EW MBA 201A: Economics for Business Decision Making
Fall 2015

Professor: Aaron Bodoh-Creed

The Basics

Instructor Office  F647
Instructor Office Hours  During the break and by appointment.
Instructor E-Mail  acreed@berkeley.edu
GSI  Igor Stepanishchev (igor_stepanishchev@berkeley.edu)
GSI Section  The GSIs are available during class breaks and one-on-one sessions via teleconference. The sections will be held through Adobe Connect. There will be pre-planned segments of material covered in section, and the sections will be recorded and made available to those unable to attend in real-time.

Class Representative  Each cohort must choose two class representative who will communicate with me about any class concerns. Please do not hesitate to contact him or her with any comments, criticisms, ideas for improving the class, and feedback about what is working or not working.

Google Form Feedback  I have created a Google Form for feedback available at:

http://goo.gl/forms/vtNhHN0ss7

This form allows you to provide completely anonymous feedback. I view this as a supplement to the class representative program since the feedback will reach me sooner. Significant trends in the form feedback will be addressed in class.
Course Description

The primary goal of this class is to provide you with the tools to help you think like an economist. These tools are useful both in business and in life, and I hope that by the end of the class you find that how you look at and understand events in your day-to-day life has been changed.

There are two ways in which you may find microeconomics useful in your careers. The first is that economics helps you understand how markets work. No matter what you end up doing over the course of your career, thinking about markets will be crucial. For example, you might encounter questions like:

- How can I assess the value of an investment opportunity?
- What gives my company market power when interacting with competitors?
- How will my employees respond to different kinds of incentives?

Although these concerns are often associated with private, profit-oriented companies, these issues are also salient for nonprofit or public sector endeavors since almost all activities affect and are affected by related markets.

This aspect of economics is called the positive aspect, meaning that it is descriptive or predictive. It describes what outcomes one should expect given a set of economic conditions and how changes in those conditions will alter the market outcomes. For a business student, this aspect of economics is the tool that helps you understand the context and environment in which your business operates.

A second aspect of economics addresses what the best way is to achieve a particular goal. In a business school context, the goal is usually maximizing profits. Specific questions economics can help answer are:

- How should a firm set prices to maximize profits?
- What is the right way to consider costs when calculating the profitability of different actions?
- How should a firm decide whether to enter a new market?
- How should a firm respond to the strategic actions of its competitors?

This aspect of economics is called the normative aspect. This is the aspect of economics that recommends what one ought to do, given what positive economics has to say about what is to happen as a result.

Understanding both the positive and normative tools of economics is necessary for making good business decisions. The main emphasis of the course is developing an approach to thinking about economic problems and using these tools, but we demonstrate the basic ideas by exploring a series of practical business problems. Like learning to ride a bicycle, learning to think like an economist takes practice. Merely observing how problems are approached in lectures or readings will not enable you to solve similar
problems yourself. The only way to become proficient at solving economic problems is to practice. The course will provide you many opportunities to do so including cases, problem sets, and class discussions.

Learning Goals:

By the end of the course the students will be able to …

1. … translate a real-world business problem into an economic framework, use the framework to analyze/solve the problem, and translate the insights from the framework into actionable business insights.

2. … identify features of real-life markets that expand or limit strategic opportunities.

3. … exploit (1) and (2) to formulate and critique business plans and strategies.

Many students who have already taken an economics course have experienced the subject as a collection of models and graphs with checklists describing how to use them. Our goal in this class is to build a way of thinking through a series of canonical business settings. You can’t expect to find checklists telling you how to solve any and all problems you will encounter in this class (or in life). I hope that by the end of the class you will have mastered the tools of economics to such a degree that you can confidently apply them in any situation.

Course Requirements:

Optional Text: Samuelson and Marks, Managerial Economics (7e)
Supplementary: Charles Wheelan, Naked Economics
Paul Oyer, Everything I Ever Needed to Know About Economics I Learned From Online Dating

The textbook is entirely optional – my slides and other course materials are meant to be self-contained. That being said, the textbook will provide a more mathematical version of some concepts that many students have found to be a useful complement to my slides. The supplementary books give chatty introductions to many of the concepts we will cover more formally in class.

Materials Lecture notes will be made available through bCourses. Other readings and the cases are available through study.net.

Grading

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm</td>
<td>25%</td>
</tr>
<tr>
<td>Weekly Assignments</td>
<td>25%</td>
</tr>
<tr>
<td>Pricing Project</td>
<td>30%</td>
</tr>
</tbody>
</table>
Ethics

The cases discussed in this class are well known to many MBA students and solutions to the homeworks no doubt can be found. While I encourage you to seek knowledge wherever you can find it, do not take unethical shortcuts in preparing your work. For the cases, no outside research is required or encouraged.

