



Firms and Markets
Professor John Asker
Office: KMC 7-79
Telephone: (212) 998-0062
Email: jasker@stern.nyu.edu

Firms and Markets (B01.1303.30,33)

Course Description

The goal of this course is to give you some insight into how markets work. The first part of the course starts with the study of decision making by consumers and firms and concludes with a fundamental result in economics: a set of conditions under which markets function efficiently. In the second part of the course, we focus on situations when, for one reason or another, markets don't work efficiently. We will emphasize the importance of strategic behavior, as modeled by game theory.

Microeconomics (as the topic of this course is frequently referred to) is an important component of an MBA program. First, microeconomics focuses on specific dimensions of optimal firm decision making, such as pricing and entry and exit. Second, the formal economics perspective on business plays an important role in other areas of MBA study, such as finance or marketing. Finally, by studying public policy towards market failures, microeconomics highlights important factors conditioning firm strategy.

Some of the key concepts we will introduce include economic incentives, marginal analysis, opportunity cost (which costs matter), market efficiency (what does it mean for a market to work), strategic behavior (how to predict and respond to your rivals' decisions), and asymmetric information (what happens when others know something you do not). Our experience with students in prior years is that much of this is intuitive. But much is not, and our hope is that the combination of theoretical structure and practical examples will be useful in the years to come. It will not make you a success on its own, but it might give you an edge a few times when it matters.

Prerequisites

You are expected to be comfortable with basic algebra and calculus, including systems of equations, logarithms and NPV calculations, and derivatives.

Course Materials

- Lecture notes. They review the theory relevant to most classes. In a few pages, they outline and explain the conceptual issues for the day, define terms, give examples, and (where it makes sense) work through numerical problems.
- Textbook. There is no required textbook for this course. However, if you want to have a reference text, I recommend Michael Baye's *Managerial Economics and Business Strategy* (McGraw-Hill, 4th edition), which is available in the bookstore. There is also a study guide to accompany the text.
- Slides. The slides are a forecast of where the class will head, but if the discussion moves in another interesting direction we will generally let it run its own course.

With the exception of the text, all of this material will be handed out the first day of class and posted on the course management system (<http://sternclasses.nyu.edu>).

Deliverables and Grades

The various “deliverables” in the course are designed to develop different skills:

- Class participation. It is important to integrate what you learn and be able to express it effectively. Moreover, there is a great deal of collective insight and experience in the class and we all benefit from sharing it.
Your grade will be based on such measures as the quality (not the quantity) of your contributions, attendance, punctuality, and so on.
- Individual problem sets. Problem sets emphasize quantitative applications of the principles and tools developed in class. They are due at the start of class. They will not be graded, but will be marked with a check (and possibly a plus or minus).
Most of the problems are quantitative; some require a qualitative answer (the latter typically refer to mini-cases that my colleagues and I have written over the years) and for these there may be no definitive right or wrong, it is understanding the issues that is key. The problems marked “challenge problems” are harder than most and need not be perfect to get a check.
Your overall performance on problem sets will serve as an informal tie-breaker if you are on the border between two grades. You should also note that the problem sets are the best preparation for the exams.

- Group projects. Generally more complex and realistic quantitative assignments that use and extend the principles and tools developed in class.
- Group presentations. Every group will make a presentation to the class on a topic selected from a list described in a separate document. The goals are to apply economic principles to a real problem and to hone your communication skills. The content is generally more qualitative than assignments and projects.
- Mid-term exam. Generally three or four problems, similar to the practice mid-term exams that I will distribute in due course.
- Final exam. Generally four or five problems, similar to the practice exam that I will distribute toward the end of the class. Note that this will be a take-home exam.

Your grade for the course will be based on your contributions to all of these deliverables, weighted as follows:

Class participation	10%
Individual problem sets (7) “check+/-”	
Group projects (2)	20%
Group presentation	10%
Mid-term exam	25%
Final exam	35%

Final grades will follow the School’s guideline for core courses: no more than 35% of the class will receive A or A-. This guideline was instituted in response to student concerns that different sections of a course might be graded by different standards.

Dates and deadlines for all assignments can be found in the detailed course outline; a provisional version may be found at <http://pages.stern.nyu.edu/~jasker/MBAteaching.html>.

Exams and re-grading

There are no make-up exams in this course. You are responsible for checking the midterm exam dates and avoid any conflict with other commitments. During the in-class exam, you are not allowed to consult class notes, books, or any other material. However, you may consult one page of notes (a standard-size sheet of paper written on one side). Questions about grading must be made in writing and no more than a week after the exams are returned.

Honor Code

The Stern community believes that honesty and integrity are necessary for rewarding academic and professional experiences. These qualities form the basis for the strong trust among members of the academic community (students, faculty, and administrators) that is essential for excellence in education. The Honor Code requires that each student act with integrity in all academic activities and endeavor to hold his or her peers to the same standard.

In this course, you may discuss assignments with anyone, but any written work submitted for a grade should be your own. On in-class exams, you may bring in and consult one piece of paper with anything on it you like, but your answers should be entirely your own work.

Help

There are times when a little help can get you past an obstacle. If you are stuck, send me an email (jasker@stern.nyu.edu) or stop by my office (KMC 7th floor, room 79). I try to respond quickly to email. My office hours are yet to be arranged, but I am happy to answer questions any time you find me. You can also contact the TAs who will be happy to help you with any problems you may be having.