

**THE HELLER SCHOOL FOR SOCIAL POLICY AND MANAGEMENT
BRANDEIS UNIVERSITY**

HS245f-01
Economics
Fall 2007

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Mondays, 2:00-5:00
Schneider G2

Course Description: The economic theory of the firm has concepts that are useful to the manager of an enterprise. Indeed, some of these are taken over by managerial accounting and other management disciplines and operationalized into practical tools. The basic theory is based on a careful analysis of revenues and costs, leading to a search for the approach that will maximize profits. The manager of an organization with a social mission must also work with revenues and costs as basic factors in decisions. But such an organization must also focus on its mission-related outcomes in a three-part analysis of revenues, costs, and outcomes. In some cases the social mission goals may contribute to profit maximization, and in some cases they may reduce profits, but the three parts must always be part of the analysis.

The analysis of markets is also an important part of an economics course. Market analysis demonstrates the basic problem that resources are scarce, and allows a consideration of various ways to deal with scarcity. Markets are also of direct relevance to managers. A manager must operate at least partially in a market environment. The market sets the constraints and provides some of the opportunities for the organization to pursue its goals. Markets do many things well, but there are also market failures. Government has a role in dealing with market failures, although it may not always succeed. Other organizations, nonprofit and for-profit, may also design their missions to work with government or to fill in social gaps not being met by the market or by government.

The course begins with the analysis of markets. Then it considers the theory of the firm. Finally, it deals with market failure and possible remedies.

Management Skills and Competencies: The course introduces various economic concepts. The concepts are useful in understanding markets and also some key management decisions. The first part of the course considers markets. Tools include supply and demand, elasticity, and using these tools to explain developments in markets and evaluate interventions in them. Then the course focuses on the economics of the firm. Tools include cost and revenue curves and the marginal analysis leading to profit

maximization. Market structure is examined. Finally, the course considers market failures such as monopoly power, externalities, public goods, and information problems.

Course Requirements: There are no prerequisites for this course. It is designed to introduce basic economic concepts and may be taken by a person who has not taken economics courses previously. Students are expected to attend and participate in each session and to arrive on time.

Course Reading: The textbook for the course is available in the bookstore: Michael R. Baye, Managerial Economics and Business Strategy, fifth edition, McGraw-Hill Irwin, 2006. Additional readings will be available on LATTE.

Assignments and Grading: There will be an exam. There will also be written assignments in most weeks, to be handed in at the beginning of the next class. There will be four assignments in all, to be graded on a point scale plus the exam.

Academic Integrity: Academic integrity is central to the mission of educational excellence at Brandeis University. Each student is expected to turn in work completed independently, except when assignments specifically authorize collaborative effort. It is not acceptable to use the words or ideas of another person- be it a world-class philosophers or your lab partner – without proper acknowledgement of that source. This means that you must use footnotes and quotation marks to indicate the sources of any phrases, sentences, paragraphs or ideas found in published volumes, on the internet, or created by another student. Violations of university policies on academic integrity, described in Section 3 of *Rights and Responsibilities*, may result in failure in the course or on the assignment, and could end in suspension from the University. If you are in doubt about the instructions for any assignment in this course, you must ask for clarification.

Notice: If you have a documented disability on record at Brandeis University and require accommodations, please bring it to the instructor's attention prior to the second meeting of the class. If you have any questions about this process, contact Beth Mann, Disabilities Coordinator for The Heller School at x62737, or at bmann@brandeis.edu.

Course Schedule

October 29

Markets. This session introduces the concept of markets and the tools of supply and demand to analyze them. It considers the ways markets deal with scarcity.

1. Baye, chapters 1 and 2.
2. John McMillan, Reinventing the Bazaar, chapters 1 and 2.

November 5

Elasticity and Market Analysis. This session considers the use of supply and demand tools to explain developments in markets and to analyze the effects of interventions in them. It introduces the concepts of consumer and producer surplus. It also introduces the concept of elasticity.

1. Baye, chapter 2 continued, chapter 3, pp. 73-95.

November 12

The Production Process, Costs, and Revenues. This session introduces cost functions and revenue functions and their basic properties. In particular, it introduces marginal revenue and marginal cost as tools for identifying the point of profit maximization.

1. Baye, chapter 5.
2. Steven Levitt and Stephen Dubner, Freakonomics, chapter 1. By now, you should recognize that incentives play an important role in economic models. This chapter provides interesting examples of the numerous ways in which incentives matter.

November 19

Market Structure. Chapter 7 provides a factual overview of various market structures. Then models of perfect competition, monopoly, and other market structures are examined.

1. Baye, chapters 7 and 8.
2. Abbington Youth Center Case

November 26

Market Structure, Continued; Market Failures and Public Policy. This session will continue with market structure. It will consider pricing strategies. And it will consider those market failures resulting from market structure.

1. Baye, chapter 8, continued, chapter 11 (pricing), and chapter 14, pp. 508-517.
2. Uwe Reinhardt, "The pricing of US Hospital Services: Chaos behind a Veil of Secrecy," Health Affairs, volume 25, number 1.

December 3

Market Failures and Public Policy. This session will introduce the failure problems related to externalities and public goods and possible public responses. It will also consider information problems. It will continue the discussion of the regulation of health care, focusing on some of its imperfections.

1. Gregory Mankiw, Principles of Microeconomics, chapters 10 and 11.
2. Baye, chapter 12, pp. 449-454.