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Syllabus: Firms and Markets

Langone Program, Fall 2008

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 linear equations, logarithms and NPV calculations, and derivatives. If you feel uncomfortable with any of these, please use the “*Calculus Review*” in the binders to get a sense of what you should get up to speed with. Do not procrastinate on this since the course will build on itself very quickly.

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, 6th edition), which is available in the bookstore. Older editions will work as well. 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. Since we won’t have time to go over all the problems on the slides in class, I will keep updating a file on Blackboard with solutions to all the problems on the slides that we did not cover in class.

With the exception of the textbook, 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, class behavior, and so on. Please note that, while class behavior does, class attendance does not *directly* affect your participation grade (even if it lowers your class contributions, and thus, indirectly, the grade itself).
- 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.

- Exams. There will be 2 in-class exams, one in the middle of the course and a final. The format will be generally three or four problems, similar to the practice exams that I will distribute in due course.
- 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.

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	“check”
Group projects (2)	20%
Group presentation	10%
Mid-term exam	30%
Final exam	30%

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 (see detailed outlines posted on Blackboard).

Exams and re-grading

You are responsible for checking the exam dates and avoid any conflict with other commitments. I will offer a make-up exam only if there are students with documented and relevant conflicts (work-related or other exams). In that case, the make-up is likely to be organized the next business day after the exam.

During the exams, 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. You should give me the exam with a written note describing the problem. I will review the question and, to discourage frivolous regarding requests, I will re-grade the entire exam, so that the total score could end up higher or lower. You can pick up the answer of your inquire one week after submission in my office.

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 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. Please, do not hesitate to contact me if you are stuck. You can reach me in several ways:

For short questions, I encourage you to email me (mbaccara@stern.nyu.edu) You can stop by my office at Office Hours (KMC, 7th floor, room 72). The tentative OH schedule is Mondays and Tuesdays 5-6pm. You can talk to me during the break or after class, even if I recommend you not to use this time as a substitute for Office Hours as I could be time constrained. If you are unable to attend the regular Office Hours, send me an email and we can schedule an appointment. You can also contact any of the two TAs. They are William Wong (www222@stern.nyu.edu) and Suresh Gopalakrishnan (sg1711@stern.nyu.edu). Besides answering to your emails, they are available to meet you upon request.

Contacting you

All the announcement regarding the course will be made on Blackboard. Besides administrative issues, I could also post some clarifications on the class material (maybe suggested by a fellow student's question). *You are responsible for checking the website for announcements on a regular basis (i.e., more or less daily).*

Lectures

The lecture will contain material not covered in the textbook. If you are unable to attend a lecture, make sure to get someone else's notes. Class discussion is encouraged.

Students who arrive late or leave early tend to disrupt the learning environment. *If you arrive late or for some reasons you have to leave early, always use the back door!*

I care about behavior in class. I want to guarantee a good learning environment for everyone, and to do so I will feel free to ask you to stop if your conversations start to generate disturbance. Keep in mind that your behavior record directly affects your participation grade.