

MANAGERIAL ECONOMICS ECONOMICS 2129B-001

Department of Economics
University of Western Ontario

Instructor: Al Slivinski

Office: 4089 SSC

Phone: (519) 661-2111 ext. 85294

E-mail: aslivins@uwo.ca

Office Hours: M, 1-3pm or by appointment

Class Times: M 9:30 - 11:20, W 10:30 – 11:20, UCC 37

Undergraduate inquiries: 519-661-3507, SSC Room 4075, or 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://studentservices.uwo.ca/secure/index.cfm>. If you notice a problem please contact your faculty academic counsellor right away.

Prerequisite Note

The prerequisite for this course is Economics 1021A/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.

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 is based on a set of Notes for each section (written by me) and a variety of readings, all of which are available on the course website.

Evaluation: There will be three 50-minute in-class quizzes, each worth 31% of your final mark, which will together count for 62% 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 29

Wednesday, February 26

Wednesday, March 18

A two-hour Final exam to be scheduled by the Office of the Registrar will make up the other 38% of your mark.

Note: The quizzes and final Exam will include ***no multiple choice questions***. They will consist entirely of essay questions, so an ability to write clearly and precisely is necessary to do well – both in this class and in the world.

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 for download 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.

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: 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'

A. Types of organizations, and what attributes distinguish each type.

- 'Staffing levels in long-term care' *CMAJ*

- 'Profit and Quality in US Hospitals, *An Ounce of Evidence*, A.K. Jha

B. Ownership versus control of an organization

- 'Managing the family firm: Evidence from CEOs at work' Oriana Bandiera, Andrea Prat, Raffaella Sadun, *Vox* 12 February 2015

C. The boundaries of the firm: what happens within the firm, what does not, and why

- 'Delta Airlines Buys a Refinery' Gulliver Blog, *economist.com*

II. Sophisticated Pricing Strategies

0. Consumer choice theory: The Economics of purchasing under *simple* pricing

- Slivinski, A., Notes on Consumer Choice Theory

A. The basic conditions needed for sophisticated pricing

- Slivinski, A, Notes on Pricing Strategies

B. Group pricing

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

C. Block pricing and quantity discounts

- 'Discriminating prices for the discriminating consumer' *Kellogg Insight*

D. Two-part pricing

E. Bundling

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

F. 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.

A. Adverse Selection and Moral Hazard

- Slivinski, A, Notes on the P-A problem and incentives

B. Compensation mechanisms

- 'Teacher incentive pay', *The Economist: Free Exchange*
- 'Schumpeter: Blue Collar Capitalists' *The Economist*

C. Monitoring and efficiency wages

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

D. Job Design and Advantageous Selection

E. Intrinsic motivation

- Lu, F, 2014, 'Insurance coverage and agency problems in doctor prescriptions: Evidence from a field experiment in China', *Journal of Development Economics*, 106
- Delves, D. 'Is Incentive Compensation a True Motivator?' *Forbes.com*
- Excerpt from Leford, G., Gerhart, B, Fang, M. 2013, "Negative Effects of Extrinsic Rewards on Intrinsic Motivation: More Smoke Than Fire", *WorldatWork Journal*, Spring.

IV. Game Theory and Firm Interactions

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 highly strategic interactions work?

A. Static games and one-time decisions

B. Decisions over time and sequential games

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

Basic Rules and Procedures 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.

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, but are mostly ‘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**, unless the slides contain detailed graphs or data you cannot get access to otherwise. 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 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.

5. You may sound (not video) record lectures if you like, so long as it doesn’t become a distraction.

Please Note
Department Policies for 2019-2020

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.
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 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).

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
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.

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:	January 14, 2020
Deadline to <u>drop</u> a second term half course:	March 7, 2020
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 on Tests, Final Exams and on Missed Academic Responsibilities

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or retroactive reweighting of marks, is **not** permitted. Students must book travel arrangements AFTER final exam dates have been posted; travel is not an acceptable excuse for absence from a final exam.

Students who are temporarily unable to meet academic requirements due to extenuating circumstances can follow Western University procedures to request academic consideration through the following routes:

- a) Submit a Self-Reported Absence form if the conditions for submission are met (e.g., only for exams or assessments worth 30% or less of the course mark; not applicable to final exams; maximum 2 self-reported absences per academic year; see [link](#) for full list of conditions and info).

If the conditions for submission of a Self-Reported Absence form are not met, then:

- b) For medical absences, submit a Student Medical Certificate (SMC) signed by a licensed medical or mental health practitioner along with a request for academic consideration to Academic Counselling in the student's home Faculty (see [link](#) for full info) ; or
- c) For non-medical absences (e.g., religious or compassionate), submit appropriate documentation to Academic Counselling in the student's home Faculty (see [link](#) for full info).

It is strongly recommended that students notify their instructors as soon as possible. University policy is that students **must** communicate with their instructors no later than **24 hours** after the end of the period covered by either the self-reported absence or SMC, or immediately upon their return following a documented absence. Failure to follow University policy and procedures may result in denial of academic accommodation and a grade of zero. Students should also set up an appointment to meet with their instructor as soon as possible. If the instructor is not available, send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca.

Note: Academic consideration is not normally intended for long-term, recurring absences, an existing disability, or high levels of stress related to academic performance. In such cases, students should consult their academic counsellor. See [link](#) for full information.

In all cases, if the documentation submitted to request academic consideration is not acceptable, students will receive a grade of zero for the missed test, exam, or assignment.

For full information about Western University’s policies and procedures for student absences and requests for academic consideration, please visit this [link](#).

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.

“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/ for more information and a complete list of resources on how to obtain help.