

Economic Environment of the Firm
FINANCE 514
Fall 2008

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Prerequisites

Admission into one of the programs in the Graduate School of Business at Portland State University or instructor's permission.

Course Learning Objectives

The course introduces you to the basic ideas in contemporary economics. The emphasis will be on understanding the fundamental principals of micro economics and applying these concepts to managerial decision making. The course will emphasize both theory and applications. The first part of the course will introduce the tools economists use to examine how firms and individuals make economic decisions. After studying the basics of individual and firm decision making we will identify and analyze a variety of market structures, ranging from perfect competition to monopoly to better understand how markets work and how prices and output are determined. After covering the fundamental concepts of microeconomics we will look at what economics has to say about firm strategy through game theory analysis. Finally, we will examine when markets fail and solutions to market failures. Our ultimate goal is to use economic analysis to develop skills for making effective managerial decisions and strategic choices based on the analysis of the firms' productive capabilities and its markets.

In addition to the above learning objectives the MBA+ program requires the development of core competencies that are critical to developing managerial skills. The competencies that you are asked to consider and expected to develop as part of this course are: 1) Problem Solving & Decision Making and 2) Strategic Thinking & Visioning. Both of these fit well in this course.

Required Text

Managerial Economics & Business Strategy, Michael R. Baye, 6th edition McGraw-Hill.
Freakonomics, by Steven Levitt and Stephen Dubner, 1st edition HarperCollins.
The Wall Street Journal

In addition:

Lecture notes along with other reading and material will be available on the Internet at:
http://www.sba.pdx.edu/faculty/johnb/jbaccess/web_page/bizjak_web_page.htm

Other Interesting Reading Materials (Not required)

Liars Poker, by Scott Lewis, 1990. This is a very entertaining and interesting look at life in a large successful Wall Street investment bank (Salomon Brothers). An interesting read for anyone thinking about a career in investment banking.

Barbarians at the Gate, by Bryan Burrough and John Helyar, 1990. An entertaining and insightful look at life in the world of high stake investment banking and corporate finance. The authors provide a probing and in-depth look at the leveraged buyout by Kohlberg, Kravis, and Roberts of RJR/Nabisco.

Against the Gods, by Peter Bernstein, 1996. An interesting historical examination of the role risk has played in society and the tools that we have developed to deal with risk.

The Accidental Theorist and Other Dispatches from the Dismal Science, by Paul Krugman, 1998. A series of short essays that provide insight and an interesting perspective on the field of economics.

When Genius Failed: The Rise and Fall of Long-Term Capital Management, by Roger Lowenstein, 2000. This book chronicles the rise and, more importantly, fall of Long-Term Capital Management. The collapse of Long-Term Capital Management sent shock waves through financial markets and had the potential to lead to a global financial crisis.

The World Is Flat: A Brief History of the Twenty-first Century, by Thomas Friedman, 2005. The book provides an interesting perspective of what changes in the global economy mean for the United States and the American worker.

Other Interesting Economics Texts (Not Required)

Hidden Order: The Economics of Everyday Life, by David Fiedman, 1996. Provides an interesting look at how economics and economic thought can provide insight into behavior found in daily activities.

The Undercover Economist, By Tim Harford 2006. Book is in the spirit of *Freakonomics*. Provides a practical look at how economics can explain individual and business behavior along with a lot of interesting examples.

Grading Procedures

Your final course grade will be determined by the following weighing scheme:

Problem Sets (2 will be assigned)	15% each (total 30%)
Midterm Exam	30%
<u>Final Exam</u>	<u>40%</u>
Total	100%

Homework. Homework problems will be assigned from the end of the Chapter in the assigned text. In addition, for each topic covered I will assign additional homework problems that will be posted on the web. The homework **problems will not be collected** but will be very helpful in learning the material. Solutions to the homework

problems will also be posted. I anticipate that you will find all the homework problems to be very useful in answering the questions posed to you in the problem sets and in preparing for the exams.

Problem Sets. There are two assigned problem sets for this course. The problem sets will be **done individually and graded**. The problem sets will be posted on the web site for this course. The due dates for the problem sets will be posted when the problem sets are assigned. Note: you will have plenty of time to complete the problem sets and turn them in. **Consequently, late problem sets will not be accepted.**

Exams. Exams will cover assigned readings, problems and lectures. They will typically consist of a few multiple-choice questions and some short problems and essay questions. Both exams will be closed book. For each exam, however, you will be allowed to bring your calculator and an 8-1/2 by 11 inch sheet of paper (both sides are permissible) with any information you want to put on the sheet. No other material will be allowed.

Academic Integrity

Course participants are expected to maintain high standards of academic honesty. Academic honesty is a requirement for passing this course.

Attendance policy

Attendance is expected. I will consider attendance when deciding borderline grades and when spending time with students outside of class. If you miss class without a valid excuse, YOU are responsible for obtaining class notes, finding out about announcements and handouts (these should be available on the Website), and working through the material on your own or with classmates before the next class. If you miss a class, please check the Website, read the notes and textbook, and come see me if you feel it is necessary.

Disclaimer (READ THIS)

A schedule of readings and other assignments is posted on the web site for the course. I reserve the right, however, to make changes to the course outline throughout the quarter. If changes are made they will be posted in a timely fashion on the course Web page. You will need to be conscientious about staying up to date on material covered each week and look for any announcements or changes.

Course Schedule, Readings, Lectures, and Assignments

The weekly schedule for the course along with lectures notes will be posted on my school of business web page. In addition this web site also contains other course assignments which include problem sets and homework. **I will regularly update the course homepage with announcements of any changes to the class. I recommend that you regularly check the homepage for course progress and any announcements.** You can access this web page at

http://www.sba.pdx.edu/faculty/johnb/jbaccess/web_page/bizjak_web_page.htm.