

# BE 502: APPLIED MICROECONOMICS

Professor Tom Buchmueller

**Section 1: T, TH 10:20am – 12:40am (E1530)**

**Section 4: T, TH 2:10pm – 4:30pm (E1530)**

## CONTACT INFORMATION:

Office: 7611  
Office Hours: Wednesdays and Thursdays, 4:00 to 5:30  
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Course Website: See CTools

## COURSE DESCRIPTION AND OBJECTIVE:

This course provides students with the foundations of microeconomic analysis. The primary objective is to develop the abilities of students to apply fundamental microeconomic concepts to a wide range of managerial decisions as well as public policy issues. Foundation topics include: the nature of the firm, its costs and supply behavior; consumer behavior and market demand; market forces, price formation and resource allocation; international trade and trade restrictions; and, market power and price-setting behavior. Students will also be introduced to more advanced aspects of microeconomic analysis, including topics such as decision-making with risk and imperfect information, more complex pricing strategies, and game theory.

## COURSE MATERIALS:

Course Materials (required): Cases, Readings and Practice Problems

Text (required): Robert S. Pindyck and Daniel L. Rubinfeld, Microeconomics, 7th Edition, Prentice Hall, Inc., 2008. The text is accompanied by a Study Guide by Valerie Y. Suslow and Jonathan H. Hamilton: Study Guide, Microeconomics, 7th Edition, Prentice Hall, Inc., 2008.

**NOTE: There are two purchase options for the text and its study guide, which come together in a package. You can purchase either the CUSTOMIZED VERSION created especially for the Ross School MBA core class, ISBN 0555045269, which contains only the parts of these two books listed on the syllabus, or the FULL VERSION, ISBN 0138149534.**

**COURSE REQUIREMENTS AND EVALUATION\*:**

Quiz #1 .....	5%	Due Sunday Sept. 7, Midnight
Problem set#1 .....	10%	Due Sunday Sept. 14, Midnight
Quiz #2 .....	10%	Due Sunday Sept. 28, Midnight
Problem set#2.....	10%	Due Sunday Oct. 5, Midnight
Final Exam .....	60%	Wed., Oct. 15, 4:00-6:00pm
Class participation .....	5%	

\* Please note the date and time of the exams in your calendars right away – as this is a core class, you are expected to schedule other activities to ensure your availability for the exams (both the take-home quiz and the final). No make-up exams will be offered.

*Problems Sets* are group work. I will assign students to teams (typically of four) after the first day of class, and post the team information on Ctools. Members of a team will receive the same grade for this required course component. Each team must submit a single set of answers, via CTools. Your answers can be handwritten as long as they are legible once scanned for the purposes of uploading online.

*Quizzes* are individual work. They will be administered online, via Test Center on CTools.

**Note:** If you think you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of the course, the assignments, the in-class activities, and the way I teach may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat information you provide as private and confidential.

**Ross School of Business Academic Honor Code**

Personal integrity and professionalism are fundamental values of the Ross School community. To help ensure that these values are upheld, and guarantee that the evaluation of student work is equitable, this course will be conducted in strict conformity with the Academic Honor Code. The code and related procedures can be found at the following website: <http://www.bus.umich.edu/Academics/Resources/communityvalues.htm> and will not be repeated here. The site also contains comprehensive information on how to ensure that you have not plagiarized the work of others. Claimed ignorance of the code and related information appearing on the site will be viewed as irrelevant should a violation take place. Non-Ross Business School students taking the course should also familiarize themselves with the Code as they will be subject to the Code as well while in this course.

**Statement Prohibiting Collaboration**

No discussion of *problem set questions or answers* is permitted with anyone outside your team until after the deadline for submission has expired, with the exception of your BE faculty and tutors. You should contact your faculty or tutors directly with your questions. The tutors have been instructed to redirect to faculty those questions whose answer they fear gives away too much information on a particular problem. No discussion of *questions on quizzes or answers to the same* is permitted prior to the deadline for submission with anyone except your BE instructor.

