

MODULE OUTLINE – ECONOMICS

ECO2009

Managerial Economics

2017-2018

Availability and prerequisites

Available to BSc Accounting, BSc Business Economics, BSc Economics & BSc Finance students, in addition to students in the various major/minor and joint degree programmes.

Students are required to have passed *either* Principles of Economics (ECO1001) *or* Introduction to Business Economics (ECO1011).

Teaching schedule

Lectures:	Tuesdays 15:00-17:00, PFC/0G/007 Additional lectures in Weeks 1 and 6 (see timetable)
Tutorials:	Thursdays and Fridays from Week 2, various times and locations
Assessment periods:	Weeks 5, 10 and 12

Teaching staff

Module coordinator:	Dr Chris Colvin (chris.colvin@qub.ac.uk)
Office location:	Room 01/024, Riddel Hall Block 3
Office hours:	Mondays 09:00-11:00

Module tutor:	Mr Ryan Kee (rkee02@qub.ac.uk)
Office location:	Room 0G/026, Riddel Hall Block 3
Office hours:	Wednesday 09:00-11:00

Module aims

1. Students will gain a better understanding of the functioning of economic agents under conditions of risk and uncertainty.
2. Students will acquire detailed knowledge about the economics of the firm, including the specific role of information, property rights and transaction costs.
3. Students will become familiar with key economic problems facing the owners, managers and employees of business organisations, including how these problems are affected by changes in the external economic environment.
4. Students will be induced to apply their knowledge and learn how to identify, describe, analyse and solve a selection of real-world cases in managerial economics.

Module description

Managerial Economics is concerned with the application of economic principles and methodologies to the decision-making process inside corporations and other organisations operating under conditions of risk and uncertainty. Students acquire a solid foundation in key analytical tools: transaction costs, information asymmetries and the principal-agent problem. These tools are used to understand organisational architecture: the assignment of decision rights within organisations, the methods of incentivising individuals, and the structures and systems used to evaluate the performance of individuals and business units. This module draws on material from allied academic fields, including personnel economics, behavioural economics, financial economics and business history.

Learning outcomes***Knowledge and understanding***

This module covers the core theories, methods and applications of the field of managerial economics. Building on the economics taught in students' first year of study, this module is primarily concerned with understanding how economics can be used to understand decision-making within the firm. The syllabus consists of three parts. Part I concerns the core theoretical building blocks necessary to understand the economics of management, including game theory, agency theory and behavioural economics. Part II applies these foundational concepts to understand organisational architecture, including decision rights, compensation policy and performance evaluation. Part III presents additional topics, extensions of the syllabus that bring various aspects of Parts I and II together to address current problems in managerial economics.

Intellectual skills

Students will understand how economic theories can be used to identify, analyse and solve real-world managerial problems, all while being mindful of the relevant economic and business context in which managerial decisions are taken. Students will learn how to reflect on their practice in an effort to improve their future performance. These skills will help students to improve their performance in subsequent modules.

Practical skills

Students will learn how to work in groups to solve management cases. Students will learn how groups can work together effectively. They will gain real project-management experience. These practical skills are highly-valued by the employers of business and management school graduates.

Educational philosophy

Learning in this module is centred on a series of case studies. Case studies are stories that are used as a teaching tool to show the application of a theory or concept to real situations. Case study teaching has become the standard way in which learning is structured in business and management schools at the Master's level, such as in MBA programmes. Using case studies is becoming increasingly popular at the undergraduate level in response to the vocal demands of the employers of economics graduates,

who want their employees to be able to apply their knowledge to real-world situations. Solving case studies gives students first-hand experience of using the economic theories they are taught about; only by using economic ideas to address business and management problems will students critically understand the efficacy of theory.

Teaching and learning

Lectures

This module will have twelve two-hour lectures covering ten interrelated topics in managerial economics. Lectures serve as the main vehicle through which I will guide you through important principles and case applications in the field of managerial economics. Note, however, that students should treat lectures only as introductions to the ten topics covered in the syllabus; the bulk of students' learning will take place through independent study and active participation in group projects.

