

45-710 Sections A, B and C  
(6 units)

**MANAGERIAL ECONOMICS**  
Carnegie Mellon University  
Tepper School of Business

Fall 2015

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## **INTRODUCTION AND OVERVIEW**

This is a course in managerial economics. The focus is on how a business manager can use microeconomics to make better decisions. This means that you will not only be expected to understand the theory of microeconomics but you must also be able to apply it.

The basic questions of microeconomics are related to three general topics: consumers, producers and markets. After you leave the Tepper School you will typically get a job working for a firm that produces some good or service to sell to consumers. Producers and the consumers typically agree on prices in a market. There are different types of firms and different types of consumers and different types of markets. What we will cover are the general characteristics common to each.

We will also study how and why consumers trade. The focus will be on identifying gains from trade and the recognition that trade is not a zero-sum game.

We learn how a business firm takes inputs and combines them to make a final good. The important questions are: “How much of each input should be used?,” “How should the inputs be combined?” and “How much should the firm produce?” These basic questions are fundamental to every firm.

The final section deals with what happens when consumers and producers meet in a market. We will concentrate on the different types of markets and how the production decision of a firm changes with these different markets.

These questions are fairly basic and their solutions are relatively simple. In class I will present the general approach to these problems and work some examples. In the problem sets you will learn to solve different problems with similar procedures. The goal is for you to be able to take a verbal description of a problem and know how to solve it.

We will use mathematics to solve problems in class and you will be expected to use mathematics to solve problems on problem sets and exams. It is assumed that each of you is familiar with calculus. On exams, I do not want to test your mathematics, hence you can earn “some” credit by giving an answer in which you only set up a mathematics problem which you cannot solve, if you correctly explain how you would have used the answer. It is not possible to pass this course by always using this procedure, but you can get partial credit on some problems.

## TEXTBOOK

Microeconomics eighth edition (ISBN: 978-0-13-285712-3) by Robert Pindyck and Daniel Rubinfeld published by Prentice Hall. (A used copy, previous edition, will likely meet your needs.)

The classroom lectures will be a combination of theory, models and applications. The book is a complement to the lectures not a substitute. The book is full of wonderful examples.

## PROBLEM SETS

Managerial economics is only learned through working problems. This means you must understand the homework problems and the examples worked in class. Individually working and understanding the problems is beneficial for two reasons. First, this is what you must do to learn economics and be able to apply these concepts in future courses and in your career. Second, the problem sets and the class examples are similar to the problems on the midterm and the final, therefore understanding the problems is needed to earn a satisfactory course grade.

There will be four graded problem sets. In addition, the course packet contains some additional questions for practice. You may work in small groups on the problem sets. However, each person must submit their own answers. Copies of someone else's work are not acceptable. The problem sets are due at the beginning of class on the due date. Late problem sets are not acceptable, i.e. you will receive a zero.

Do not consult previous course packets from any part of this course.

## EXAMS

Exams will be open book and open notes. You may use laptop computers to view your digital notes. Calculators are fine. You should not access the internet or other individuals.

## GRADING

The final course grades will be determined by the following method:

Problem Set Average	30%
Mid-Term Grade	35%
Cumulative Final Exam Grade	35%.

This will not be changed under any circumstances. Please take your midterm seriously. Final letter grades will be determined by the following scale:

A	90 - 100
B	80 - 89.999
C	70 - 79.999
R(failure)	below 70.

I may choose to curve the final class grades; however, this will not hurt anyone. A curved grade can only be higher than the grade given by the above scale. Plus or minus will be assigned on natural breaks in the distribution of final grades.

## GRADING PROBLEMS

If there is a mistake in grading one of your papers (problem sets or exams) you may have your paper regraded. To get a paper regraded, submit a clearly written explanation of the mistake with the entire paper. The statute of limitations for having your paper regraded is two weeks after the problems set is returned. I will not change a grade after that time. This is to encourage looking over problems sets and the midterm during the mini. This keeps you familiar with the material and will make studying for the final easier.

## Course Schedule for Managerial Economics Fall 2015

Class Meeting	DATES	TOPICS	TEXT	COMMENTS
1	Sept 1	Costs, Production Functions and The Cost Curve	p. 229-242, Chapter 6	
2	Sept 3	Cost Curves and Supply Curve	p. 279-292	
3	Sept 8	Demand Curves and Elasticities	p. 111-118, 124-135 (scan Appendix Chapter 4)	Problem Set 1 due
4	Sept 10	Short Run Equilibrium	p. 292-300	
5	Sept 15	Price Controls and Government Intervention	Chapter 9	Problem Set 2 due
6	Sept 17	(Continuation)		
7	Sept 22	Midterm		In class
8	Sept 24	Market Power and Monopoly	p. 357-382	
9	Sept 29	Price Discrimination	p. 399-419	Problem Set 3 due
10	Oct 1	(Continuation)		
11	Oct 6	Strategic Interactions (Game Theory)	p. 487-516, 456-472	Problem Set 4 due
12	Oct 8	(Continuation)		
13	Oct 13	Optimal Contract (Information Economics)	p. 643-656	
	Oct 20	Cumulative Final Exam – 9:00am to noon.		

## **RECORDINGS**

No student may record any classroom activity without the express written consent of Professor Fallaw Sowell. If a student believes that he/she is disabled and needs to record or tape classroom activities, he/she should contact the Office of Equal Opportunity Services, Disability Resources to request an appropriate accommodation.

## **MOBILE DEVICES AND LAPTOPS DURING CLASS**

Research on learning shows, unexpected noises and movement automatically divert and capture people's attention, which means you are affecting everyone's learning experience if your cell phone, pager, laptop, etc. makes noise or is visually distracting during class. I ask you to turn off your mobile devices and close your laptops during class. If you take notes on your laptop, you must turn the sound off so that you do not disrupt other students' learning. You should only be taking notes on your laptop. Ensure that other students are not distracted by your screen.