

# BE502: Applied Microeconomics

Full-time MBA Core – Fall A 2021

Professor Nirupama Rao

## 1 Course Description

Economists study how people and business make decisions and how those decisions impact every interaction. As future leaders of organizations, your job will be to make decisions about what your organization should do and to understand how what you and others do impacts your organization, your customers, your partners, your rivals, and society at large. Thus, the topics covered in this class are a fundamental underpinning of almost all of your business education.

In this class you will learn to:

- Make correct economic decisions based on analysis of marginal costs and marginal benefits.
- Analyze and predict the outcome of individual marginal decision maker interactions.
- Predict and explain how markets evolve over time.

We will be applying these skills to two big topics: pricing and market dynamics. To fully understand those topics, we will also have to delve into firm costs, consumer behavior and demand, strategic interaction, public policy, risk, and a few other advanced topics.

## 2 Logistics & Class Conduct

Professor information:

- Preferred greeting/pronouns: “Professor Rao” or “Dr. Rao” / she/her/hers
- Email: nirurao@umich.edu
- Office Hours (all on Zoom):
  - Open office hours: Mondays 13:00-14:00  
During open office hours I will be available on Zoom to answer anyone’s questions. You do not need to make an appointment and are free to join at any time to ask questions and/or listen to others’ questions.
  - Private office hours: Wednesdays 12:30-14:30. Sign up for time slots here: <https://tinyurl.com/BE502-2021-OH-Rao>  
Each time slot is 15 minutes long and should only be attended by the person signing up. (Or a small pre-arranged group.) In my experience, most questions can be handled in 15 minutes, but if you have a particularly long or involved question that you think will take 30 minutes, please sign up for two slots.

Course Canvas site: <https://umich.instructure.com/courses/459072>

## Course tutors:

- Vaish Sitarama <[vsitara@umich.edu](mailto:vsitara@umich.edu)>
- Steven Gregory <[srgreg@umich.edu](mailto:srgreg@umich.edu)>
- Andrew Zhang <[aczhang@umich.edu](mailto:aczhang@umich.edu)>

## Course meeting times:

- Section 1: Tuesdays & Thursdays, 8:00-10:20, R0210
- Section 2: Tuesdays & Thursdays, 14:10-16:30, R0210
- Section 5: Tuesdays & Thursdays, 10:20-12:40, R0210

Class will be conducted in person and will follow all University guidance with regards to health and safety restrictions. (Which, as of the writing of this syllabus means that all students are required to be fully vaccinated and everyone will wear a face covering at all times while in the classroom.) If University guidance changes during our course, we will adjust to meet the new guidance.

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### 4 Textbooks and Readings

Required readings: Cases, articles, practice problems and other links listed in the syllabus below and posted on Canvas.

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Your final grade in the course will be determined based on the following weightings:

- Course engagement and attendance (10%).
- Group assignment #1 (10%). Due Monday, September 6 at 8am.
- Individual quiz #1 (10%). Due Monday, September 13 at 8am.
- Group assignment #2 (10%). Due Monday, September 20 at 8am.
- Individual quiz #2 (10%). Due Monday, October 4 at 8am.
- Group assignment #3 (10%). Due Monday, October 11 at 8am.
- Individual final exam (40%). Thursday, October 14 from 2:45–4:45pm.

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The quizzes and the final exam are individual and must be completed without assistance from or collaboration with anyone else. (For more details see section 7 below.)

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Students may not record or distribute any class activity without written permission from the instructor, except as necessary as part of approved accommodations for students with disabilities. This applies to both the live recording of an actual class, as well as the duplication of any recordings shared by the faculty with the course participants. Any approved recordings may only be used for the student’s own private use.

## 7 Academic Integrity and Community Values, Accommodations, and Wellness and Mental Health

The Ross School’s policies regarding academic integrity, collaboration policies, services for students with disabilities, and wellness and mental health resources will be posted on the course Canvas site, are incorporated here by reference, and will be followed in this class. Please make sure you review them and reach out with any questions.

