

Managerial Economics
ECO 5320

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Course Objective:

This is a course in the applications of economic theory and techniques to business problems. Topics include: demand theory and estimation; production and cost theory; empirical cost analysis; pricing practices, market structure and antitrust policy; corporate strategies for dealing with risk/asymmetric information; long-term investment decisions with emphasis on plant size, technological change and investment requirements.

Text Books:

Managerial Economics, 11th Edition by Mark Hirschey (MH).

The Antitrust Revolution: Economics, Competition, and Policy, 4th edition, edited by John E. Kwoka Jr. and Lawrence White (KW).

Suggested other readings:

Price theory and Applications, 6th Edition Steven E. Lanndsborg

Microeconomic Theory: Basic Principle and Applications, 9th Edition Walter Nicholson

Prerequisites:

There are no prerequisites but I assume you have some basic skills in algebra, calculus and statistics (regression analysis.)

(This course is not applicable to fulfill requirements for the Ph.D. in Economics)

Learning Outcomes:

Upon completion of this course I hope that you will understand demand theory and estimation, production and cost theory, empirical cost analysis, pricing practices, market structure and antitrust policy, corporate strategies for dealing with risk/ asymmetric information, long-term investment decisions with emphasis on plant size, technological change and investment requirements.

Exams and Grading Procedure:

Mid-Term: 30%

Final: 30%

Presentation and Class Participation: 40%

Attendance:

Attendance at the lectures is at your discretion. If you do attend, please be on time. If you miss a lecture(s) it is your responsibility to collect those lecture notes including any handouts and turning in your home work assignments on time.

Make-up Policy:

If you have a legitimate commitment that keeps you from taking the midterm at it scheduled time, please let me know at least one week before the midterm. If you miss the midterm without prior approval, you must submit, in writing, the reason you missed the exam (for an example: a

doctor's note). If you have a University accepted excuse, the weight of the midterm exam will be transferred to the final exam.

Academic Honesty:

I expect that ECO 5320 students will be truthful with me and will not take any action that violates the Texas Tech University student conduct code.

Wireless Phone Policy:

Wireless phones must be turned off during class time.

Reasonable Accommodation Policy:

Any student who, because of a disability, may require special arrangements in order to meet the course requirements should contact the instructor as soon as possible to make any necessary arrangements. Students should present appropriate verification from Student Disability Services during the instructor's office hours. Please note instructors are not allowed to provide classroom accommodations to a student until appropriate verification from Student Disability Services has been provided. For additional information, you may contact the Student Disability Services office at 335 West Hall or 806-742-2405.

COURSE OUTLINE

PART I: OVERVIEW OF MANAGERIAL ECONOMICS

Week 1

Chapter 1(MH): The Nature and Scope of Managerial Economics

Week 2

Chapter 2(MH): Economic Optimization, and

Chapter 3(MH): Demand and Supply

PART II: DEMAND ANALYSIS AND ESTIMATION

Week 3

Chapter 4(MH): Consumer Demand

Week 4

Chapter 5&6(MH): Demand Analysis and Estimation

Chapter 7(MH): Forecasting.

PART III: PRODUCTION AND COMPETITIVE MARKETS

Week 5

Chapter 8(MH): Production Analysis and Compensation Policy

Week 6

Chapter 9(MH): Cost Analysis and Estimation

Week 7

Chapter 10(MH): Competitive Markets.

Week 8

Chapter 11(MH): Performance and Strategy in Competitive Markets

PART IV: IMPERFECT COMPETITION

Week 8

Chapter 12(MH): Monopoly and Monopsony

Week 9

Chapter 13(MH): Monopolistic Competition and Oligopoly

Week 10

Chapter 14(MH): Game Theory and Competitive Strategy.

Chapter 15(MH): Pricing Practices.

Chapter 16(MH): Markets for Labor and Other Inputs.

Additional Reading

“Prices, Market Definition, and Effects of Merger: Staples-Office Depot (1997)” by Dalkir and Warren-Boulton (KW-Case 2).

PART V: LONG-TERM INVESTMENT DECISIONS

Week 11

Chapter 17(MH): Risk Analysis

Chapter 18(MH): Capital Budgeting

Week 12

Chapter 19(MH): Organization Structure and Corporate Governance.

Chapter 20(MH): Government in the Market Economy

Additional Reading

“Global Cartels Redux: The Amino Acid Lysine Anti Trust Litigation” by John M. Conner (KW-Case 10)

PART VI: THE ECONOMICS OF INFORMATION AND SPECIAL TOPICS IN ECONOMICS

Student Presentations-Week 13 - 15

“The Impact of Public Information on Bidding in Highway Procurement Auctions”

By Dakshina G. De Silva, Timothy Dunne, Anuruddha Kankanamge, and Georgia Kosmopoulou. *European Economic Review*. (I will present this.)

“An Empirical Analysis of Entrant and Incumbent Bidding in Road Construction Auctions,” (with Timothy Dunne and Georgia Kosmopoulou) *Journal of Industrial Economics*, 2003, 51(3): 295-316.

“Synergies in Recurring Procurement Auctions: An Empirical Investigation,” *Economic Inquiry*, 2005, 43(1): 55-66.

