

ECON 5303– Managerial Economics
Sul Ross State University - Rio Grande College
Dr. Terry C. Carson

Course Materials

The primary text (required) for this course is “*Managerial Economics and Organizational Architecture*”, 5th edition, by Brickley, Smith, & Zimmerman, McGraw-Hill-Irwin Publishers, ISBN: 978-0-07-337582-3. Additional readings and materials will be posted with the chapter assignments when necessary.

Course Focus

The primary objective of this course is to enhance student understanding of the application of microeconomic analysis to managerial decisions. Additionally, we will examine the internal structure of the firm and develop a systematic, comprehensive, cross-functional framework for investigating organizational problems.

Course Objectives

The student will be able to:

1. Demonstrate knowledge of economic analysis from a managerial perspective including the economists’ view of behavior, and markets, organizations, and the role of knowledge. Specific topics include organizational architecture, economic Darwinism, marginal analysis, graphical tools, alternative models of behavior, property rights, the price mechanism, general versus specific knowledge, and contracting costs.

Assessment: Written exams, written discussion questions, graphing exercises, chapter quiz, and online learning center exercises.

2. Understand demand functions, demand curves, factors that influence demand, industry versus firm demand, network effects, statistical analysis, and demand estimation. Demonstrate knowledge of production functions, choice of inputs, costs, profit maximization, and cost estimation.

Assessment: Written exams, demand estimation exercises, written discussion questions, online learning center exercises.

3. Understand various market structures and barriers to entry for firms, incumbent reactions and advantages. Demonstrate knowledge of the pricing and production problems of monopoly, perfect competition, monopolistic competition, and oligopolies.

Assessment: Written exams, discussion questions, chapter quiz, and online learning center exercises.

4. Demonstrate knowledge of pricing objectives, estimating the profit-maximizing price, different forms of price discrimination, bundling, and legal issues of pricing. Understand the concept of value creation, capturing value, and strategy formulation.

Assessment: Profit estimation exercises, chapter quiz, written exams, and chapter discussion questions.

5. Demonstrate knowledge of incentive conflicts within firms, controlling incentive problems through contracts. Understand organizational architecture, architectural determinants, corporate culture, and inappropriate architecture and the associated managerial implications.

Assessment: Written exams, discussion questions, chapter quiz, online learning center exercises.

6. Demonstrate knowledge of assigning tasks and decision rights with the organization, assigning decision rights to teams, and influence costs. Understand contracting objectives, the Basic Competitive Pay model, compensating differentials, internal labor markets, and the salary-fringe benefit mix.

Assessment: Written exams, competitive pay model exercise, chapter quiz, and online learning center exercises.

7. Understand and demonstrate knowledge of incentive compensation, the Principal-Agent model, the Informativeness Principle, group incentive pay and individual performance evaluation techniques.

Assessment: Written exams, research paper, chapter quiz, discussion papers, and online learning center exercises.

Chapter Lecture Focus:

Chapter 1 - Introduction

Economic Darwinism
Components of Organizational Architecture
Economic Analysis

Chapter 2 – Economists’ View of Behavior

Economic Choice
Opportunity Cost
Indifference Curves
Alternative Models of Behavior
Decision Making Under Uncertainty

Chapter 3 – Markets, Organizations, and the Role of Knowledge

- Goals of Economic Systems
- Property Rights
- Basics of Supply and Demand
- Markets versus Central Planning
- Contracting Costs

Chapter 4 – Demand

- Demand Functions
- Demand Curves
- Industry versus Firm Demand
- Demand Estimation

Chapter 5 – Production and Cost

- Production Functions
- Choice of Inputs
- Costs
- Profit Maximization
- Cost Estimation

Chapter 6 – Market Structure

- Markets
- Barriers to Entry
- Perfect competition
- Monopoly
- Monopolistic Competition
- Oligopoly

Chapter 7 – Pricing with Market Power

- Profit Maximization
- Price Discrimination
- Bundling
- Implementing a Strategic Pricing Policy

Chapter 8 – Creating and Capturing Value

- Value Creation
- Creating and Capturing Value
- Economics of Diversification
- Strategy Formulation

Chapter 10 – Incentive Conflicts and Contracts

- Incentive Conflicts Within Firms
- Owner-Manager Conflicts
- Controlling Incentive Problems Through Contracts
- Asymmetric Information
- Implicit Contracts and Reputational Concerns

Chapter 11 – Organizational Architecture

- Architecture of Markets
- Architecture Within firms
- Architectural Determinants
- Corporate Culture
- Benchmarking

Chapter 12 – Decision Rights: Level of Empowerment

- Assigning Tasks and Decision Rights
- Centralization versus Decentralization
- Assigning Decision Rights to Teams
- Decision Management and control
- Influence Costs

Chapter 13 – Decision Rights: Bundling Tasks

- Bundling Tasks Into Jobs
- Grouping Jobs by Function
- Grouping Jobs by Product or Geography
- Matrix Organizations

Chapter 14 – Attracting and Retaining Qualified Employees

- Contracting Objectives
- The Basic Competitive Model
- Internal Labor Markets
- The Salary-Fringe Benefit Mix

Chapter 15 – Incentive Compensation

- The Basic Incentive Problem
- Effective Incentive Contracts
- Does Incentive Pay Work?

Chapter 16 – Individual Performance Evaluation

Setting Performance Benchmarks
Measurement Costs
Relative Performance Evaluation
Subjective Performance Evaluation
Team Performance

Course Policies

Web courses require that you take personal responsibility for keeping up with assignments as posted. You should plan to spend as much, if not more, time on this course as you would a traditional lecture course. There is an initially steep learning curve associated with online learning and the format of web courses; as such, please allow extra time to get familiar with this website and the associated links and **Course Content** section.

Grading Policy

The course requirements consist of a **mid-term exam** and a **final exam**. Additionally, a **research paper** is required for completion of this course. The two exams comprise 60% of the final grade, the research paper will comprise 20% of your final grade, and **participation** will comprise the remaining 20% of the final grade. **Class Participation** will be primarily based on your timely responses to posted discussion questions and a *research question* for each chapter.

Exams will be administered on-line and will be primarily essay-type questions. See the **Course Schedule** section of the **Assignment** component for proposed exam dates and the due date for your research paper. **Watch the Announcements Section concerning these important dates!**

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