**CLASS SCHEDULE  
WITH READINGS AND STUDY GUIDE PROBLEMS**

Cases and readings are from the Course Materials. Recommended textbook readings are designated by “P&R” (Pindyck and Rubinfeld), followed by Study Guide problems (SG)

Date	Topics & Readings
	<b>MODULE 1: THE DEMAND SIDE</b>
Tuesday, Sept. 2	<p><b>Introduction; Individual Demand, Market Demand</b></p> <p><i>Case:</i> Electric Power Purchasing</p> <p><i>P&amp;R:</i> Ch. 4: Market Demand, pp. 125-127, Consumer Surplus, pp. 132-135</p> <p><i>SG:</i> Ch. 4 # 8-9, 25-26</p>
Thursday, Sept. 4	<p><b>Demand Estimation and Elasticity</b></p> <p><i>Case:</i> Estimating the Demand for Tagamet</p> <p><i>Reading:</i> “Terrible Timing for a Hotel Boom”</p> <p><i>Reading:</i> “Cosi is Good to Go”</p> <p><i>P&amp;R:</i> Ch. 2: Elasticity of Demand, pp. 34-45; Ch. 4: Elasticity of Demand, pp. 127-131, Empirical Estimation of Demand, pp. 140-144</p> <p><i>SG:</i> Ch. 2 #7, 8, 14, 17, 19-23; Ch. 4 #4 - 7, 20-21, 27-29</p>
<i>Sunday, Sept. 7 @ Midnight</i>	<i>Quiz #1 Due</i>
	<b>MODULE 2: COST CONCEPTS IN ECONOMICS</b>
Tuesday, Sept. 9	<p><b>Firm Cost Fundamentals</b></p> <p><i>Case:</i> Movies at your Disposal</p> <p><i>Reading:</i> “Dumping Policy Calls for Quiet Disposal”</p> <p><i>Reading:</i> “Shops and Condos Crowding Out Gas Stations”</p> <p><i>Reading:</i> “Amazon Takes on IBM, Oracle and HP”</p> <p><i>Reading:</i> “Scaling the Myth of Merger’s Efficiencies”</p> <p><i>P&amp;R:</i> Ch. 7: Measuring Costs: Which Costs Matter? pp. 221-228; Cost in the Short Run, pp. 228-234; Economies &amp; Diseconomies of Scale, Scope, and Learning Curve, pp. 245-256</p> <p><i>SG:</i> Ch. 7 #1-6, 9-10, 14, 16, 18, 21, 23, 27-29</p>

	<b>MODULE 3: PROFIT MAXIMIZATION &amp; COMPETITIVE SUPPLY</b>
Thursday, Sept. 11	<p><b>Perfect Competition: Price and Output in the Short Run &amp; Long Run</b></p> <p><i>Reading:</i> “Diesel Prices are Bringing Some Trucks to a Standstill”</p> <p><i>Reading:</i> “New Laptops are Made to be Manhandled”</p> <p><i>Reading:</i> “Weary Owners Struggle to Stay Afloat in Cutthroat Competition”</p> <p><i>Reading:</i> “Food Prices Rise, Farmers Respond”</p> <p><i>P&amp;R:</i> Ch. 8: Profit Maximization &amp; Competitive Supply: pp. 271-305 Ch. 2: Supply &amp; Demand, pp. 21-33, Elasticity of Supply: pp. 45-48</p> <p><i>SG:</i> Ch. 8 #1-10, 12-14, 16-25, 27-29 Ch. 2 #1-6, 24-26</p>
<i>Sunday, Sept. 14 @ Midnight</i>	<i>Problem Set #1 Due</i>
	<b>MODULE 4: SUPPLY &amp; DEMAND ANALYSIS</b>
Tuesday, Sept. 16	<p><b>Price Controls and Taxes</b></p> <p><i>Reading:</i> “Unstable and Out of Control”</p> <p><i>Reading:</i> “Anti-Inflation Curbs on Prices Create Havoc for Zimbabwe”</p> <p><i>P&amp;R:</i> Ch. 9: Analysis of Competitive Markets, pp. 309-330, Tax Incidence, pp. 335-339</p> <p><i>SG:</i> Ch. 9 #1-4, 6-18, 20-22 Ch. 2 #10-11</p>
Thursday, Sept. 18	<p><b>International Trade: Import Quotas and Tariffs</b></p> <p><i>Case:</i> U.S. Sugar Import Quotas</p> <p><i>Reading:</i> “Sugar Industry Expands Influence”</p> <p><i>Reading:</i> “Some US Farms Outsourced to Mexico”</p> <p><i>Reading:</i> “Variety, The Spice of Life, Has Measurable Value”</p> <p><i>P&amp;R:</i> Import Quotas and Tariffs: pp. 331-335</p> <p><i>SG:</i> Ch. 2 #15; Ch. 9 #5, 19, 23</p>

