethical reasoning skills, understand social, civic, and professional responsibilities and aspire to add value to society | Low |
| 6 | Our graduates will be effective communicators <i>to facilitate information flow in organizational, social, and intercultural contexts</i> . | Low |

ADDITIONAL INFORMATION

Academic Integrity and Conduct

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one’s own academic work from misuse by others as well as to avoid using another’s work as one’s own (plagiarism). Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. All students are expected to understand and abide by the principles discussed in the SCampus, the Student Guidebook (www.usc.edu/scampus or <http://scampus.usc.edu>). A discussion of plagiarism appears in the University Student Conduct Code (section 11.00 and Appendix A).

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> . Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the Office of Equity and Diversity <http://equity.usc.edu/> or to the Department of Public Safety <http://dps.usc.edu/contact/report/> . This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report or can initiate the report on behalf of another person. Relationship and Sexual Violence Prevention and Services (RSVP) <https://engemannshc.usc.edu/rsvp/> provides 24/7 confidential support, and the sexual assault resource center webpage <https://sarc.usc.edu/reporting-options/> describes reporting options and other resources.

Support Systems

Students whose primary language is not English should check with the *American Language Institute* <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students. *The Office of Disability Services and Programs* (www.usc.edu/disability) provides certification for students with disabilities and helps arrange the

relevant accommodations. If an officially declared emergency makes travel to campus infeasible, *USC Emergency Information* (<http://emergency.usc.edu/>) will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

Students with Disabilities

The Office of Disability Services and Programs (www.usc.edu/disability) provides certification for students with disabilities and helps arrange the relevant accommodations. Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. Email: ability@usc.edu.

Marshall Tutoring Program

The Marshall Office of Undergraduate Advising offers Peer Tutoring as a supplement to classroom instruction. Marshall Peer Tutors are able to assist students in understanding and clarifying difficult concepts, but tutoring sessions are effective only if students regularly attend class and actively engage in the process of thinking critically about the course content.

Marshall Peer Tutoring services are available for core courses that are traditionally challenging, including ECON 351x. Students can choose to participate in group tutoring sessions or drop-in tutoring sessions. Most students will benefit from group tutoring in particular, as the purpose of group tutoring sessions is to review and discuss content covered in the previous and current week.

For more information please go to <http://students.marshall.usc.edu/undergrad/marshall-peer-tutoring-program/> .

Other Policies

Please turn off your cellular phones before entering the classroom. They may not be used during classes. Since your phone should be turned off, texting during class is not only disrespectful, but it is also a serious violation of class policy.

Students are strongly encouraged to ask questions during class and during office hours. Most times it is not feasible to give a comprehensive answer to questions sent to me by e-mail. If you send me a question by e-mail and I believe that it is not feasible to give a satisfactory answer to that question by e-mail, I will ask you to come to my office hours.