

ECON815 Syllabus
Economic Analysis for Business
Kansas State University
Spring 2017

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Office Hours: W 8:30-10:30am or by appointment
Course Meetings: Tue/Thur 11:30-12:45 in Biz4046

COURSE DESCRIPTION

This course teaches how to use the standard principles, methods and tools of economics to analyze topics related to business, public policy, and daily life. First we will cover the principles of economic theory that help explain the market forces that underly the opportunities available to firms. These include production, cost measures, pricing, and analysis of different market structures, price discrimination, game theory and strategic behavior.

The models we study are necessarily gross simplifications of how the world really works. So, while the the economic models are convenient tools to analyze many situations, they are only useful insofar as they match reality.

Throughout the semester we will discuss how these models can be applied to real life situations and whether the models 'fit' the 'data'. To do this, we will discuss how you might decide if this is true, centered on the difference between correlation and causation.

By the end of the course students will:

1. understand economic principles that determine economic outcomes like prices.
2. be able to describe basic economic concepts using mathematical models
3. refine analytical skills in order to be more critical of
4. see the applicability of economic principles in a broad set of circumstances

PREREQUISITE

Economics 110 (principles of macroeconomics) or equivalent, Economics 120 (principles of microeconomics) or equivalent, and one semester of calculus.

TEXTBOOK AND READING

The textbook for the course will be, *Microeconomics, 2nd Edition* by Goolsbee, Levitt, and Syverson, covers microeconomic theory and its applications. The ISBN is 1464187029. Any format (used, ebook, loose leaf, etc) is fine and you do not need access to the online supplement. You may be able to find the loose leaf pages with ISBN 1464189102 for cheaper.

For each section, we will have extra readings (and listenings), drawn from the popular press and academic economics research. We will then discuss them in class, so it is imperative that you have read them. These are listed at the bottom of the syllabus

ARTICLE SUBMISSIONS

One goal of the course is to show you the wide variety of economic applications in life and business. To help, I ask that you submit 2 articles from the popular press (not ones that I present or discuss in class) and describe how they relate to the class material.

- The first article must be turned in by **March 2**
- and the 2nd by **May 4th**.

The first article should relate to material from before the midterm and the latter should relate to post-midterm material. The articles can relate to the specific subject matter covered or the broader concepts. 1-2 of your articles/write-ups will appear in some fashion on the following exam.

For each article, submit (on Canvas) the link and a brief write-up addressing the questions below.

- What is the article trying to argue? What evidence does it provide?
- How does it relate to the topic(s) covered in class? (be specific)
- Why should we care about the topic and whether the article is correct?

EXAMS

There will be a midterm exam and a final exam on the following dates:

- **Midterm Exam:** Thursday, March 9, in class
- **Final Exam:** Friday, May 12, 9:40-11:30AM

The course material is necessarily cumulative. It is difficult or impossible to understand the later material without a firm grasp on the beginning of the course. While the final exam will be cumulative it will be heavily weighted towards material from the 2nd half.

Excused absences from exams will be made up by applying the weight from the missed exam forward to the final. Unexcused absences from exams will result in failing the exam.

PROBLEM SETS

Approximately biweekly problem sets will be distributed. Detailed solutions will be provided.

PARTICIPATION IN DISCUSSIONS

Class participation will be assessed according to your contribution to our learning. A large quantity of comments is neither necessary nor sufficient to receive full credit – quality counts. Attendance counts.

GRADING

Grades will be assigned via the following weights:

30% Midterm Exam

35% Final Exam

15% Problem Sets

10% 2 Article Submissions

10% Participation

TENTATIVE COURSE OUTLINE (*subject to change*)

The general structure of the course will be that we cover topics largely from the book and then do a deeper look at a related topic through articles from the popular and academic press.

- Supply and Demand (GLS Ch 2+3)
- Producer Behavior (GLS Ch 6)
- Costs (GLS Ch 7)
- Supply in a Competitive Market (GLS Ch 8)

- Market Power and Monopoly (GLS Ch 9)
- Pricing Strategies for Firms with Market Power (GLS Ch 10)
- Imperfect Competition (GLS Ch 11)
- Game Theory (GLS Ch 12)
- Investment, Time, and Insurance (GLS Ch 14)
- Asymmetric Information (GLS Ch 16)
- Additional policy topics time permitting

ACADEMIC ACCOMMODATIONS

Students with disabilities who need classroom accommodations, access to technology, or information about emergency building/campus evacuation processes should contact the Student Access Center and me *as soon as possible*. Services are available to students with a wide range of disabilities including, but not limited to, physical disabilities, medical conditions, learning disabilities, attention deficit disorder, depression, and anxiety. Contact the Student Access Center at accesscenter@k-state.edu, 785-532-6441.