	<b>MODULE 5: DECISIONS WITH RISK &amp; ASYMMETRIC INFORMATION</b>
Tuesday, Sept. 23  and Thursday, Sept. 25	<p><b>Risk Preferences &amp; Market Equilibrium with Risk</b>  <i>Case:</i> Failures in Franchising  <i>Reading:</i> “Why Game Shows Have Economists Glued to their TVs”  <i>P&amp;R:</i> Ch. 5: Uncertainty &amp; Consumer Behavior, pp. 159-176  <i>SG:</i> Ch. 5 #5, 6, 8, 10, 12, 16-17</p> <p><b>Asymmetric Information</b>  <i>Reading:</i> “Insurance for the Next Big One”  <i>Reading:</i> “Six Fingers of Blame in the Mortgage Mess”  <i>Reading:</i> “When Ignorance is the Best Policy”  <i>P&amp;R:</i> Ch. 17: Markets with Asymmetric Information, pp. 617-636  <i>SG:</i> Ch. 17 #1-2, 4, 7-8, 10, 13, 19, 20</p>
<i>Sunday, Sept. 28 @ Midnight</i>	<i>Quiz #2 Due</i>
	<b>MODULE 6: SINGLE-PRICE MONOPOLY</b>
Tuesday, Sept. 30	<p><b>Monopoly: Price and Output</b>  <i>Reading:</i> “Slim Pickings”  <i>Reading:</i> “Where Has All the Prilosec Gone?”  <i>P&amp;R:</i> Ch. 10: Monopoly Pricing and Monopoly Power, pp. 349-368; The Social Costs of Monopoly Power: pp. 368-373; Antitrust Laws, pp. 381-387  <i>SG:</i> Ch. 10 #1-4, 10, 16, 23-24, 27, 29-34</p>
	<b>MODULE 7: PRICING WITH MARKET POWER</b>
Tuesday, Sept. 30	<p><b>Price Discrimination: Fundamentals</b>  <i>Case:</i> A Threat to Scholarly Communication  <i>Reading:</i> “Starbucks Economics”  <i>Reading:</i> “They’re Watching You”  <i>Reading:</i> “The Flaw of One Price; Price Differences in Europe”  <i>Reading:</i> “Zones of Contention in Gasoline Prices”  <i>P&amp;R:</i> Ch. 11: Capturing Consumer Surplus &amp; Price Discrimination, pp. 391-403  <i>SG:</i> Ch. 11 #1, 5, 13, 15, 25, 29, 30</p>

<p>Thursday, Oct. 2</p>	<p><b>Intertemporal Price Discrimination</b>  <i>Reading:</i> “The Dynamics of Pricing Tickets for Broadway Shows”  <i>Reading:</i> “Stockholm’s Syndrome”  <i>P&amp;R:</i> Ch. 11: Intertemporal Price Discrimination/Peak-load Pricing, pp. 403-406</p> <p><b>Two-Part Tariffs</b>  <i>Reading:</i> “Fees! Fees! Fees!”  <i>P&amp;R:</i> Ch. 11: The Two-Part Tariff, pp. 406-413  <i>SG:</i> Ch. 11 #7-8, 16</p>
<p><i>Sunday, Oct. 5 @ Midnight</i></p>	<p style="text-align: center;"><i>Problem Set #2 Due</i></p>
	<p style="text-align: center;"><b>MODULE 8: OLIGOPOLY &amp; COMPETITIVE STRATEGY</b></p>
<p>Tuesday, Oct. 7</p>	<p><b>Oligopoly: Prisoners’ Dilemma &amp; Coordination Games</b>  <i>Reading:</i> “Games Managers should Play”  <i>Reading:</i> “Scorcese-Spielberg Match Called Off”  <i>P&amp;R:</i> Ch. 12: The Prisoners’ Dilemma, pp. 461-464  Ch. 13: Gaming/Dominant Strategies/Nash Equilibrium: pp. 479-486  <i>SG:</i> Ch. 12 #7;  Ch. 13 #1-4, 7, 12-13, 19, 24-25</p>
<p>Thursday, Oct. 9</p>	<p><b>Auctions</b>  <i>Reading:</i> “Google IPO Tests Theories on Auctions”  <i>P&amp;R:</i> Ch. 13: Auctions, pp. 509-516</p> <p><b>Tacit and Explicit Collusion</b>  <i>Reading:</i> “Cracking Down on the Cartels”  <i>Reading:</i> “Stop the Warfare and Share the Wealth”  <i>P&amp;R:</i> Ch. 13, Repeated Games, pp. 490-494  <i>SG:</i> Ch. 12 #9, 12;  Ch. 13 #14-15</p> <p><b>Oligopoly: Sequential Games</b>  <i>P&amp;R:</i> Sequential Games/Credible Threats: pp. 494-503  <i>SG:</i> Ch. 13 #8-10, 20-21, 29</p>
<p><i>Wednesday, Oct. 15</i></p>	<p style="text-align: center;"><i>FINAL: 4:00 – 6:00pm</i></p>