Section

There is no required section. However, the GSIs for the class will hold sections on weekends. There will be no new material introduced in section for which you are responsible. Rather, the GSI will go over key concepts from the course in a more detailed fashion.

Course Schedule:

This schedule is provisional. Check back frequently for updates and revisions. Readings and assignments must be done before class. Often the assignment will be difficult to impossible without the reading.

August 3 / 4 Basics of consumer demand
Reading: Samuelson and Marks, Chapter 1
“Apps Charging for Free Services Get Savvy – and Sleazy,” Time, 8/28/14
Assignment: None

August 10/11 Marginal Thinking
Reading: Samuelson and Marks, Chapters 2
Assignment: Homework #1
“Name Your Poisson: A Case of Fishy Decision-making”, write-up

August 17/18 Decision Trees and Decision Making Under Uncertainty
Reading: Samuelson and Marks, Chapters 12 and 13
“‘Winglets’ Helps Planes Lift Off, Save Fuel,” WSJ, 2/4/05
Assignment: “Freemark Abbey Winery”, write-up
Homework #2

August 24/25 Introduction to costs
Reading: Samuelson and Marks, Chapters 2 and 6
“That Sunk-Cost Feeling” The New Yorker, 1/21/13
Assignment: Homework #3
John Deere (A) (write-up)

August 31 & September 1 Perfect Competition
Reading: Samuelson and Marks, Chapter 7
“Fixed Costs Chafe at Steel Mills,” WSJ, 6/10/09
Assignment: Homework #4
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 8 – Joint class session</td>
<td>MIDTERM</td>
<td>Reading: None</td>
<td>Assignment: None</td>
</tr>
</tbody>
</table>
| September 14/15 | Monopoly Pricing | **Reading:** Samuelson and Marks, Chapters 3 and 8  
“Federal Appeals Court Finds Apple Guilty of E-Book Price Fixing,”  
*Wired*, 7/10/13 | Assignment: Homework #5 |
| September 21/22 | Game Theory and Oligopoly | **Reading:** Samuelson and Marks, Chapters 9 and 10 | Assignment: Homework #6 |
| September 28/29 | Advanced Pricing | **Reading:** Pindyck and Rubinfeld, Chapter 11  
Shapiro and Varian, “Versioning Information”  
“E pluribus unum,” The Economist, 11/22/09  
“On Orbitz, Mac Users Steered Towards Pricier Hotels,”  
*WSJ* 8/23/12  
“Websites Vary Prices, Deals Based on Users’ Information,”  
*WSJ*, 12/24/12 | Assignment: Brand X, write-up  
Homework #7 |
| October 5/6 | Pricing Project Presentations | **Reading:** None                                                | Assignment: Homework #8 |

**Evaluation**

No one likes getting graded, and I hate having to give grades out. The main purpose of the grade is to indicate the things you need to do to master the material. To a lesser extent, the prospect of being graded gives you an incentive to engage with the tasks necessary to get the most out of this class. Also note that all courses at Haas are graded on a curve. For a core MBA class, the average grade in the class cannot exceed 3.45 or one of the deans will have a stern talk with me.

**Class Participation and Attendance:**

Class participation is graded because your classmates will benefit from your ideas and you will benefit from having your ideas critiqued by your classmates. You were admitted to Haas because you add something valuable to this community – please share it with us!
You are responsible for being familiar with each of the cases as well as the readings in class. I will cold call students to get things going during each session, but you should also volunteer to participate. I generate a list of students that I can cold call before every lecture. This is 95% random, but I may call on you in order to balance the perspectives in the discussion.

For participation, quality is what matters, not quantity. Be concise, thoughtful, and ready to engage other participants. Originality and persuasiveness matter. Helpful hints for participation:

1. Are your points relevant to the discussion?
2. Do you connect your points with the points of others in the class?
3. Do you advance the discussion or simply repeat what has come before?
4. Do your points help in understanding the central issues of the case or discussion?
5. Can you challenge others in a constructive way?
6. Can you take positions for the sake of argument to see where they lead?
7. Can you take the risk of being wrong?

Before coming to class, familiarize yourself with the case and/or readings and discuss it with others in the class. You do not need to research the specifics of cases outside of the assigned readings, but you should think about other situations that might shed light on the case. Try to answer any prep questions that are provided but do not limit yourself to them: you might find other more relevant questions that are not asked.

One easy way to get a large block of participation points is to give a 5-10 minute presentation on how a topic we are discussing in that lecture impacts your work. You will need to coordinate with me at least two days in advance, write up 3 or 4 slides, and be willing to take a few minutes of questions from your classmates. The best way to find these opportunities is to scan the syllabus for upcoming topics and/or flip through my slide decks in advance.

