

Microeconomics

Module 1, 2018-2019

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Course description

The course addresses a range of business strategy questions through microeconomic theory and serves as an introduction for further finance courses. We will consider the following questions. How do markets work? How do firms compete? How to measure firm's market power? What is a natural monopoly and why do governments regulate them? Why have we seen consolidation of stock exchanges in the recent past? How firms can implicitly collude and maintain a cartel successfully? How to align incentives between managers and shareholders? How to provide incentives for workers? What is an optimal size of a firm? These and other questions will be answered using standard microeconomic and game theoretic models. Thus, a student who successfully complete the course will be able to apply these methods to the analysis of practical business problems.

Course requirements, grading, and attendance policies

Grading policies: The grade is made up of four components

Cases and Class Participation (15%): There will be three case studies during the course, which we will discuss in class after the relevant topic is covered. All students will be split in teams for case preparation. It is essential to prepare for each case and answer the assigned questions in writing. Each team should sign up for leading one in-class presentation, and be active during presentations of other teams. Full grade for this part includes written answers to cases and in-class discussions.

Problem Set (10%): An analytical problem set based on the material covered in lectures and seminars

Midterm Exam (30%): The midterm will be a written take-home exam – answering a set of questions regarding a case study and solving related microeconomic problems.

Final Exam (45%): A comprehensive exam

Course Schedule

Week	Topic	Reading (relevant chapters)
1	Supply, Demand. Perfect competition and equilibrium in short- and long-term. Comparative statics. Government intervention and tax incidence.	BDSS: Primer PR: 2, 9
2	Monopoly. Price discrimination. Natural monopoly: minimum efficiency scale and networks. Regulation.	BDSS: Primer, 6 PR: 10, 11
3	Basics of Game Theory. Static and dynamic games. Monopolistic competition. Oligopoly. Bertrand and Cournot competition. Cartels and repeated games.	BDSS: Primer, 6-10 PR: 12,13
4	Commitment. Coordination. Collusion. Entry and Exit. Industry analysis	Simulation: OPEQ BDSS: 6-10 PR: 12,13
Take-home midterm		
5-6	Risk and uncertainty. Expected Utility. Risk aversion and insurance. Incentives: asymmetric information, moral hazard, incentive contracts, incentives in teams. Implicit contracts and career concerns.	Case: “Cola Wars” BDSS: 15 PR: 5, 17 Case: “Incentives in HMC”
7	Firm’s size and scope: boundaries of the firm and vertical integration.	BDSS: 2-4 Case: “Disney and Pixar”

Description of course methodology

The students will learn both through interactive lectures (approximately 65% of the time) and through real-life examples. Seminars will be devoted to solving standard microeconomics problems and learning formal microeconomics methods.

The course involves a substantial amount of reading, most importantly the textbooks and the case studies assigned each week. The problems presented in the case or news discussion may not have one correct answer. However, there will generally be a set of insights and solutions which are better than others. The most important benefit of discussing the case studies is to work out the trade-offs that the real-life managers face in their strategic decision making.

Course materials

Required textbooks and materials

The Economics of Strategy, 6th Edition, by David Besanko, David Dranove, Mark Shanley, and Scott Schaefer (BDSS).

Microeconomics. Daniel Pindyck and Robert Rubinfeld (PR). (Russian translation of the 3rd edition is published by Delo in 2000, available at NES Library)

Cases:

Yoffie, David. “Cola Wars Continue: Coke and Pepsi in 2010.”

Hall, Brian, and Jonathan Lim. “Incentive Pay for Portfolio Managers at Harvard Management Company.”

Collis, David, Juan Alcacer, and Mary Furey. “The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire?”

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated. Cases and Problem set can be discussed in study groups. Midterms and exams must be completed on your own.