



M.Sc. PROGRAM IN ECONOMIC  
AND BUSINESS STRATEGY



UNIVERSITY OF PIRAEUS  
DEPARTMENT OF ECONOMICS

# MANAGERIAL ECONOMICS



Tutor Pantelis Pantelidis  
e-mail: [pantel@unipi.gr](mailto:pantel@unipi.gr)

## COURSE OUTLINE

### 1. Course Description

Managerial Economics applies economic theory and methods to business and administrative decision making. Because it uses the tools and techniques of economic analysis to solve managerial problems, managerial economics links traditional economics with the decision sciences to develop vital tools for managerial decision making.

The value of managerial economics can be appreciated by examining its prescriptive and descriptive components. Managerial economics prescribes rules for improving managerial decisions. It tells managers how things should be done to achieve organizational objectives efficiently. Managerial economics also helps managers to recognize how economic forces affect organizations and describes the economic consequences of managerial behavior.

Managerial economics is different from microeconomics. Whereas microeconomics is largely descriptive (that is, it attempts to describe how the economy works without indicating how it should operate), managerial economics is largely prescriptive (that is, it attempts to establish rules and techniques to fulfill specific goals). For example, microeconomics is concerned with the way in which computer manufacturing like IBM price their products, while managerial economics is concerned with how they should price their products.

With its prescriptive and descriptive components, managerial economics provides a comprehensive application of economic theory and methodology to managerial decision making. Managerial economics is just as relevant to the management of nonbusiness, nonprofit organizations, such as government agencies, cooperatives, schools, hospitals and similar

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government agencies, cooperatives, schools, hospitals and similar institutions, as it is to the management of profit-oriented businesses

## 2. Course Objectives

The learning objectives of the course:

- To enable students to develop the skills and to provide the opportunity to practice the study of Managerial Economics.
- To develop a critical understanding of methods, procedures and current issues and debates appropriate to the study of Managerial Economics.

By the end of the course the students should:

- have gained a knowledge and understanding of the themes, issues and debates within the study of Managerial Economics
- be able to think critically and independently about what they have seen and read
- have been introduced to the range of skills and critical vocabularies needed to facilitate the study of Managerial Economics
- gained a critical understanding of the application of the methods involved in the study of Managerial Economics
- have completed and been assessed on their coursework.

## 3. Textbooks and Reading

The main textbook of the course is:

1. Keat, P. and Young, P., Managerial Economics, Prentice Hall, 6th edition, 2009.

Course participants will be given a package of additional reading in some sessions. For those interested in further reading the following books are recommended:

2. Besanko, D., Dranove, D., Shanley, M., Shaefer, S., Economics of Strategy, John Wiley and Sons, 4th edition, 2007.
3. W. Bruce Allen, Neil Doherty, Keith Weigelt, and Edwin Mansfield, Managerial Economics, Norton, fifth edition, 2002.
4. Hirschey, M. and Pappas, J., Managerial Economics, Dryden Press, eighth edition, 1996.
5. Varian, H., Microeconomic Analysis, Norton, 3rd edition, 1992. 3
6. Παλαιολόγος, Γ., Σύγχρονη Μικροοικονομική Θεωρία, εκδόσεις Σταμούλης, 2006.
7. Παλαιολόγος, Γ., Ασκήσεις Μικροοικονομικής Θεωρίας, εκδόσεις Σταμούλης, 2011.
8. Mansfield, E., Managerial Economics, μετάφραση Γ. Μπήτρου, εκδόσεις Μπένου.

#### **4. Grading**

The final course mark will comprise three elements, weighted as follows:

Midterm exam: 30%

Homework assignment: 20%

Final exam: 50%

## 5. Detailed Schedule

The course will be covered in thirteen 3-hour sessions. Each session will be consisted by the theory part and a problems-case studies part. Each session will cover the topics listed below and will be supported by the corresponding readings.

The following is a list of session titles and respective readings.

### Session 1. Introduction

**Concepts:** Introduction, The firm and its goals, goal other than profits, economic profits, optimization techniques, total, average and marginal variables, applications.

**Textbook:** Chapter 1 and 2.

### Session 2. Supply and demand - Elasticities

**Concepts:** Market demand and supply, equilibrium, comparative statics, Economic concept of elasticity, demand elasticity, cross-price elasticity , income elasticity, supply elasticity, production elasticity, cost elasticity, elasticity of substitution, Problems. 4

**Textbook:** Chapter 3 and 4.

### Session 3. Applications of supply and demand – Consumer theory.

**Concepts:** Interference with price mechanism (agriculture), Incidence of taxes, actual situations, other applications, Utility, Indifference curves, budget line, consumer equilibrium, corner solutions, rational choice, deriving individual and market demand curve, trade-off between risk and returns.

**Textbook:** Chapter 4.

**Additional Reading:** Mansfield, chapter 4.

## **Session 4. Demand estimation – Forecasting**

**Concepts:** Regression analysis, and demand estimation, coefficient of determination, evaluating regression coefficients, problems in the use of regression analysis, applications, forecasting techniques, applications.

**Textbook:** Chapter 5.

**Additional Reading:** Mansfield, chapter 5 and 6.

## **Session 5. The theory and estimation of production – Technological change and industrial innovation**

**Concepts:** Production function, short run analysis of total, average and marginal product, Long run production function, estimation of production function, substituting input factors, optimal combination of multiple inputs, applications, technological change, labor productivity, innovation, time-cost trade-offs, applications.

**Textbook:** Chapter 6.

**Additional Reading:** Mansfield, chapter 8.

## **Session 6. The theory and estimation of cost.**

**Concepts:** Definition and use of cost in economic analysis, estimation of short-run and long-run cost function, learning curve, economies of scale, economies of scope, applications.

**Textbook:** Chapter 7.

## **Session 7. Midterm exam – Perfect competition.**

**Concepts:** Competition and market types in economic analysis, prices and output decisions in perfect competition, long run equilibrium of the firm, problems and applications.

**Textbook:** Chapter 8.

## **Session 8. Monopoly – Break-even analysis.**

**Concepts:** Prices and output decisions in monopoly markets, the implication of perfect competition and monopoly for managerial decision making, problems and applications, break-even point, breakeven revenue, required profit, applications.

**Textbook:** Chapter 8.

## **Session 9. Monopolistic competition and oligopoly.**

**Concepts:** Prices and output decisions in monopolistic competition, advertising expenditure, oligopoly, pricing in an oligopolistic market, rivalry and mutual interdependence, cartel arrangements, price leadership, applications.

**Textbook:** Chapter 9 and 10.

**Additional Reading:** Mansfield, chapter 10. 6

## **Session 10. Game theory**

**Concepts:** Two person games, Nash equilibrium, prisoners dilemma, sequential games and first mover advantage, most favored customer clauses, the importance of commitment, the importance of entry, applications.

**Textbook:** Chapter 11.

**Additional Reading:** Mansfield, chapter 12.

## **Session 11. Special pricing practices – Government and industry.**

**Concepts:** Revenue maximization, price discrimination, non-marginal pricing, multi-product pricing, transfer pricing, cost-plus pricing, applications, government involvement in a market economy, deregulation, mergers and acquisitions.

**Textbook:** Chapter 10 and 14.

## **Session 12. Capital budgeting – Risk and uncertainty.**

**Concepts:** Capital budgeting decision, methods of capital project evaluation, cost of capital, examples, risk versus uncertainty, measures of risk, capital budgeting under conditions of risk, applications.

**Textbook:** Chapter 12.

## **Session 13. Review for Final exam**

100 Things to Do at AGHS