Assignments:

There are problem sets and case write-ups due every week. The problem sets will be challenging and will ask you both to demonstrate your ability to use the analytical tools from class and to show a deeper understanding of the concepts. As a result, you are strongly encouraged to start the problem sets early in the week. The problem sets are an important component of your learning, and I view them as an opportunity for you to stretch what you know to new situations.

The problem sets will be posted in the Assignments section of the course’s bCourses website. The problem sets and case assignments count for 25% of your final grade. The grading will reward good faith effort as well as getting the final answer correct. However, systematically doing poorly on problem sets or not turning in a problem set at all will have an adverse effect on your final grade.
Problem sets may be done in groups. You may either type or neatly hand write your problem sets. Solutions need not be more than about five pages. Problem sets are due at the beginning of class. **Hard copies** must be handed in unless you have made a prior arrangement with me. Each student must provide their own copy even if the assignment was completed in a group.

**Cases:**

We will be discussing business cases in class during the semester. They are available on Study.Net. Preparation questions for the cases will be included in the homework assignments.

**Midterm:**

There will be a midterm exam in class on Tuesday, September 2nd. The midterm counts for 25% of your course grade. The midterm is a closed book exam, and you are not allowed to use any electronic device (phone, computer) other than a calculator.

**Pricing Projects:**

Each group will select a company and examine its business strategy from an economic perspective. It can be a company that one of you works for or does business with or any other company. You should evaluate the strategy (if there is one) and assess whether it could be improved. You are expected to do an 8-10 minute PPT presentation during the final exam time and a 5-10 page write-up.

At a minimum I hope you use what you learn to think about the question as uninformed outsiders. Although it is not necessary, getting data might allow you to provide a more compelling analysis. I am aware that many companies are loath to hand out this information, so I certainly don’t expect most projects to have any such data. You might also find interviewing an insider is a useful exercise. Sometimes pricing and product strategy is a result of deep market knowledge that is not apparent to outsiders. Other times pricing and product strategies are educated guesses that can be improved substantially.

**Other Issues**

**Absences**

Most of the topics we will cover build on previous lectures. As a result, you should avoid missing class if at all possible. If you must miss class, you should arrange to turn in your problem set on time, either by sending it with a classmate or by emailing it to me. If you know you will be absent in advance, the EW MBA program office can arrange to have the class recorded, although you should realize that what is written on the board or displayed overhead sometimes does not come out well. As a result, you may want to arrange to copy a classmate’s notes.
Electronic Devices

Haas has a policy that laptops are not allowed in class. This policy was requested by the students in order to eliminate distractions during class and to encourage participation. It is hard to make insightful comments about a discussion when you’re on Facebook, and paying attention to lecture is tough when the person in front of you is watching a football game. If you have a letter of accommodation requiring you to use a computer for notes or exams, then you are (of course) exempt from this policy.

I do not forbid the presence of cell phones, but if I see you using them during lecture or a discussion I will be much more prone to call on you. If you’ve ever given a presentation, you know how easy it is to notice phone users in the audience. There will be in-class polls, and you are welcome to answer the polls using your phone. Finally, I require cell phones be silenced unless there is a compelling reason to not do so.

Website and Contact Information

The course website is located on bCourses (https://bcourses.berkeley.edu). The website will have versions of all the materials handed out in class (including the syllabus, class overviews, and in-class exercises when possible), as well as assignments, and sample exams.

I intend to put the slides that I will be using on bCourses at least 24 hours before class. The version I post may be lightly edited to avoid giving out the answers to exercises that we’ll do as a group in class. My usual practice is to post an updated version including all of the exercises, etc., following the Tuesday section of the class.

Piazza

There is a Piazza message board for this course available through bCourses. I strongly encourage you to use this as a resource to ask questions, communicate with the class, and develop ideas for the pricing project. The GSIs and I check the Piazza group periodically to answer questions. Please be respectful when replying to classmates – I don’t want this to turn into the comments section of the NY Times. Also note that the identity of anonymous commenters is visible to me. Please do not be offended if I privately reach out to address questions or concerns that are posted.

Office Hours and Communicating with Me

Given the awkward time of the class, I will be holding office hours during the break. I am free for meetings outside of these times (e.g., before class) although you must make an appointment by email. “Office meetings” via Skype are also possible. You should treat the GSIs as your first point of contact, particularly about questions on the material we are covering in class.
E-mail Policy

I strive to return emails within 24 hours. If I have not replied to your email and more than 24 hours have passed, please feel free to email me again. When contacting me, please put the phrase “EWMBA201A” at the beginning of the subject line. Emails without this may get lost in my inbox.

Class Representative

Two students serve as the Haas Class Representatives. This prestigious position has two requirements. First, the class representative conducts a survey of the class around the 4th week. I will step out of the room, and the class representative collects comments about the class and reports them to me in a meeting in my office. The comments are reported anonymously, and the goal is to give me information about how the class is going from the students’ perspectives and what I can do to improve the class. The second duty is to distribute and collect the teaching evaluation forms at the end of the term. Again, the results of the teaching evaluation are anonymous.

