

**MANAGERIAL ECONOMICS**  
**ECONOMICS 2129B-001**  
Department of Economics  
University of Western Ontario

**Instructor:** Al Slivinski

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**Office Hours:** Monday, Tuesday, 2:00-3:00.

**Class Times:** M 9:30 - 11:20, W 10:30 – 11:20, 3M 3250

**Undergraduate inquiries:** 519-661-3507, SSC Room 4075, or [econugrd@uwo.ca](mailto:econugrd@uwo.ca)

**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://student.uwo.ca>. If you notice a problem please contact your faculty academic counsellor right away.

**Prerequisite Note**

**The prerequisite for this course is Economics 1021A/B and 1022A/B, or 2001A/B.**

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an antirequisite course. Lack of prerequisites 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 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 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.

**Textbook:** There is no textbook for this course. It will be based on a set of Notes for each section (written by me) and a variety of other readings, all of which are available on the course website.

**Evaluation:** There will be three 45-minute in-class quizzes, each worth 30 marks, which will together count for 60% of your term mark, as I will drop the lowest of your three quiz marks.

Since I am dropping your lowest quiz mark, there will be *no make-up quizzes*. If you miss one, I will drop the zero. If you miss two, you should drop the course, as you will get zero for the second one missed. The Quizzes will occur *in-class* on:

Wednesday, January 30

Wednesday, February 27

Wednesday, March 20

A two-hour Final Exam to be scheduled by the Office of the Registrar will make up the other 40% of your mark.

**Note:** The quizzes and Final Exam will include *no multiple choice questions*. They will consist entirely of short-answer questions, along with (perhaps) a few fill-in-the-blank definitional questions.

### **Course Log**

The course website has a folder labelled Course Log. After each lecture (or soon thereafter) I will update that log with a *brief* summary of what was covered that day, along with any announcements of what will be covered in coming lectures, including any readings for which you are responsible.

## Course Outline

**Note 1:** All readings listed below are available to be downloaded from the course website, under Resources. Yes, *all* are part of the assigned reading for the course, unless I announce otherwise. If other readings come to my attention during the course that I want you to read, these will be announced in class and put up on the website, and made available for you to read, either as a web address or a download from the course website.

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

### **0. Hygiene in restaurants: the importance of organizational form, reputation, incentives and managerial decision-making**

- Ginger Zhe Jin and Phillip Leslie, 2005, 'The Case in Support of Restaurant Hygiene Grade Cards', *Choices: The magazine of food, farm and resource issues* 20(2)

### **I. The Basics of Organizational Structure: Ownership, Control and Boundaries**

Slivinski, A, Notes on 'The Basics of Organizational Structure'

1. What are the types of organizations, and what key attributes distinguish them from one another?
2. What is the distinction between ownership and control of a commercial firm, and to what issues does this separation give rise?
  - 'Staffing levels in long-term care' *CMAJ*
  - 'For-Profit Colleges: What Every Student Should Know', [www.onlinecolleges.net](http://www.onlinecolleges.net)
  - 'Managing the family firm: Evidence from CEOs at work' Oriana Bandiera, Andrea Prat, Raffaella Sadun, *Vox* 12 February 2015
  - Schumpeter: 'Replacing the Board' *The Economist*
  - Letter to the Editor on 'Replacing the Board'
3. What determines the boundaries of the firm: which activities happen within the firm and which occur outside of it?
  - 'Delta Airlines Buys a Refinery' Gulliver Blog, *economist.com*
  - 'Delta Refinery Sacrifices Profit' *Reuters*
  - The US National Chicken Council on vertical integration

## II. Sophisticated Pricing Strategies: What and Why?

- Slivinski, A, Notes on Consumer Theory and Pricing Strategies

The pricing methods used by firms vary widely: what factors induce the use of different pricing methods?

0. Consumer choice theory: The Economics of purchasing

- Slivinski, A., 'Notes on Consumer Choice Theory and Price Discrimination'

1. The basic conditions needed for sophisticated pricing

- Armstrong, M. 2006, 'Price discrimination', Working Paper, University College London

2. Group pricing

- 'Loyalty to Your Car Insurer May Cost You', *Wall Street Journal* (dl)

'Price Optimization Notice' – State of California

3. Block pricing and quantity discounts

- 'Discriminating prices for the discriminating consumer' *Kellogg Insight* (dl)

4. Two-part pricing

5. Bundling

- 'American Television: Switching Channels' *The Economist*

6. Peak-load pricing

- 'Pricing the Surge in Taxi Demand' *The Economist*

- Adams, T., 'Surge pricing comes to the supermarket', *The Guardian*, June 4, 2017

- Lessem, N, A Farqui, S Sergici, and D Mountain, 2017, 'The impact of time of use rates in Ontario', *Public Utilities Fortnightly*, February

## III. The Principal-Agent Problem, Employee Incentives and Job Design

Incentivizing employees is one of the most important contributors to a firm's success: what do we know about the effectiveness of different incentive devices?

