

Australian Graduate School of Management

Mngt 5200: CORE ECONOMICS

Term 1, 2004

Lecturers

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Lecture Times and Venues

- Cohort A: Mondays 12:30 to 1:50 and Thursdays 3:30 to 4:50 in HDR
- Cohort B: Mondays 3:30 to 4:50 and Thursdays 12:30 to 1:50 in HDR
- Combined tutorial (optional): Tuesdays 12:30 to 1:50 in JBR from Week 2

What is Core Economics About?

Core Economics is an introduction to microeconomics (the economics of the market) and macroeconomics (the economics of the country) for people who have done little or no economics before.

Core Economics is the first of many courses offered by the Economics Group here at the AGSM — at the moment Robin Stonecash, Chongwoo Choe, and Bob, and soon to include Benoît Julien from North America. Chris is helping out in Benoît's absence.

Bob will introduce modelling, before he and Chris spend five weeks on the basics of the economics of the market and the behaviour of firms. Chris will spend three weeks on an introduction to macroeconomics, before Bob returns with a week of game theory.

Economics is not just telling stories or looking at once-off cases. It tries to discern the underlying patterns and forces in markets, in order to better understand the economic world, and eventually to change it. Since they swim in markets, firms had better understand how markets work. We introduce modelling, which can be done in many ways, as a way of simplifying a complex reality.

Market behaviour includes the concepts of demand, supply, and market equilibrium: what determines demand? supply? How do they together determine the quantity and price of the exchange of goods or services? How will the equilibrium change in response to changes in information, in tastes and preferences and in government policy?

We introduce the dimensionless measure of elasticity, and show how it's pervasive in economics, marketing, and finance. We also introduce the idea of opportunity cost — of what is forgone when a decision is made — and show its relation to the economist's idea of profit.

How do firms behave? In many ways, of course, but a firm that ignores the bottom line for long won't be around for longer. And it depends on the kind of market the firm

operates in — competitive, monopolistic, or between. We look here at these first two market structures.

Bob's final week (Week 9) introduces a framework for understanding and predicting strategic interactions between parties — where my actions affect you, and vice versa. Game theory can be useful to understand and predict behaviour in markets, inside organisations, and even in families.

Weekly Lecture Outline

1. Introduction to Economics, Micro and Macro
2. The Competitive Market Model
3. Applications of the Competitive Market Model
4. The Firm
5. Market Power: Monopolies and Monopolistic Competition
6. Macroeconomics: Meanings and Measurements
7. Determining Economic Growth
8. How Money Matters
9. Strategic Behaviour

Assessment:

Week 3: Individual Assignment	15%
Week 5: Mid-term Exam (in-class, on 26/2)	25%
Week 9: Group Assignment	25%
Week 10: Final Exam (Two-hour)	35%

Assessment for this course will consist of one individual assignment, one group assignment (AGSM-determined teams of 5), an in-class midterm (70 minutes), and a two-hour exam in Week 10. Students in a group will in general get the same score for their assignment, but there will be a process to deter free riders and to deal with any breakdowns in group dynamics.

Late submissions will incur a 10% penalty for each day (or fraction of a day) they are late. The maximum penalty is 50%, after five days, after which no late assignments will be accepted.

To pass the course, the final exam must be passed, no matter what the performance on the other three items of assessment.

Course Materials

Text and Readings:

The text is Gans, King, Stonecash & Mankiw (GKSM), *Principles of Economics*, 2nd

edition, Thomson, 2003. There is a Blue Pack to pick up at Reception. This contains readings from various sources for each week.

Lecture slides:

Will be available from the *Core Economics* homepage:
<http://www.agsm.edu.au/~bobm/teaching/ce.html>

Optional Readings:

Will be noted in class from time to time.

Lecture Reading Guide

28/1: Introduction to Economics, Micro and Macro, Using Models.

- GKSM, Chapter 1: Ten Principles of Economics, pp. 4–14.
- Kay, J. 1996, Economics and business. (Course pack 1)

29/1: Models in Economics.

- GKSM, Chapter 2: Thinking Like an Economist, pp. 20–28.

Worked Example: Besanko & Braeutigam, 2002, DRAM chips, opportunity costs, and the difference between accounting costs and economic costs. (Course pack 3)

- Maital, S. 1994, Hidden costs. (Course pack 2)

2/2: The Competitive Market Model: Supply and Demand

- GKSM, Chapter 4: The Market Forces of Supply and Demand, pp. 64–82.
- Gregory, D., 2003, Too many lobsters make for a very Crustacean Christmas. (Course pack 4)
- Glug, glug, glut, *The Economist*, 1999. (Course pack 5).