## 8 Lecture & reading schedule

Material will be presented through lectures on theory, in-class simulations, case discussions, and example problems. Attendance and participation at in-person sessions is mandatory.

The schedule below presents the topics and assigned readings for each session. Articles and cases should be read prior to class. The study guide problems listed are those which are

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*Abbreviation key:* PR = Pindyck and Rubinfeld textbook; SG = Study guide; all other listed readings will be available on Canvas

A \* indicates that a deliverable is due.

Session	Topics	PR / SG readings / Case examples
1 (Aug. 31)	<ul style="list-style-type: none"> <li>• Introduction &amp; course framing</li> <li>• Economic costs &amp; cost fallacies</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 1, 7</li> <li>• SG: Ch. 7: 1-6, 9-10, 14-19, 21, 23, 27-29, 31-32</li> <li>• <i>Case</i>: Hollywood Economics</li> <li>• Online videos regarding cost curves &amp; long-run cost concepts</li> </ul>
2, 3, 4 (Sep. 2, 7, 9)	<ul style="list-style-type: none"> <li>• Demand curves</li> <li>• Consumer decision making &amp; consumer surplus</li> <li>• Elasticity</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 4</li> <li>• SG: Ch. 4: 4-9, 21, 25-29. Ch. 2: 7, 8, 14, 17, 19-23</li> <li>• <i>Case</i>: Electric Power Purchasing</li> </ul>
<b>★ DUE: Group Assignment #1, 8am, Monday, September 6</b>		
<b>★ DUE: Individual Quiz #1, 8am, Monday, September 13</b>		
<b>★ DUE: Reflection #1, 8am, Monday, September 13</b>		
5 (Sep. 14)	<ul style="list-style-type: none"> <li>• Profit maximization</li> <li>• Basic pricing</li> </ul>	<ul style="list-style-type: none"> <li>• PR: 10.1, 10.2</li> <li>• SG: Ch. 10: 1-4, 10, 16, 23-24, 27, 29-34</li> </ul>
6 (Sep. 16)	<ul style="list-style-type: none"> <li>• Competitive markets</li> <li>• Supply curves</li> <li>• Producer surplus</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 2, 8.1-8.6</li> </ul>
<b>★ DUE: Group Assignment #2, 8am, Monday, September 20</b>		
7 (Sep. 21)	<ul style="list-style-type: none"> <li>• Short-run equilibrium</li> <li>• Market shocks</li> <li>• Pit trading game</li> </ul>	<ul style="list-style-type: none"> <li>• <i>(Same as previous)</i></li> </ul>
8 (Sep. 23)	<ul style="list-style-type: none"> <li>• Long-run equilibrium &amp; market dynamics</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch 8.7, 8.8</li> <li>• SG: Ch. 8: 1-10, 12-14, 16-25, 27-29. Ch. 2: 1-6, 24-26</li> </ul>
<b>★ DUE: Reflection #2, 8am, Monday, September 27</b>		
9 (Sep. 28)	<ul style="list-style-type: none"> <li>• Market analysis: <ul style="list-style-type: none"> <li>– Price controls</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 2, 9, 18</li> </ul>