Tutorials

This module will have ten one-hour tutorials addressing the theories and applications covered in this syllabus. Tutorials serve as the main vehicle through which students learn to use the managerial economics introduced in lectures. The principal way learning is structured is through a series of case studies in which students will identify and solve real-world business problems with ideas from managerial economics.

Help and feedback

Aside from visiting my office during consultation hours and being willing to communicate via email and message board, tutorials will provide the main forum by which I can communicate on your progress. Regular attendance is therefore of vital importance. Failure to attend tutorials is a certain predictor of failure.

Assessment

This module has no final written examination. It is instead assessed entirely by coursework. The tasks set are designed for students to gain valuable skills that should be useful in their future careers. The types of assessment used reflect the nature of the subject and how it is used in the real world.

Group work: case study projects (50%)

All students will participate in two group project assignments. Groups will consist of approximately 5 students. These projects are centred on setting and solving managerial economics case studies. Students will work together to identify the relevant economic problems and their managerial solutions. For the first case, due in week 5, students will write a concise group report outlining their findings (1,000 words). The output of the second case, due in week 10, will be a short presentation of 5 minutes, followed by 5-10 minutes of intensive discussion led by students. Note that some presentations may be recorded for the benefit of the external examiner. Detailed instructions, submission guidelines and assessment criteria will be distributed using Queen's Online.

Individual work: assessed essay (50%)

Students will write one essay in which they reflect upon the economics used in solving their assessed case studies. This solo-authored essays must be concise (1,000 words). It should explore how your understanding of managerial economics has changed in light of the details of an assessed case study from this module. These essays must be submitted after the student has taken part in their second group project, in week 12. Detailed instructions, submission guidelines and assessment criteria will be distributed using Queen's Online.

A note on group work

Learning how to work effectively in groups is an important skill that employers demand of our graduates. The group assignments in this module are designed to give you the necessary practice for when you enter the job market. Students will be graded both by their individual contribution to the group (50%), and by the overall output of the group as a whole (50%). Students may choose either to declare and specify which component of the group's output that they contributed to, or alternatively they can choose to take collective responsibility for the whole output of the group. If students choose the latter option, then the final grade for the group work will reflect only the overall output of the group as a whole (i.e. 100%). Submitted material will only be accepted if it includes a completed contribution form, available on Queen's Online, which declares the relative contribution of each group member.

Core reading

This module relies on two core texts that are to be used in conjunction with the additional reading outlined in the syllabus. Students are expected to familiarise themselves with the relevant chapters of the texts, as outlined in the syllabus.

Brickley, James A., Clifford W. Smith and Jerold L. Zimmerman (2016), *Managerial Economics and Organizational Architecture* (sixth edition), New York: McGraw-Hill.

Douma, Sytse and Hein Schreuder (2017), *Economic Approaches to Organizations* (sixth edition), Harlow: Pearson.

Brickley et al. (2016) is the core textbook for this module and covers the majority of topics listed in the syllabus. It recaps material from first year, but then also goes beyond this module with interesting extensions. Douma and Schreuder (2017) covers many of the topics listed in this syllabus, and is particularly good with the foundational concepts in Part I. Copies of both books have been placed in the McClay Library's short loans collection and are available in local bookstores.

Case study reading

Each tutorial will have its own information pack containing an overview of the case study, and references to relevant readings. These will be made available through Queen's Online approximately one week in advance of the relevant tutorial. Material for the assessed case studies will be made available separately, also through Queen's Online.

Students are expected to use the information packs to prepare for tutorials; students must arrive in tutorials having read the material referenced in the relevant information pack. Students who have not read this material will not be able to contribute to the discussion and will therefore be free-riding off the efforts of their group members. Unprepared students are therefore discouraged from attending tutorials; unprepared students may be asked to leave the tutorials.