HONESTY

Kansas State University has an Honor and Integrity System based on personal integrity, which is presumed to be sufficient assurance that, in academic matters, one's work is performed honestly and without unauthorized assistance. Undergraduate and graduate students, by registration, acknowledge the jurisdiction of the Honor and Integrity System. The policies and procedures of the Honor and Integrity System apply to all full and part-time students enrolled in undergraduate and graduate courses on-campus, off-campus, and via distance learning. The Honor and Integrity System website can be reached via the following URL: www.k-state.edu/honor. A component vital to the Honor and Integrity System is the inclusion of the Honor Pledge which applies to all assignments, examinations, or other course work undertaken by students. The Honor Pledge is implied, whether or not it is stated: "On my honor, as a student, I have neither given nor received unauthorized aid on this academic work." A grade of XF can result from a breach of academic honesty. The F indicates failure in the course; the X indicates the reason is an Honor Pledge violation.

STUDENT EXPECTATIONS

All student activities in the University, including this course, are governed by the Student Judicial Conduct Code as outlined in the Student Governing Association By Laws, Article V, Section 3, number 2. Students who engage in behavior that disrupts the learning environment may be asked to leave the class.

ADDITIONAL READINGS

Textbook readings follow along lecture. Weekly additional readings below:

January 24: *Why you can't get a taxi in the rain*

- Cruising for Dollars, *The Economist*, April 16, 2007
- Why you cant get a taxi when its raining, Annie Lowrey, *New York Magazine*, November 11, 2014
- Why New Yorkers Cant Find a Taxi When it Rains, Eric Jaffe, *City Lab The Atlantic*, October 20, 2014
- Uber Improves Life, Economists Agree, Justin Wolfers, *The Upshot*, *New York Times*, September 30, 2014
- "How Uber Drivers Decide How Long to Work," Noam Scheiber, *The New York Times*, September 4, 2016
- (Optional), Sections I and III; IV if interested and ambitious. Farber, Henry (2015) "Why you can't find a taxi in the rain and other labor supply lessons from cab drivers," *Quarterly Journal of Economics*, 130(4)1975-2026. This is a technical academic article.

- Discussion Preparation Questions:
 - Why is it hard for a standard supply and demand framework to explain why it is hard to find cabs when it is raining?
 - What does it mean to be “target earners” and why could that explain the mystery?
 - What other economic explanations are there? What do you find most credible?

February 2: *Uberomics*

- Podcast: Why Uber Is an Economists Dream, Freakonomics Podcast, September 7, 2016. (40 minutes)
- Academic Article: Sections 1, 2, and 3 (up through page 10). In section 3, focus on the figures (which you have to flip to the end for) and their descriptions. This is a technical article... I don’t expect you to understand all of it. Cohen, Peter, ..., Levitt, Steven, et al. Using Big Data to Estimate Consumer Surplus: The Case of Uber, NBER Working Paper, 2016. (this link will work on the campus network)
- (Optional) Complete’s our discussion of targeted earning. First 17 minutes (the rest is about monkeys which you may find interesting but we won’t discuss) Podcast: “This is your Brain on Uber,” Hidden Brain Podcast, May 17, 2016
- Discussion Preparation Questions:
 - Why is it hard to estimate consumer surplus? Why is it hard to estimate demand elasticities in general?
 - How do Levitt and co-authors overcome this?
 - What are 1-2 things you do not understand in this article?

February 9: *Video killed the radio star?*

- “Ahead Of Trump’s First Jobs Report, A Look At His Remarks On The Numbers,” Scott Horsley, NPR News, January 29, 2017.
- “What we knowand dont knowabout the declining labor force participation rate,” Eleanor Krause and Isabel Sawhill, Brookings Institution, Feburary 3, 2017.
- “The shocking pain of American men,” Jeff Guo, Washington Post, October 13, 2016.
- “Video killed the radio star: How games, phones, and other tech innovations are changing the labor force,” Erik Hurst, Chicago Booth Review, September 1, 2016.
- “Study finds young men are playing video games instead of getting jobs,” Ana Swanson, Chicago Tribune, September 23, 2016.
- Discussion Preparation Questions:
 - Why is there debate over the best statistic to measure whether Americans are working?
 - What are the trends in labor force participation? What groups of people are participation more versus less over time?
 - What are the competing explanations for these facts?
 - Which explanations relate to labor supply (people wanting to work) versus labor demand (businesses wanting to hire)?
 - What evidence is there to support them? Which explanations do you find convincing/ plausible?

February 23: *Information and Arbitrage*

- “If We Knew What Things Cost, They Might Cost Less,” Noah Smith, BloombergView, December 29, 2016.

