

MANAGERIAL ECONOMICS ECONOMICS 2129B-001

Department of Economics
University of Western Ontario
Winter, 2021

Instructor: Al Slivinski

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Office Hours: Th, 2:00-3:30EST. Note that this only means that I will not schedule anything else during this time. If you want to meet, send me an email and I will send you a Zoom link.

Class Times: M 10:30 - 11:20, W 10:30 – 12:20 EST. Note that this is a **synchronous online class**. Class meetings will occur during this time on Zoom and will not be recorded.

Undergraduate inquiries: econugrd@uwo.ca

Note: The prerequisite for this course is **Economics 1021A/B**.

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'.

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 in-class open note 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 **during class time** on:

Wednesday, January 27

Wednesday, February 24

Wednesday, March 17

A Final exam to be scheduled by the Office of the Registrar will make up the other 38% of your mark. Details on all of these assessments will be forthcoming, however, note that 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 out 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. 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.

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*

- Manish Mittal, Chih-Hsiung Edward Wang and Abigail Goben, 2018, 'For-profit hospitals correlated with higher readmission rates',

www.sciencedaily.com/releases/2018/09/180918180456.htm.

- '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 with Simple Pricing'

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
- 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)

B. Compensation mechanisms

- 'Teacher incentive pay', *The Economist: Free Exchange*
- 'Schumpeter: Blue Collar Capitalists' *The Economist*
- 'Brownback, A and S Sadoff, 2020, 'Improving College Instruction Through Incentives', *Journal of Political Economy* (excerpt)

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

- 'Free exchange: The rising cost of education and health care is less troubling than believed', *The Economist* June 20th 2019

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", *World at Work Journal*, Spring.

Basic Rules and Procedures for Ec 2129B

1. It is your responsibility to keep yourself informed about the course: in particular, about 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 I will almost certainly answer it in class so the entire class can benefit from both your question and my response.
 - 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 tables you cannot get access to otherwise. Understanding the material in this course will require you to read and understand the notes and readings assigned, and come to the lectures to take notes and ask questions. I will be pausing for questions frequently during my lectures.

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/screenshots of my slides or the whiteboard is not an effective substitute for taking notes; you need to engage your brain, not a camera.