5/2: The Competitive Market Model: Elasticity

- GKSM, Chapter 5: Elasticity and its Application, pp. 90–106.

Worked Example: Mansfield & Yohe, 2001, Fur sales take a hit, (Course pack 8)

Worked Example: Mansfield, Allen, Doherty, & Weigelt, 2001, Price cutting at the *Times*, (Course pack 9)

- Extract from Lewis, M. 1989, *Liar's Poker*. (Course pack 6)

9/2: Applications of the Competitive Market Model I

- GKSM, Chapters 6: Supply & Demand, pp. 112–125, and 7: Consumers & Producers, pp. 134–149.

Worked Example: Mansfield, The cocaine epidemic, 1997. (Course pack 11)

Worked Example: Mansfield & Yohe, 2000, What would the effects of national dental insurance be? (Course pack 10)

12/2: Applications of the Competitive Market Model II

- Christensen, R.T, and Jordan, W., 2001, The two-period model, in their *Fundamentals of Corporate Finance*, NY: McGraw-Hill, pp. 20–31. (Course pack 7)

16/2: The Firm: Costs

- GKSM, Chapter 13: The Costs of Production, pp. 264–278.

Worked Example: Mansfield, Allen, Doherty, & Weigelt, 2001, How Harley-Davidson has reduced costs, (Course pack 13)

Worked Example: Mansfield, Allen, Doherty, & Weigelt, 2001, How Nucor stays on the production function. (Course pack 14)

- Maital, S. 1994, Sunk costs and tennis elbow, (Course pack 12)

19/2: The Firm: Supply Curves etc.

- GKSM, Chapter 14: Firms in Competitive Markets, pp. 284–300.

Worked Example: Besanko & Braeutigam 2002, Free entry into an increasing-cost industry. (Course pack 17)

Worked Example: Mansfield, 1988, Rice-milling in Indonesia, (Course pack 16)

- Samuelson, P.A. 1970, Airline takes the marginal route, (Course pack 15)
- Non-profit objectives. (Course pack 18)

23/2: Market Power: Monopolies

- GKSM, Chapter 15: Monopoly, pp. 306–316, 327–333.
- After Ansett: flyers bumped and baffled, 14 September, 2002, *The Australian*. (Course pack 19)

26/2: In-class Midterm Exam.

1/3: Market Power: Monopolistic Competition

- GKSM, Chapter 17: Monopolistic Competition, pp. 374–380.
- Shapiro & Varian, 1998, Versioning (Course pack 20)

4/3: Macroeconomics: Meanings and Measurements I

- GKSM, Chapter 22: Measuring a nation's income.

8/3: Macroeconomics: Meanings and Measurements II

- GKSM, Chapter 23: Measuring the cost of living.

11,15/3: Determining Economic Growth

- Mankiw, N.G., 2002, *Economic Growth I*, Chapter 4 of his *Macroeconomics*, 4th ed. World Publishers, 2002, pp. 77–103. (Course pack 21)

18,22/3: How Money Matters

- GKSM, Chapter 27: The monetary system.

25/3: Strategic Behaviour

- GKSM, Chapter 16: Oligopoly, pp. 348–355.
- Smith, R. 1996, *Business as War Game: A Report from the Battlefield*, (Course pack 22)
- Marks R.E., *Competition and common property*, AGSM WP, 1998. <http://www.agsm.edu.au/~bobm/papers/ccp.pdf>

Further Economics at the AGSM

Core Economics is an introduction to many other Economics courses at the AGSM:

Course	Term	Description
<i>Managerial Economics</i> (<i>The Prime Elective</i>)	3	Builds on Weeks 1 to 5, and is a prerequisite (*) for other Economics electives, includes oligopolies
* <i>Strategic Game Theory for Managers</i>	3	Builds on Week 9; commitment, strategic actions, information asymmetries; decision-making under uncertainty.
* <i>Industry Economics</i>	4	The interaction of firms in industries, cases and competition policy.
* <i>Strategic Contracting</i>	1,5	The study of the sticks and carrots of contracts, the “principal–agent” problem.
* <i>Economic Investment Appraisal</i>	2,6	Using economics to go beyond the bottom line; social impacts measured; environmental issues
<i>Macroeconomics for Managers</i>	3	Builds on Weeks 6 to 8. Read and understand the <i>Economist</i> , the <i>FT</i> , the <i>WSJ</i> , and the <i>AFR</i> .
* <i>Trade and International Business</i>	tba	Using economics to explain the structure of multi-national firms, and the impacts of free-trade agreements