- "To do with the price of fish," The Economist, May 10, 2007. (pdfPreview the documentView in a new window)
- (Academic Paper) Introduction (section I) only. "The Digital Provide: Information (Technology), Market Performance, and Welfare in the South Indian Fisheries Sector," Robert Jensen, Quarterly Journal of Economics, August 2007.
- (Read first half, then skim) "Why It's Nearly Impossible to Stop this Amazon and eBay Scheme," Jason Feifer, Entrepreneur, July 27, 2016.
- (Optional) "The transatlantic telegraphs introduction is a lesson from history on how information technology can improve firms ability to forecast demand," Claudia Steinwender, London School of Economics Blog, June 2014.
- (Optional, podcast based on Entrepreneur article) "Cat Scam," September 14, 2016.
- Discussion Preparation Questions:
 - What is arbitrage?
 - What is the law of one price and why does it rely upon information?
 - Why could arbitrage be good if it enforces the law of one price?
 - How do we generally expect communications technology to impact the law of one price?
 - How has it? How do you think the lessons of these examples apply to others?

March 2: Competing in Very Competitive Industries

- "Aboard a Cargo Colossus," Danny Hakim, The New York Times, Oct 3, 2014
- "Gourmet Cupcakes are an Awful Business Strategy," Max Nisen, Business Insider, April 18, 2013.

March 14: Producing with Market Power

- "Drug Goes From 14.50aTabletto750, Overnight," Andrew Pollack, The New York Times, Sept 20, 2015.
- Discussion Preparation Questions:
 - How is this firm setting price/quantity?
 - What is the source of their market power? (ie why are there barriers to entry?)
 - What is the effect on welfare (total surplus)?

March 16: Market Power and Innovation

- "Competition is for Losers," Peter Thiel, The Wall Street Journal, Sept 12, 2014.
- "Is competition or monopoly more innovative?" Taylor Sayles, Hopes and Fears, October 27, 2015.
- Discussion Preparation Questions:
 - Why does Peter Thiel think competition is bad?
 - In what senses is he wrong about the economics and in what senses is he right?
 - How might his argument that monopoly is good for society depend upon the cost structure of the industry? Would it apply outside the technology industry?
 - Given his argument, do you think that the government should hand out exclusive rights to be a monopoly to one firm in each industry? Why or why not?
 - Which economist's arguments do you find persuasive? Why?

March 30: Price Discrimination and "Big Data"

- "How can price discrimination make everyone better off?," *Modeled Behavior*, May 29, 2010.
- "Like? Big data, financial services and privacy," *The Economist*, February 9, 2017.
- (Read section I, skim the rest) "Big Data and Differential Pricing," Council of Economic Advisers, Executive Office of the President, February 2015.
- Discussion Preparation Questions:
 - How can price discrimination benefit society at large?
 - Why would firms want to price discriminate?
 - How does "big data" enable or change the available price discrimination strategies?
 - Are these changes likely to benefit consumers or hurt them? Does this differ depending on the characteristics of the consumer?

April 4: Is Airline "Unbundling" Price Discrimination?

- (podcast or transcript, first 16 minutes...) "The Great Unbundling," *Planet Money*, March 23, 2016.
- "A Better World Through Price Discrimination," Matthew Yglesias, *ThinkProgress*, April 13, 2010.
- Discussion Preparation Questions:
 - Does Yglesias' argument make sense?
 - Which is price discrimination, bundling or unbundling?

April 11: To trust or anti-trust?

- (Podcast) "Mavericks, Monopolies And Beer," *Planet Money*, February 13, 2013.
- "Silicon Valleys No-poaching Case: The Growing Debate over Employee Mobility," *Knowledge@Wharton*, April 30, 2014.
- Discussion Preparation Questions:
 - How might no-poaching agreements reduce overall economic efficiency rather than just transfer money from workers to their employers?
 - How does the government decide whether to block a merger?
 - What model of imperfect competition do they have in mind?

April 13: Simultaneous Move Game Theory

- (Skip the Preface) Excerpt from *The Art of Strategy*, Dixit, Avinash and Barry Nalebuff, 2011.
- (Podcast with guests Nick and Ibrahim) "The Golden Rule" *Radiolab*.

April 20: Price Wars and Repeated Games

- Best Buy Holiday Pricing Will Match Rivals Even After Items Are Sold, Mae Anderson, *Associated Press*, November, 21, 2013.
- "Game theory offers a better way forward in Britains EU drama," Richard Fairchild, *The Conversation*, June 22, 2016.
- "\$1 Pizza Slice Is Back After a Sidewalk Showdown Ends Two Parlors Price War," Matt Flegenheimer, *The New York Times*, September 5, 2012.

May 2: Bidding in Auctions

- The Spectrum Auction: How Economists Saved the Day, *Pricenomics*.
- Google shares took off but the auction didn't, *CNBC*, August 2014.
- (video) Insights on the AdSense Auction.