Slivinski, A, Notes on The PA problem and incentives in orgs

1. Adverse Selection and Moral Hazard

2. Solution 1: Compensation mechanisms

- 'Teacher incentive pay' *The Economist: Free Exchange*

- 'Do incentives motivate?' *Forbes.com*

### 3. Solution 2: Monitoring and efficiency wages

- Raff, D. M., 1988, 'Wage Determination Theory and the Five-Dollar Day at Ford', *Journal of Economic History* (excerpt)

### 4. Solution 3: Job Design and Advantageous Selection

### 5. Solution 4: Intrinsic motivation

- Dewhurst, M, M Guthridge, and E Mohr, 2009, 'Motivating people: Getting beyond money', *Commentary: McKinsey Quarterly*, November

- Liu, F, 2014, 'Insurance coverage and agency problems in doctor prescriptions: Evidence from a field experiment in China', *Journal of Development Economics*, 106

## IV. Game Theory and Firm Interactions

Slivinski, A, Notes on Strategic Decision-Making

Managers must react to the actions of their competitors, and understand that their competitors will in turn react to their own decisions: what do we know about how these strategic interactions work?

### 1. Static games and one-time decisions

### 2. Decisions over time and sequential games

- i) Building cooperation through repeated interaction
- ii) Applications of sequential games

## **Basic Rules 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.

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 'comeseeme'.
- 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. I do post material on the website if it is not available in the readings and is highly detailed, such as charts or tables of figures.

4. The course lectures are intended to be interactive, and you are expected to arrive having read the assigned material and 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.

**Long experience in this and other courses has made the following clear: *if you do not come to class and take notes, you will not do well*. Further – taking pictures of my slides is not an effective substitute for taking notes; you need to engage your brain, not a camera.**

## Please Note

### Department Policies for 2018-2019

Remember that the University expects all students to take responsibility for their own Academic Programs. Students should also check their registration to ensure they 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>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations” [http://www.uwo.ca/univsec/pdf/academic\\_policies/exam/administration.pdf](http://www.uwo.ca/univsec/pdf/academic_policies/exam/administration.pdf).
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 an official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. When taking an idea/passage from another author, it must be acknowledged with quotation marks where appropriate and referenced with footnotes or citations. Plagiarism is an academic offence (see Scholastic Discipline for Undergraduate Students in the Western Calendar at [http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page\\_20](http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_20)).

Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3.

5. It is a Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students must submit assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the Student Academic Appeals section in the current Western Academic Calendar at: [http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page\\_14](http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_14). Please note the relevant deadlines.

The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for their appeal. A checklist is provided at: [http://economics.uwo.ca/undergraduate/program\\_counselling/responsibilities\\_policies.html#appeals](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:  

Deadline to <u>add</u> a second term half course:	<b>Tuesday, January 15, 2019</b>
Deadline to <u>drop</u> a second term half course:	<b>Thursday, March 7, 2019</b>
9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is NOT grounds for a makeup. This rule applies to midterm and final exams in the Department of Economics.

### **Policy Regarding Makeup Tests and Final Examinations**

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

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or having their value reweighted on a retroactive basis, is **not** permitted. Students must also book travel arrangements AFTER final exam dates have been posted as they must not conflict with test or final exams.

Unless medically incapable of doing so, students must notify their instructor prior to the test date or at least within **24 hours** when requesting a makeup exam. Failure to follow this procedure may result in denial of academic accommodation and a grade of zero. Students should also set up an appointment as soon as possible to meet with their instructor. If the instructor is not available, send an email message, copying the Undergraduate Coordinator at [econugrd@uwo.ca](mailto:econugrd@uwo.ca). **Notifying instructors of a missed exam does not automatically entitle students to a makeup.**

Students who seek a makeup exam must also provide supporting medical or other relevant documentation that their absence from a scheduled test or exam is beyond their control. Documentation should be submitted to the Academic Counselling Office of the student's *home* Faculty **as soon as possible (preferably within 24 hours of the scheduled test)**. Failure to follow this procedure may result in denial of academic accommodation and a grade of zero. If the documentation submitted is not acceptable, students will receive a zero for the missed test.

For medical illnesses, students may consult Student Health Services and request a Student Medical Certificate from the physician. If assessed by an off-campus doctor, students must obtain a certificate from his/her office at the time of the visit/assessment. The off-campus medical certificate form must also be used and can be found at: [http://www.uwo.ca/univsec/pdf/academic\\_policies/appeals/medicalform.pdf](http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf). Notes stating "For Medical Reasons" are not considered sufficient.

For religious or compassionate circumstances, students should ask their Academic Counsellor what documentation to provide. If documentation is judged sufficient, the Academic Counsellor will issue a Recommendation for a Special Examination (a single form for midterms or a triple-color form for final exams). Once students have this form, they must contact their instructor as soon as possible to make arrangements. Even if approved by their Academic Counsellor, there is no guarantee that students will be allowed to write the makeup test/exam.

For final examinations, students need to seek permission from their *home* Faculty Counsellor, Instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in a grade of zero. Students 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 Counselling Office for approval without delay. If approved, makeup examinations will be written within one month of the end of the exam period.

### **Policies Regarding Academic Accommodation**

The Faculty of Social Science's policies regarding academic accommodation is found at [http://counselling.ssc.uwo.ca/procedures/having\\_problems/index.html](http://counselling.ssc.uwo.ca/procedures/having_problems/index.html).

"Academic Rights and Responsibilities" are also outlined in the Western Calendar at <http://westerncalendar.uwo.ca/PolicyPages.cfm?PolicyCategoryID=1&command=showCategory&SelectedCalendar=Live&ArchiveID=>. 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 the instructor deems a student's class attendance as unsatisfactory, that student may be prohibited from writing the final examination. If there is intent to make use of this University policy, the student will be notified in writing.

### **Statement on Mental Health and Support Services**

Students under emotional/mental distress should visit [http://uwo.ca/health/mental\\_wellbeing/](http://uwo.ca/health/mental_wellbeing/) for more information and a complete list of resources on how to obtain help.