MANAGERIAL ECONOMICS  
ECONOMICS 2129A-001  
Department of Economics  
University of Western Ontario  

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Office Hours:  11:30-12:30 T, 10:30-11:30 Th  
Class Times:  T, 2:30 - 3:20, Th, 2:30 – 4:10, SEB 1059  
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Registration

You are responsible for ensuring you are registered in the correct courses. If you are not registered in a course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at https://studentservices.uwo.ca/secure/index.cfm. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

Prerequisite: The prerequisites for this course are Economics 1021A/B and Economics 1022A/B, or Economics 1020, or Economics 2001A/B.

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an anti-requisite course. Lack of pre-requisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Course Description: This course will help you to better understand the decisions made within firms, by uncovering and analyzing the motivations and constraints that underlie those decisions. The course differs from a course in Management in that the perspective taken throughout the course is not to help one to be a better manager, but rather to better understand managerial decisions from the outside in one’s role as a customer, employee and citizen. Among the decisions to be studied are: setting employee compensation and incentive schemes, deciding whether to purchase or manufacture product components (vertical integration), the use of sophisticated pricing systems, and reacting to changes in taxes and government regulations.
**Learning Outcomes:** Students who successfully complete this course will:

- at least three times during the term say to themselves ‘I hadn’t thought of that’.
- be able to explain the conditions required for a variety of sophisticated pricing strategies used by firms to be profitable.
- be able to formulate actual interactions among firms as games and use the tools of game theory to derive the likely outcomes of those interactions.
- be able to explain the way in which a variety of employee compensation schemes alter employee incentives.
- understand the legal and behavioral differences that distinguish the different types of organizations encountered in everyday life.


I used the same text last year, so you can purchase a new or used copy of the hardbound text if you wish, but I have also arranged with Pearson Academic to provide two lower-cost alternatives.

i) The Bookstore has copies of a ‘custom-built’ version of this text which includes only the chapters containing material that will be used in Econ 2129 this year. Specifically, it includes only those chapters of the P and B text that appear in the course outline below. This is cheaper than buying a (new) copy of the entire text, but be aware that its resale value is likely going to be low, if not zero.

ii) You can purchase an even cheaper e-copy of the custom-built text from Pearson online by following the directions posted on the website under Resources/E-book purchase instructions. According to Pearson, this will give you online access to the custom text for 180 days, and allow you to download an e-copy to one computer, and print one copy.

The material to be used in this course in all three formats is exactly the same, and it is entirely up to you which format you purchase.

**Evaluation:** There will be three 45-minute in-class quizzes, each worth 25 marks, which will together count for 50% of your term mark, as I will drop the lowest of your three quiz marks. The dates for the three quizzes are:

Tuesday, September 30  
Tuesday, October 28  
Tuesday, November 18

As I am dropping your lowest quiz mark, there will be no make-up quizzes. If you miss one, I will just drop the zero.

A two-hour Final Exam to be scheduled by the Office of the Registrar will make up the other 50% of your mark.
Note: Neither the quizzes nor the Final Exam will include any multiple choice questions. They will consist entirely of short-answer questions, along with (perhaps) a few fill-in-the-blank definitional questions.

Course Outline

Note 1: Numbers like 7.3, below refer to material from the text to be read for each topic, so 7.3 is Section 3 of Chapter 7. However, 7.0 refers to the introductory material in Chapter 7 that precedes the first numbered section in that chapter. Readings from other sources will be assigned periodically also, and these will be announced in class and made available to download from the Resources section of the website under Readings. In those cases where I think the text material is insufficiently detailed, I will also post additional notes for download.

Note 2: I do not post (or lend out) my slides or my own lecture notes. Ever. The only way to find out what is in them is to come to class or rely on a classmate who does.

