NCC 5020: Microeconomics for Management

Reading List and Course Outline

No matter what line of work you ultimately choose as a manager, one of the most useful skills you will bring to most tasks is an ability to understand the incentives people face and how they are likely to respond to them. A well executed course in microeconomics can teach you more about human behavior in a single term than virtually any other course in the university.

In such a course, the key to success is to focus on a short list of the core concepts that do most of the heavy lifting. The simple fact is that most of us learn best by example and repetition. We absorb ideas more quickly and retain them longer when the material is concrete rather than abstract. There is a deep difference between merely understanding a concept—in the sense of being able to answer a test question about it the next day—and really knowing it. Even the very brightest students never fully internalize a concept unless they use it repeatedly.

Recent research shows that people often systematically violate the prescriptions of the economist’s rational choice model. This research provides valuable cues about which concepts are most important. For example, whereas the model says that rational persons will ignore sunk costs (costs that you cannot escape, no matter what you do from now on) when making decisions, many people are strongly influenced by them. Thus, someone who has incurred the sunk cost of purchasing a $50 basketball ticket is more likely to drive through a snowstorm to get to the game than is an equally avid fan who won her ticket in a raffle. A rational ticket holder should weigh the benefit of attending the game against the cost of driving through the storm when deciding whether to make the trip—and if the former is larger, she should go, no matter how she came to acquire the ticket.

We will focus on situations in which many people make similarly irrational choices. Your resources are limited, and we will make better use of them if we focus on those issues for which knowing microeconomics is most likely to be helpful.

Economic Naturalist Writing Assignments

Another aim of the course is to encourage you to become “economic naturalists.” Studying biology enables people to observe and marvel at many details of life that would otherwise have escaped notice. For the naturalist, a walk in a quiet woods becomes an adventure. In much the same way, studying microeconomics can enable you to see the mundane details of ordinary existence in a sharp new light. Throughout the course, I will try to develop economic intuition by means of examples and applications drawn from everyday experience. My aim will be to encourage you to see each feature of the manmade landscape as the reflection of an implicit or explicit cost-benefit calculation.

To illustrate, the economic naturalist is someone who ponders questions like, “Why do most cars with manual transmissions have five or six forward speeds while those with automatics have only four or five?” The more speeds a transmission has—manual or automatic—the better a car’s performance and fuel economy will be. So why fewer speeds on automatics? The reason is that performance and fuel economy are not all we care about. We also want to keep the price of the car within limits. Automatic transmissions are more complex than manual ones, which increases the cost of adding an extra speed. The benefits of adding an extra speed, by contrast, are roughly the same in both cases. If car makers follow the rule, “Add an extra speed if its benefits outweigh its costs,” then automatics will have fewer speeds than manuals.

An important part of your experience in this course will be two short writing assignments designed to foster your skills as an economic naturalist. In each of these short papers, your assignment is to use a principle, or principles, discussed in the course to explain some pattern of events or behavior that you personally have observed. Numerous examples of what I have in mind, including the one about automobile transmissions discussed above, appear throughout the assigned text.

Your space limit is 500 words. Many excellent papers are significantly shorter than that. Please do not lard your essay with complex terminology. Imagine yourself talking to a relative who has never had a course in economics. The best papers are ones that would be clearly intelligible to such a person, and typically these papers do not use any algebra or graphs. You need not include a bibliography.

This assignment is not a Ph.D. dissertation. You are not expected to do voluminous research in support of your argument, although a relevant fact or two might help convince yourself and others that you are on the right track. It makes no difference whether your topic is “important,” but try, as best you can, to choose something
interesting. As an alternative to submitting the written version of the economic naturalist assignment, you may request permission to work in small groups (2-4 students) to tackle the same assignment in a brief (five minutes or less) video format.

**Problem Sets**

You won’t really learn the principles of microeconomics unless you use them *actively*—by solving problems that both test and extend your understanding. Most of the material presented in lectures will imbedded in the context of specific examples that illustrate and apply the core principles. These examples will prepare you for the kinds of questions you will encounter on exams, quizzes, and problem sets.

In the syllabus below, references to problem sets by number refer to selected problems from the end-of-chapter problem sets for the corresponding chapter in the text. For example, Problem Set 1 consists of selected problems from the problem set at the end of chapter 1. Instructions will be provided for how to access a website that lists the specific assignments and enables you to submit your responses electronically. References to these problem sets indicate target completion dates, and electronic feedback on your responses will be available shortly after the submission deadlines. For students whose performance on tests and the papers places them on the borderline between two grades, performance on the problem sets may serve as a tiebreaker. But the main reason for working through these problems conscientiously is that they will help you master the material and perform better on the exams.

When you learn a new language, you typically learn to understand before you learn to speak. Similarly, as you learn economics, you will find yourself capable of “understanding” an explanation of how a problem is solved long before you can actually solve it yourself. So be careful: The fact that you can understand the explanation of how a problem is solved is no proof that you are ready to solve the same kinds of problems on an exam. The only way to acquire this ability is to attempt the problems before you consult the answers.