	– Externalities	<ul style="list-style-type: none"> <li>• SG: Ch. 2: 10-11, 15. Ch. 9: 1-4, 9-18, 20-25. Ch. 18: 1-2, 6, 9-10, 12-14, 19-20</li> <li>• <i>Case</i>: A Burning Problem</li> </ul>
10 (Sep. 30)	• (Intro to) Advanced Pricing	<ul style="list-style-type: none"> <li>• PR: Ch. 11</li> <li>• SG: Ch. 11, 1, 5, 7, 8, 13, 15, 16, 25, 29, 30</li> </ul>
<b>* DUE: Individual Quiz #2, 8am, Monday, October 4</b>		
11 (Oct. 5)	<ul style="list-style-type: none"> <li>• Risk &amp; risk preferences</li> <li>• Insurance</li> <li>• Moral hazard</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 5, 17</li> <li>• SG: Ch. 5: 1, 2, 5, 6, 8, 9, 11, 13, 16, 17, 18. Ch. 17: 4, 5, 11</li> <li>• <i>Case</i>: Failures in Franchising</li> </ul>
12 (Oct. 7)	<ul style="list-style-type: none"> <li>• Strategic interactions and game theory</li> <li>• Sequential games and strategic commitments</li> </ul>	<ul style="list-style-type: none"> <li>• PR: 12.4, 13</li> <li>• SG: Ch. 12: 7, 9, 12. Ch. 13: 1-4, 7-10 12-15, 19-21, 24-25, 29</li> </ul>
<b>* DUE: Group Assignment #3, 8am, Monday, October 11</b>		
<b>* DUE: Reflection #3, 8am, Monday, October 11</b>		
<b>* FINAL EXAM, 2:45-4:45pm, Thursday, October 14</b>		

**BE502 Fall A 2021 Summary Calendar**

<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
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<i>Aug 30</i>	<i>31</i> <b>Lecture 1:</b> Introduction, Cost concepts	<i>Sep 1</i>	<i>2</i> <b>Lecture 2:</b> Demand curves	<i>3</i>
<i>(Labor Day) 6</i> <b>DUE: Group assmt 1</b>	<i>(Rosh Hashanah) 7</i> <b>Lecture 3:</b> Consumer choice and consumer surplus	<i>8</i>	<i>9</i> <b>Lecture 4:</b> Elasticity	<i>10</i>
<i>13</i> <b>DUE: Individual quiz 1</b> <b>DUE: Reflection 1</b>	<i>14</i> <b>Lecture 5:</b> Basic pricing, Profit maximization	<i>15</i>	<i>(Yom Kippur) 16</i> <b>Lecture 6:</b> Competitive Markets, Supply curves	<i>17</i>
<i>20</i> <b>DUE: Group assmt 2</b>	<i>21</i> <b>Lecture 7:</b> Short-run equilibrium, market shocks	<i>22</i>	<i>23</i> <b>Lecture 8:</b> Long-run equilibrium, market dynamics	<i>24</i>
<i>27</i> <b>DUE: Reflection 2</b>	<i>28</i> <b>Lecture 9:</b> Market analysis & public policy	<i>29</i>	<i>30</i> <b>Lecture 10:</b> Advanced pricing	<i>Oct 1</i>
<i>4</i> <b>DUE: Individual quiz 2</b>	<i>5</i> <b>Lecture 11:</b> Risk, insurance, and moral hazard	<i>6</i>	<i>7</i> <b>Lecture 12:</b> Game theory & strategic thinking	<i>8</i>
<i>11</i> <b>DUE: Group assmt 3</b> <b>DUE: Reflection 3</b>	<i>12</i>	<i>13</i>	<i>14</i> <b>FINAL EXAM</b>	<i>15</i>



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6 (Sep. 16)	<ul style="list-style-type: none"> <li>• Competitive markets</li> <li>• Supply curves</li> <li>• Producer surplus</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 2, 8.1-8.6</li> </ul>
<b>★ DUE: Group Assignment #2, 8am, Monday, September 20</b>		
7 (Sep. 21)	<ul style="list-style-type: none"> <li>• Short-run equilibrium</li> <li>• Market shocks</li> <li>• Pit trading game</li> </ul>	<ul style="list-style-type: none"> <li>• <i>(Same as previous)</i></li> </ul>
8 (Sep. 23)	<ul style="list-style-type: none"> <li>• Long-run equilibrium &amp; market dynamics</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch 8.7, 8.8</li> <li>• SG: Ch. 8: 1-10, 12-14, 16-25, 27-29. Ch. 2: 1-6, 24-26</li> </ul>
<b>★ DUE: Reflection #2, 8am, Monday, September 27</b>		
9 (Sep. 28)	<ul style="list-style-type: none"> <li>• Market analysis: <ul style="list-style-type: none"> <li>– Price controls</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 2, 9, 18</li> </ul>