I. The Firm: Basic Issues

A. Ownership and governance (7.0, 7.1)
B. Profits and incentivizing managers (7.2, 7.3)
C. The boundaries of a firm: making or buying (7.4)

II. Sophisticated Pricing Strategies for Firms with Market Power

0. Consumer choice theory (4.0 – 4.4)
A. The conditions for sophisticated pricing (10.0 - 10.2)
B. Group pricing (10.3)
C. Block pricing and quantity discounts (10.4)
D. Two-part pricing (10.5)
E. Bundling (10.6)
F. Peak-load pricing (10.7)

III. Game Theory and Firm Interactions

A. Static games and one-time decisions (12.0 - 12.3)
B. Decisions over time and sequential games (13.0)
   i) Building cooperation through repeated interaction (13.1)
   ii) Applications of sequential games (13.2 – 13.4)

IV. Incentives and Motivating Employees

A. The moral hazard problem (15.3)
B. Contracts and other devices for reducing moral hazard (15.4, 15.5)
V. Regulations, taxes and staying out of jail

A. Reacting to regulations (16.2)
B. Reacting to taxes and tax changes
C. Ways to go to jail:
   i) Collusion and price-fixing
   ii) Fraud and breach of trust

Basic Rules and Friendly Advice for Ec 2129B

1. It is your responsibility to keep yourself informed about the course: in particular all required readings and the dates for all quizzes. All of this information will be presented in class and also can be found on the course website. My responsibility is to insure that information is accurate and up to date. The website will include a Class Log which will be updated after each lecture with a brief outline of what happened that day and any Readings that need to be done for future classes.

2. You are welcome to communicate with me via email. I will answer as promptly as possible, subject to the following constraints:
   a. If you send an email with a question whose answer is clearly provided on the website or course outline, I’ll ignore the email; see Point 1 above.
   b. If you ask a question about the course material that requires a long, detailed answer, my only reply will be ‘come see me’.
   c. The university’s position on Ontario’s Freedom of Information and Privacy Protection Act implies that I am not to respond to any email in a way that could possibly be interpreted as conveying confidential academic or personal information, unless it is to a UWO email address. Therefore, if you want to be sure to get an answer from me to any email, write to me from your UWO email account.

3. My lectures sometimes use slides and sometimes ‘chalk and talk’. Everything in the lectures is designed to be an elaboration of the material you are expected to read for the course, therefore I will not post slides or lecture notes on the website. Understanding the material in this course will require you to read the text and other materials and come to the lectures to take notes and ask questions.

4. The course lectures are intended to be interactive, and you are all expected to participate. I expect and encourage questions and will certainly pose questions to you all and expect answers. Anything that comes up in a lecture is part of the course material, so you are absent at your peril. Two years of experience teaching this course has revealed one clear fact: students who miss class often don’t do very well.

5. You may use a laptop in class until the first time you are found to be doing something on it that is not class-related. I reserve the right to ban all laptops that are not required for approved reasons if they become a distraction. Cell phones and other communication devices are not to be used in class at all. You may sound (not video) record lectures if you like, so long as it doesn’t become a distraction – although I don’t recommend it as a strategy for success. Some students in the class have substituted taking pictures of the blackboard or screen during class for actually taking notes. Again, I don’t mind, as long as it’s not a distraction.
Please Note
Department Policies for 2014 – 2015

Remember that the University expects all students to take responsibility for their own academic Programs. Also remember to check your registration to make sure you are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at http://westerncalendar.uwo.ca.


3. **Cheating as an academic offence**: Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other economics courses or programs. The University may impose further penalties such as a notation on your official academic transcript, suspension or expulsion.

4. **Plagiarism**: Students must write their essays and assignments in their own words. Whenever students take an idea or a passage from another author, they must acknowledge it by using quotation marks where appropriate and referencing with footnotes or citations. Plagiarism is a major academic offence (see Scholastic Offence Policy in the current UWO Academic Calendar at http://westerncalendar.uwo.ca/2014/pg113.html).

The University of Western Ontario uses software to check for plagiarism and students may be required to submit their written work in electronic form. Those found guilty will have penalties imposed as noted in point 3.

5. It is Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students are responsible for submitting assignments in class or to the instructor during office hours.

6. When appealing a mark, students should refer to the University’s Procedures in the current UWO Academic Calendar (http://westerncalendar.uwo.ca/2014/pg112.html). Please note the relevant deadlines.