If you would like to serve as the class representative, please contact me by e-mail. If there are several candidates, I will either choose one randomly or conduct an “election” in class.

Campus Policies

The following are campus policies that Berkeley mandates be included in the syllabus, which is not to say that the policies are unimportant.

ACCOMMODATION OF RELIGIOUS CREED

In compliance with Education code, Section 92640(a), it is the official policy of the University of California at Berkeley to permit any student to undergo a test or examination, without penalty, at a time when that activity would not violate the student's religious creed, unless administering the examination at an alternative time would impose an undue hardship that could not reasonably have been avoided. Requests to accommodate a student's religious creed by scheduling tests or examinations at alternative times should be submitted directly to the faculty member responsible for administering the examination by the second week of the semester.

Reasonable common sense, judgment and the pursuit of mutual goodwill should result in the positive resolution of scheduling conflicts. The regular campus appeals process applies if a mutually satisfactory arrangement cannot be achieved.

The link to this policy is available in the Religious Creed section of the Academic Calendar webpage:
CONFLICTS BETWEEN EXTRACURRICULAR ACTIVITIES AND ACADEMIC REQUIREMENTS

The Academic Senate has established Guidelines Concerning Scheduling Conflicts with Academic Requirements to address the issue of conflicts that arise between extracurricular activities and academic requirements. They specifically concern the schedules of student athletes, student musicians, those with out-of-town interviews, and other students with activities (e.g., classes missed as the result of religious holy days) that compete with academic obligations. The guidelines assign responsibilities as follows:

- It is the instructor’s responsibility to give students a schedule, available on the syllabus in the first week of instruction, of all class sessions, exams, tests, project deadlines, field trips, and any other required class activities.
- It is the student’s responsibility to notify the instructor(s) in writing by the second week of the semester of any potential conflict(s) and to recommend a solution, with the understanding that an earlier deadline or date of examination may be the most practicable solution.
- It is the student’s responsibility to inform him/herself about material missed because of an absence, whether or not he/she has been formally excused.

The link to the complete guidelines is available on the Academic Senate website: http://tinyurl.com/schedconflictguidelines.

A useful checklist to help instructors and students comply with the guidelines is available on the Center for Teaching and Learning website:

http://teaching.berkeley.edu/checklist-scheduling-conflicts-academic-requirements

READING, REVIEW, RECITATION (RRR) WEEK

In Fall 2009, the campus instituted a Reading, Review, and Recitation (RRR) period before final exams. For the coming semesters, please keep these dates in mind:

In Fall 2013, classes end on Friday, December 6, 2013. RRR week will take place between the last day classes (December 6) and the first day of the final exam period (Monday, December 16, 2013).

RRR Week is intended to provide students time to prepare for exams, to work on papers and projects, and to participate in optional review sessions and meetings with instructors. Presentations of capstone projects, oral presentations, and performances are permitted, although flexibility in scheduling may be required to accommodate students' individual schedules. The introduction of new material is not permitted. Mandatory exams or quizzes and other mandatory activities are also not permitted, with some very limited exceptions (capstone presentations, for example).
Detailed, updated guidelines on permissible organized activities during the RRR week are available at [http://registrar.berkeley.edu/RRRFAQ.html](http://registrar.berkeley.edu/RRRFAQ.html).

In addition, the Center for Teaching and Learning has prepared some suggestions on making RRR week productive for instructors and students [http://teaching.berkeley.edu/ideas-rrr-week](http://teaching.berkeley.edu/ideas-rrr-week). If you have tips or ideas you would like to have added to this page, please contact the Center for Teaching and Learning teaching@berkeley.edu.

**STUDENTS WITH DISABILITIES**

If you have a Letter of Accommodation from the Disabled Students Program, you must provide this letter to me at least three weeks before the midterm. If you provide the letter after this point, we will go to great lengths to make whatever accommodation is possible, but university logistics make this difficult. Until you have received written confirmation regarding the details of the accommodation, assume they have not been completed. If you have not received such a confirmation one week before the exam, please e-mail the GSI and me to insure your accommodations have been arranged.

**ACADEMIC INTEGRITY**

I take academic integrity very seriously. If either the GSI or I suspect that a violation of Berkeley’s Ethics Code has occurred, we will not hesitate to investigate it to our fullest ability and refer the offender to the relevant authorities. I believe that this is an issue of fundamental fairness to the students in the class (after all, we grade on a curve), so students who have a credible suspicion that another student has violated the Ethics Code should report to either the GSI or me such a suspicion and any evidence they may have. If a student reports such a violation to me, I will keep their identity in strict confidence (even to the university authorities).