	– Externalities	<ul style="list-style-type: none"> <li>• SG: Ch. 2: 10-11, 15. Ch. 9: 1-4, 9-18, 20-25. Ch. 18: 1-2, 6, 9-10, 12-14, 19-20</li> <li>• <i>Case</i>: A Burning Problem</li> </ul>
10 (Sep. 30)	• (Intro to) Advanced Pricing	<ul style="list-style-type: none"> <li>• PR: Ch. 11</li> <li>• SG: Ch. 11, 1, 5, 7, 8, 13, 15, 16, 25, 29, 30</li> </ul>
<b>* DUE: Individual Quiz #2, 8am, Monday, October 4</b>		
11 (Oct. 5)	<ul style="list-style-type: none"> <li>• Risk &amp; risk preferences</li> <li>• Insurance</li> <li>• Moral hazard</li> </ul>	<ul style="list-style-type: none"> <li>• PR: Ch. 5, 17</li> <li>• SG: Ch. 5: 1, 2, 5, 6, 8, 9, 11, 13, 16, 17, 18. Ch. 17: 4, 5, 11</li> <li>• <i>Case</i>: Failures in Franchising</li> </ul>
12 (Oct. 7)	<ul style="list-style-type: none"> <li>• Strategic interactions and game theory</li> <li>• Sequential games and strategic commitments</li> </ul>	<ul style="list-style-type: none"> <li>• PR: 12.4, 13</li> <li>• SG: Ch. 12: 7, 9, 12. Ch. 13: 1-4, 7-10 12-15, 19-21, 24-25, 29</li> </ul>
<b>* DUE: Group Assignment #3, 8am, Monday, October 11</b>		
<b>* DUE: Reflection #3, 8am, Monday, October 11</b>		
<b>* FINAL EXAM, 2:45-4:45pm, Thursday, October 14</b>		

**BE502 Fall A 2021 Summary Calendar**

<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
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<i>Aug 30</i>	<i>31</i> <b>Lecture 1:</b> Introduction, Cost concepts	<i>Sep 1</i>	<i>2</i> <b>Lecture 2:</b> Demand curves	<i>3</i>
<i>(Labor Day) 6</i> <b>DUE: Group assmt 1</b>	<i>(Rosh Hashanah) 7</i> <b>Lecture 3:</b> Consumer choice and consumer surplus	<i>8</i>	<i>9</i> <b>Lecture 4:</b> Elasticity	<i>10</i>
<i>13</i> <b>DUE: Individual quiz 1</b> <b>DUE: Reflection 1</b>	<i>14</i> <b>Lecture 5:</b> Basic pricing, Profit maximization	<i>15</i>	<i>(Yom Kippur) 16</i> <b>Lecture 6:</b> Competitive Markets, Supply curves	<i>17</i>
<i>20</i> <b>DUE: Group assmt 2</b>	<i>21</i> <b>Lecture 7:</b> Short-run equilibrium, market shocks	<i>22</i>	<i>23</i> <b>Lecture 8:</b> Long-run equilibrium, market dynamics	<i>24</i>
<i>27</i> <b>DUE: Reflection 2</b>	<i>28</i> <b>Lecture 9:</b> Market analysis & public policy	<i>29</i>	<i>30</i> <b>Lecture 10:</b> Advanced pricing	<i>Oct 1</i>
<i>4</i> <b>DUE: Individual quiz 2</b>	<i>5</i> <b>Lecture 11:</b> Risk, insurance, and moral hazard	<i>6</i>	<i>7</i> <b>Lecture 12:</b> Game theory & strategic thinking	<i>8</i>
<i>11</i> <b>DUE: Group assmt 3</b> <b>DUE: Reflection 3</b>	<i>12</i>	<i>13</i>	<i>14</i> <b>FINAL EXAM</b>	<i>15</i>