

FC 103: MANAGERIAL ECONOMICS

Course Objectives:

The purpose of this course is to apply micro economic concepts and techniques in evaluating business decisions taken by firms. The emphasis is on explaining how tools of standard price theory can be employed to formulate a decision problem, evaluate alternative courses of action and finally choose among alternatives. Simple geometry and basic concepts of mathematics will be used in the course of teaching.

Learning outcomes:

- Explain the mechanics of supply and demand in allocating goods and services and resources
- Describe how changes in demand and supply affect markets
- Understand the choices made by a rational consumer
- Identify relationships between production and costs
- Define key characteristics and consequences of different forms of markets

Course Contents:

Unit 1 (1 week)

Individual demand, market demand, individual supply, market supply, market equilibrium; Elasticities of demand and supply; Price elasticity of demand, income elasticity of demand, cross price elasticity of demand, elasticity of supply

References:

Dominick Salvatore (2009). Principles of Microeconomics (5th Edition). Oxford University Press (Chapter 2 and Chapter 5)

Unit II (3 weeks)

Cardinal utility theory; ordinal utility theory: indifference curves, budget line, consumer choice, price effect, substitution effect, income effect for normal, inferior and giffen goods; applications of indifference curve analysis: cash subsidy vs food stamps, consumer surplus, benefits from exchange, backward bending supply curve of labour.

References:

Dominick Salvatore (2009). Principles of Microeconomics (5th Edition). Oxford University Press (Chapter 3 and Chapter 4)

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Unit III

(4 weeks)

Optimizing behaviour in short run: product curves, law of diminishing margin productivity, stages of production; optimizing behaviour in long run: isoquants, isocost line, optimal combination of resources; traditional theory of cost: short run and long run; modern theory of cost: short run and long run; economies of scale and scope.

References:

Dominick Salvatore (2009). Principles of Microeconomics (5th Edition). Oxford University Press (Chapter 7 and Chapter 8)

Unit IV

(4 weeks)

Perfect competition: basic features, short run equilibrium of firm/industry, long run equilibrium of firm/industry, effect of changes in demand, cost and imposition of taxes; monopoly: basic features, short run equilibrium, long run equilibrium, effect of changes in demand, cost and imposition of taxes, comparison with perfect competition, welfare cost of monopoly; price discrimination; multiplant monopoly ; monopolistic competition: basic features, demand and cost, short run equilibrium, long run equilibrium, excess capacity; oligopoly: Cournot's model, kinked demand curve model, dominant price leadership model; Game Theory; Oligopolistic behavior: dominant strategy, Nash equilibrium, business dilemma, pure strategy, mixed strategy, pure strategy equilibrium, mixed strategy equilibrium

References:

Pindyck, Rubinfeld and Mehta (2009). Micro Economics (7th Edition). Pearson. (Chapter 7, Chapter 9, Chapter 10, Chapter 11 and Chapter 12)

Text Books:

1. Dominick Salvatore (2009). Principles of Microeconomics (5th edition). Oxford University Press
2. Pindyck, Rubinfeld and Mehta. (2009). Micro Economics (7th edition). Pearson

Additional Readings:

1. Lipsey and Chrystal. (2008). Economics (11th edition). Oxford University Press

Note : Latest edition of the readings to be used.

Teaching Learning Process:

Lectures, problems and numerical, team paper, presentations, case studies

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Assessment methods:

- Internal Assessment 25 marks
- Written Theory Exam 75 marks

Key Words:

Equilibrium, rationality, utility maximization, profit maximization, market form