“Wind Energy Policy, Planning and Management Practice in the UK: Hot Air or a Gathering Storm?” by Strachan, Peter A.; Lal, David, (2004):*Regional Studies*, 38(5): 551-71.

“The Effect of Policy Uncertainty on Wind-Power Investment” by Grobman, Jeffrey H.; Carey, Janis M., (2002) *Journal of Energy and Development*, 28(1): 1-14.

“The Stochastic Economics of Wind-power” by Beenstock, Michael (1995), *Energy Economics*, 17(1): 27-37.

Encouraging Environmentally Sustainable Growth in Denmark (2001) Paul O'Brien and Jens Høj *OECD Economics Department Working Papers / Documents de travail du Département des Affaires économiques*, No. 277, 25/01/2001, English, 37 pages, [doi: 10.1787/616447850757](https://doi.org/10.1787/616447850757)

Assessment of the global and regional geographical, technical and economic potential of onshore wind energy, (2004) *Monique Hoogwijk, Bert de Vries and Wim Turkenburg Energy Economics*, 2004, vol. 26, issue 5, pages 889-919

The impact of R&D on innovation for wind energy in Denmark, Germany and the United Kingdom (2005) *Ger Klaassen, Asami Miketa, Katarina Larsen and Thomas Sundqvist Ecological Economics*, 2005, vol. 54, issue 2-3, pages 227-240

Impact of lower oil prices on renewable energy technologies, *Ernesto Terrado, Matthew Mendis and Kevin Fitzgerald* No 110, Policy Research Working Paper Series from [The World Bank](https://www.worldbank.org/)

Short-term prediction of wind energy production *Ismael Sanchez International Journal of Forecasting*, 2006, vol. 22, issue 1, pages 43-56

Climate change- lower electricity prices and increasing demand. An application to the Nordic Countries *Torstein Bye and Finn Roar Aune Karina Gabrielsen*. Discussion Papers from [Research Department of Statistics Norway](https://www.ssb.no/)

Comparison of Feed in Tariff, Quota and Auction Mechanisms to Support Wind Power Development *Lucy Butler and Karsten Neuhoff*. Cambridge Working Papers in Economics from [Faculty of Economics \(formerly DAE\), University of Cambridge](https://www.econ.cam.ac.uk/)

Measuring the Contribution to the Economy of Investments in Renewable Wind Estimates of Future Consumer Gains *David Austin, Molly Macauley, Joel Darmstadter, Jih-Shyang Shih, Emily Aronow and Tom Bath*. Discussion Papers from [Resources For the Future](https://www.resourcesforthefuture.org/)

Switch Point and First-Mover Advantage: The Case of the Wind Turbine Industry *Urs Steiner Brandt and Gert Tinggaard Svendsen* No 04-2, Working Papers from [Aarhus School of Business, Department of Economics](https://www.aarhusbusinessschool.com/)

Social Costs of Electricity Generation: Wind and Photovoltaic versus Fossil and Nuclear *Olav Hohmeyer Contemporary Economic Policy*, 1990, vol. 8, issue 3, pages 255-82

Space and Time: Wind in an Investment Planning Model *Karsten Neuhoff, Andreas Ehrenmann, Lucy Butler, Jim Cust, Harriet Hoexter, Kim Keats, Adam Kreczko and Graham Sinden* Cambridge Working Papers in Economics from [Faculty of Economics \(formerly DAE\), University of Cambridge](https://www.econ.cam.ac.uk/)

Does the mixture of policy instruments matter? An empirical test of government support for the private provision of public goods *A. Mulder* No ERS;ERS-2004-073-F&A, Research Paper from [Erasmus Research Institute of Management \(ERIM\), RSM Erasmus University](https://www.erim.nl/)

Fighting windmills? EU industrial interests and global climate negotiations. *Urs Steiner Brandt* and *Gert Tinggaard*. No 37/03, Working Papers from University of Southern Denmark, Department of Environmental and Business Economics

**Note: You can find most of these papers from <http://repec.org/>
Then go to ECONPapers (<http://econpapers.repec.org/>) and search for Wind Energy.**

Student Presentation Guide Lines

Presentations will be assigned from the reading list above. Students can also present recent papers related to the class with instructor's permission. Students are required to present two papers in this class.

1. Students will prepare presentations of the paper, as if they were presenting the paper in a research seminar.
2. Each presentation should include a set of slides:
 - (1) Motivation - why is the topic interesting and important?
 - (2) Literature - how does the paper relate to the previous literature?
 - (3) Theoretical Model - Describe the theoretical model if appropriate. What are the key implications for the empirical analogue?
 - (4) Empirical Model - Describe the empirical model and econometric methods.
 - (5) Data -Carefully explain the data the author(s) use in the study
 - (6) Empirical Results - Present the results
 - (7) Conclusions - What are the main conclusions and contributions of the work?
 - (8) Discuss the strengths and weakness of the paper.
3. Presentations including discussion should last around 30 to 40 minutes and you should be prepared to answer questions from both myself and from your fellow students.

Disclaimer: I reserve the right to make changes to the exam dates and exam format. Any changes will be announced in class.