

EW MBA 201A
Economics for Business Decision Making
Fall 2020

Course Outline

I. Contact information

Instructor

- Shachar Kariv [kariv@berkeley.edu]

GSI

- Sara Neff [sara_neff@berkeley.edu]

II. General information

The course presents some of the main topics in macroeconomic theory. The goal of the course is to teach you how to use the tools of microeconomics to understand your business environment. There are two ways in which microeconomics is useful to managers:

1. First, an understanding of microeconomics can help you think systematically about managing your firm's resources. This, in turn, will help you formulate strategic decisions to create and capture value.
2. Second, the course will help you understand markets. Since business is filled with markets – from product markets to input markets to labor markets to financial markets – this tool will be useful in many contexts.

There are also two ways in which microeconomics is useful to business students.

1. The first is that economics helps you understand how markets work. Wherever you are headed after business school, you will almost surely spend a lot of time thinking about markets: markets for consumer goods, long-term contractual markets for input supplies, markets for stocks and other financial instruments, labor markets, markets for new goods, and on and on. Even if you go into the nonprofit or public sector, you will have to think about how your activities affect and are affected by related market activities. This aspect of economics is called the positive aspect, meaning that it is descriptive or predictive. It describes what outcomes one should expect given a set of economic conditions, and how changes in those conditions will change the expected market outcomes. For a business student, this aspect of economics is the tool that helps you understand your context and environment.
2. A second aspect of economics addresses what the best way is to achieve a particular goal. In a business school context, this goal is usually maximizing profits. Specific examples economics can help answer are: How should a firm set prices to maximize profits? What is the right way to consider costs when calculating the profitability

of different actions? How should a firm decide whether to enter a new market? This aspect of economics is called the normative aspect. This is the aspect of economics that recommends what one ought to do, given what positive economics has to say about what is then likely to happen as a result. In this sense, understanding positive economics is necessary to being able to make the normative decisions that managers, strategists, marketers, financiers, and entrepreneurs face every day. Having both sets of tools is necessary for making good business decisions.

The aim of this course is to equip you with both these sets of tools. While the course will cover specific issues, the main emphasis of the course is developing an approach to thinking about economic problems. Like learning to ride a bicycle, learning to think like an economist takes practice. Merely observing how problems are approached in lectures or readings will not enable you to solve similar problems yourself. The only way to become proficient at solving economic problems is to do them yourself.

III. Reading material

The class will rely on handouts that will be given for each class and also be available for downloading in PDF format from the course web page. The notes will contain all the material for the course. The only recommended textbook is Microeconomics by Robert S. Pindyck and Daniel L. Rubinfeld (hereafter, PR).

The textbook readings are not required, but understanding the course material is, and you may find the textbook helpful in accomplishing this. In particular, you may not find that reading the textbook adds that much for material that you understand, but it is likely to be helpful when you are confused by, need elaboration on, are looking for extra examples about, or just would like a second pass at material you do not understand. You should use the textbook in whatever way is most useful to you.

I do not recommend reading the textbook before class to preview the material that will be covered. Most intermediate macroeconomic textbooks cover the same material. I do not recommend using another book than the assigned textbook.

IV. Problem sets

The course will rely heavily on problem sets. Each block a problem set will be assigned and will generally be due the following block. The problem sets are meant to be learning tools and will therefore not counted for the course grade.

All questions in the problem sets are a required material. Please work on the problem sets with each other. Complete answer keys will be distributed. There are also recorded videos of the Sara (our fearless GSI) explaining to solutions.

The problem sets are crucial to your doing well in the course. Given the course's once every few weeks format, it is very important that you do the problem sets each block. They will be challenging, and will ask you both to demonstrate your ability to use the analytical tools from class and to show a deeper understanding of the concepts.

As a result, you are strongly encouraged to start the problem sets right after the lecture. The problem sets are an important component of your learning. You are welcome (and even encouraged) to work in groups on the problem sets.

V. Grading

The requirement for a grade is a midterm exam and a (noncumulative) final exam. The exams will test your basic knowledge in the course material and the ability to apply this material to new problems. The midterm will take place Aug 23/24 and the final on Sep 27/28. Each exam will have an equal weight. The exams will be based on problem set type questions.

Problem sets are not graded. No points are give for class presence and participation. The problem sets and class participation are very important part of the learning process in this course, but our working assumption is that carrots and sticks are not needed to induce active class participation and discussion.

Starting Fall 2012, the faculty adopted the grading policy for core courses that the maximum mean GPA will be 3.45. If you receive a grade of D+ or below in a core course you are required to repeat the course the next time it is offered.

VI. Office hours

Online by appointment. Further details will be given in the first lecture. Feel free to drop by to ask questions, or even just to introduce yourself and to chat. You can e-mail us any question, and we will try to respond promptly. You can also message us using the bCourses system.

In case you have any trouble, there are plenty opportunities for help. We would also be happy to discuss with you any issues beyond the course work, not necessarily of macroeconomic substance.

VII. Tentative schedule

The course has four modules, each about 25% of the course (2 lectures):

- Module I
 - Consumer choice under certainty (PR 3) and uncertainty (PR 5).
- Module II
 - The production decision of the firm and the cost of production (PR 6 and 7).
- Module III
 - Competitive markets (PR 8 and 9) and monopolistic markets (PR 10 and 11).
- Module IV
 - Oligopolistic markets (PR 12) and strategic decisions (PR 13).