The Department will not consider any appeal unless an attempt has been made to settle the matter first with your instructor. If after this discussion you remain dissatisfied with a grade or other decision, you may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for your appeal. A useful form and checklist is provided at (http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals).
7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is not grounds for an appeal.

8. Note the following add and drop deadlines:

   Last day to **add** a full course or First term half course:
   **Friday, September 12th, 2014**

   Last day to **drop** second term half course without academic penalty:
   **Wednesday, November 5th, 2014**

9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is not an excuse for a make-up. This rule applies to all mid-term tests and final exams in the Department of Economics.

   **Policy Regarding Makeup Tests and Final Examinations**

   *Academic Accommodation will not be granted automatically on request. You must demonstrate by documentation that there are compelling medical or compassionate grounds before academic accommodation will be considered.*

   If you decide to write a test or an examination, you must be prepared to accept the mark you earn. Rewriting tests or examinations, or having the value of the test or examination reweighted on a retroactive basis, is not permitted. Book airline flights after you know the dates of your final examinations. Airline flights must not conflict with test or final exams.

   If you are requesting a makeup test for a midterm or a final examination, unless medically incapable, notify your instructor by email or phone, preferably prior to the scheduled date of the test, but definitely within **24 hours** of the date of the test or exam. Failure to follow this procedure may result in denial of a request for academic accommodation or result in a grade of zero. Set up an appointment as soon as possible to meet personally with your instructor. If the instructor is not available, you may send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca (Social Science Room 4075). **Notifying your instructor of a missed test or exam does not automatically entitle you to a makeup test.**

   Students who seek a makeup test or examination must provide medical or other relevant verification that their absence from a regularly scheduled test or examination is beyond their control. Documentation must support your reasons. Medical documentation should be given to the Academic Counselling Office of your home Faculty as soon as possible (preferably within **24 hours of the test**) if you know you may not be able to write your final examination on the scheduled day and time. Failure to follow this procedure, or to provide supporting documentation, may result in denial of a request for academic accommodation or result in a grade of zero. If your documentation is not acceptable, you will be given a zero for the missed test.

   For personal illness, if you consult Student Health Services regarding your illness or personal problem, you should request a Student Medical Certificate from the physician. If
you were seen by an off-campus doctor, obtain a certificate from his/her office at the time of your visit. The off-campus medical certificate form must be used and can be found at: http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf. Notes stating "For Medical Reasons" are not considered sufficient.

For any other circumstances, if you are not sure what documentation to provide, ask your Academic Counselor. If your documentation is judged sufficient, the academic counselor will issue a Recommendation for a Special Examination (a single form for midterms or a triple color form for final examinations). Once you have this form, contact your instructor as soon as possible to make arrangements. Even if approved from your home faculty Academic Counsellor, there is no guarantee that you will be allowed to write the makeup test and exam.

For final examinations, you need permission from your home Faculty Counsellor, your instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in an examination grade of zero. You must ensure that the Special Examination form has been signed by the instructor and Department Undergraduate Director and that the form is returned to the Academic Counseling Office for approval without delay. Make-up final examinations, if permitted, will be written within one month of the end of the exam period.

Policies Regarding Academic Accommodation

Information about the Faculty of Social Science’s policies regarding academic accommodation is found on its website at http://counselling.ssc.uwo.ca/procedures/havingproblems.asp or in Social Science Room 2105. Your “Academic Rights and Responsibilities” are also outlined in the current UWO Calendar at http://westerncalendar.uwo.ca/2014/pg111.html. Claiming that “you didn’t know what to do” is not an acceptable excuse for not following the stated procedures.

Policy Regarding Class Attendance

If your instructor views your class attendance as unsatisfactory, you can be prohibited from writing the final examination. If there is intent to make use of this University policy, you will be notified in writing.

Statement on Mental Health and Support Services

If you or someone you know is experiencing emotional/mental distress, there are several resources here at Western to assist you. Please visit http://www.uwo.ca/uwocom/mentalhealth/ for more information and a complete list of resources, as well as how to obtain help.