APPLIES TO ACADEMIC YEAR 2012/2013

MBA 2393 Managerial Economics and Decision Making

Programme
Master of Business Administration - China

Responsible for the course
Yu Yihong

Department
Department of Economics

Term
According to study plan

ECTS Credits
4

Language of instruction
English

Introduction
The focus of the module is to examine the applications of some of the latest insights in economic theory to the central strategic issues facing firms – their choice of activities and markets. Traditionally economics has been divided into macroeconomics – the analysis of monetary and fiscal policies and microeconomics – the study of markets, industries and firms. This module stresses the priority of microeconomics, with the implication that the attention will be directed towards the strategic decisions of business managers, and accordingly, questions about for instance forecasting inflation, growth and interest rates will be mentioned only in passing.

Learning outcome
The purpose of the module is to study the behaviour of rational economic agents in order to understand how their interaction – under various market arrangements – determine the price – and output constellations we observe in "the real world". Particular emphasis will be placed on the strategic considerations of profit maximizing business firms – for instance in regard to their decisions concerning advertising, product differentiation and entry/exit in an industry.

The ambition of the module is to develop in the students an intuitive (an also analytical) feeling for the workings of a market – described as a movement from one equilibrium configuration to another. It is essential for a business manager to understand the fundamentals of the market in which he/she operates. Most business decisions – be it in advertising, expansion, innovation or product differentiation – will benefit from being evaluated with a firm grasp of the equilibrium response in the market. It is often said that a business manager neglects market forces "only at his peril" – the module will try to minimize these kinds of mistakes.

In the last 20 years attention has been directed more and more towards a business managers strategic decisions, by which we mean decisions in situations where there are interactions between rational economic actors; actors which may all be smart, clever, energetic and well informed. A business manager is typically in a situation involving two or more participants, where each is trying to influence, to outguess, or to adapt to the decisions or lines of behaviour that others have just adopted or expected to adopt. What is called game theory offers a scientific approach to strategic decision-making of this kind, and game theory will accordingly play a major role in this module as a theoretical model to approach the solution of real-world problems.

Prerequisites
Bachelor degree or equivalent, 4 years work experience, managerial experience and good written and oral knowledge of the English language. Please confirm our Student regulations.

Compulsory reading
Books:
Besanko, David ... [et al.]. 2010. Economics of strategy. 5th ed. Wiley
Froeb & McCann. 2010. Managerial Economics: A Problem Solving Approach. 3rd edition. Cengage Learning, South-Westen

Recommended reading

Course outline

Basic Microeconomics: Costs, profits, the firm,
Game theory: Nash equilibrium. The prisoner's dilemma game. Sequential games
Markets: Perfect competition, Monopoly, Duopoly
Conflict and cooperation
Creating incentives and designing contracts
Product differentiation
Advertising: Persuasion, Information and Signalling
Strategic entry and exit decisions: Credible commitments

1. Cola Wars Continue: Coke and Pepsi in 2010 (HBS 9-711-462)

2. Coco-Cola and Huiyuan (A-B): Antitrust Barriers to Buying Top Chinese Brands, HKU 945-946, Asia Case Research Centre, The University of Hong Kong.

3. Airbus vs. Boeing (A-F), HBS 9-707-(447-452)

4. Arthur Andersen LLP, HBS 9-103-061

Module schedule (tentative)

Day 1: Basic Microeconomics and Case 1. Game theory starts.
Day 2: Game theory. Overview of various markets. Duopoly. Case 2.
Day 3: Applications, conflict and incentives. Product differentiation. Advertising. Case 3
Day 4: Strategic entry and exit decisions. Credible commitments. Case 4.

Computer-based tools

Learning process and workload

The course is conducted as a teaching module, where students have classes all day for four subsequent days, a total of 32 hours.

Examination

The students are evaluated through an individual written assignment, accounting for 4 ECTS credits.

Examination code(s)

MBA 23931 - individual written assignment; accounts for 100% to pass the program MBA 2393; 4 credits.
The course is part of a full MBA and all evaluations must be passed in order to obtain a certificate for the degree.

Examination support materials

All aids permitted.

Re-sit examination

At the next ordinary exam.

Additional information