**Grading**

A 20-point scale will be used to evaluate each of the Economic Naturalist writing assignments. On a first reading, TAs will assign each paper to one of four categories with corresponding point totals as follows:

- Unsatisfactory: 0 points.
- Satisfactory: 12 points
- Very Good: 16 points
- Excellent: 20 points

I will read all the papers rated excellent by the TAs and those I identify as the 20 best in that category will receive 5 additional bonus points. The grade of Unsatisfactory is reserved for the authors whose papers provide clear evidence of their not having taken the assignment seriously. Recipients of U grades can remove them by completing a satisfactory make-up paper (maximum score, 12 points).

As part of the School’s initiative to encourage the development of oral presentation skills, I will make cold calls on students in most classes. Typically I will pose questions that relate directly to either the reading assignment or lecture notes for that day’s meeting. Beyond the obvious fact that your chances of offering an informed response to such questions will be higher if you have gone over the reading assignment and notes carefully before class, you will also benefit much more from the class discussion if you are prepared in this way.

Your scores on the two papers two quizzes, one midterm, and the final exam will be added to determine your final point total for the course. The maximum score will be 30 points for each quiz, 60 points for the midterm and 90 points for the final. Someone who got the maximum score on each exam and had two papers on the top-twenty list would thus earn a total of 260 points. Letter grades will be based on your final point total. Your responses to questions posed in class during the term will provide a basis for small adjustments, up or down, in your final grade.

**The Text**

Federal Reserve Board Chairman Ben Bernanke and I have written a text specifically designed for a course taught along the lines described above. Published in its fourth edition in 2009 by McGraw-Hill, our *Principles of Microeconomics* will be the text for NCC 5020 this fall. It is available at the bookstore in the basement. New and used copies are also available from Amazon.com and other internet book sellers. References to “text” in the reading
Lecture Notes

Because detailed notes for my lectures will be available to you on the Web [go to “My Courses” on Blackboard], you need not struggle to write down the material I present during class, although you are of course welcome to take additional notes as you see fit. On the course website you will also find copies of answer keys and other miscellaneous course materials. Please bookmark this page and check it regularly for important course announcements.

Experience has shown that the minimalist approach we will follow in this course works. By the end of the term, if you have done your assignments conscientiously, most of you will know more about what really matters in microeconomics than the typical entering Ph.D. student in the discipline.

Class Schedule and Reading Assignments

I. The economic way of thinking (text, chapter 1)
   Wednesday, August 19: The Economic Naturalist [1]
   Thursday, August 20: The cost-benefit rule and some important decision pitfalls [2]

II. Comparative advantage (text, chapter 2)
   Monday, August 24: Opportunity cost and production possibilities curves [3]

   Problem Set 1 due

   Tuesday, August 25: Specialization by comparative advantage [4]

III. Demand and supply (text, chapter 3)
   Monday, August 31: Quiz 1, 7:50-8:20 AM. Includes only material covered between August 19 and August 25.

   Problem Set 2 due

IV. Elasticity (text, chapter 4)
   Monday, August 31: Elasticity of supply and of demand; elasticity and total expenditure [6]

   Problem Set 3 due

V. Demand: The benefit side of the market (text, chapter 5)
   Tuesday, September 1: Consumer demand and the rational spending rule [7]

   Problem Set 4 due

VI. Supply: The cost side of the market (text, chapter 6)
   Thursday, September 3: Productivity, marginal cost, and the supply curve [8]

   Problem Set 5 due

   Friday, September 4: First Economic Naturalist writing assignment due by 5 PM in Room 304

VII. Efficiency and exchange (text, chapter 7)
   Monday, September 7: Why market exchange is efficient [9]

   Problem Set 6 due

VIII. Competition and the invisible hand (text, chapter 8)
   Tuesday, September 8: Rent, profit, and the unintended consequences of price and quantity regulation [10]

   Problem Set 7 due

Saturday, September 12: Midterm Examination, 10:30 AM - Noon (includes material covered between August 27 and September 7)

   Problem Set 8 due

IX. Monopoly (text, chapter 9)
   Tuesday, September 15: Markets with only one seller [12]

   Problem Set 9 due

Monday, September 21: Using discounts to expand the market [13]

X. Thinking Strategically (text, chapter 10)
   Tuesday, September 22: The prisoner’s dilemma and other games [14]

   Problem Set 9 due

Thursday, September 24: The economics of altruism and trust [15]

XI. Externalities and property rights (text, chapter 11)
   Monday, September 28: The tragedy of the commons [16]
Problem Set 10 due
Tuesday, September 29: Positional externalities [17]
Thursday, October 1: Quiz 2, 7:50-8:20 AM. Includes material covered between September 8 and September 24.

XII. The economics of information (text, chapter 12)
Thursday, October 1: The economics of search and communication between potential adversaries [18]

Problem Set 11 due
Friday, October 2: Second Economic Naturalist writing assignment due at 5 PM in Room 304

XIII. Labor markets and income distribution (text, chapter 13)
Monday, October 5: The marginal productivity theory of wages [19]

XIV. The Environment, Health, and Safety (text, chapter 14)
Tuesday, October 6: Applying the cost-benefit model to public policy decisions [20]

Problem Set 12 due

XV. Public Goods and Tax Policy (text, chapter 15)
Thursday, October 8: What services should government provide and how should it pay for them? [21]

Problem Sets 14-15 due
Monday, October 12: Final Examination, 2:30–5:00 PM. Covers entire course, with greater emphasis on material covered after September 24.