Further reading

The reading list below consists of important and/or accessible journal articles. They accompany the core and case study reading, providing more in-depth treatments, vital context or useful extensions. These readings are referred to in the syllabus below. Students are expected to familiarise themselves with these readings, in particular in preparation for their assessed case studies and reflective essays.

Akerlof, George (1970), 'The market for lemons: Qualitative uncertainty and the market mechanism', *Quarterly Journal of Economics*, vol. 84, no. 3, pp. 488-500.

Birnie, Esmond, and Graham Brownlow (2017), 'Should the fiscal powers of the Northern Ireland Assembly be enhanced?', *Regional Studies*, vol. 51, no. 9, pp. 1429-1439.

Brickley, James A., Clifford W. Smith, and Jerold L. Zimmerman (1997), 'Management fads and organizational architecture', *Journal of Applied Corporate Finance*, vol. 10, no. 2, pp. 24-39.

Chandler, Alfred D. Jr., and Herman Daems (1979), 'Administrative coordination, allocation and monitoring: A comparative analysis of the emergence of accounting and organization in the U.S.A. and Europe', *Accounting, Organizations and Society*, vol. 4, no. 1/2, pp. 3-20.

Chandler, Alfred D. Jr. (1991), 'The functions of the HQ unit in the multibusiness firm', *Strategic Management Journal*, vol. 12, no. S2, pp. 31-50.

Colvin, Christopher L. (2017), 'Banking on a religious divide: Accounting for the success of the Netherlands' Raiffeisen cooperatives in the crisis of the 1920s', *Journal of Economic History*, vol. 77, no. 3, pp. 866-919.

Devereux, Michael P., and John Vella (2014), 'Are we heading towards a corporate tax system fit for the 21st century?', *Fiscal Studies*, vol. 35, no. 4, pp. 449-475.

Fama, Eugene F., and Michael C. Jensen (1983), 'Separation of ownership and control', *Journal of Law & Economics*, vol. 26, no. 2, pp. 301-325.

Ghoshal, Sumantra, and Peter Moran (1996), 'Bad for practice: A critique of the transaction cost theory', *Academy of Management Review*, vol. 21, no. 1, pp. 13-47.

Gibbons, Robert (1998), 'Incentives in organizations', *Journal of Economic Perspectives*, vol. 12, no. 4, pp. 115-132.

Guinnane, Timothy, Ron Harris, Naomi R. Lamoreaux, and Jean-Laurent Rosenthal (2007), 'Putting the corporation in its place', *Enterprise & Society*, vol. 8, no. 3, pp. 687-729.

Holden, Richard T. (2005), 'The original management incentive schemes', *Journal of Economic Perspectives*, vol. 19, no. 4, pp. 135-144.

- Holmström, Bengt, and John Roberts (1998), 'The boundaries of the firm revisited', *Journal of Economic Perspectives*, vol. 12, no. 4, pp. 73-94.
- Jensen, Michael C. (1983), 'Organization theory and methodology', *The Accounting Review*, vol. 58, no. 2, pp. 319-339.
- Kahle, Kathleen M., and René M. Stulz (2017), 'Is the US public corporation in trouble?', *Journal of Economic Perspectives*, vol. 31, no. 3, pp. 67-88.
- Kaplan, Robert S. (1984), 'The evolution of management accounting', *The Accounting Review*, vol. 59, no. 3, pp. 390-418.
- Keen, Michael, Alexander Klemm and Victoria Perry (2010), 'Tax and the crisis', *Fiscal Studies*, vol. 31, no. 1, pp. 43-79.
- Kovacic, William E. and Carl Shapiro (2000), 'Antitrust policy: A century of economic and legal thinking', *Journal of Economic Perspectives*, vol. 14, no. 1, pp. 43-60.
- Milgrom, Paul, and John Roberts (1987), 'Informational asymmetries, strategic behavior, and industrial organization', *American Economic Review*, vol. 77, no. 2 (Papers & Proceedings), pp. 184-193.
- Posner, Richard A. (2010), 'From New Institutional Economics to Organization Economics: With applications to corporate governance, government agencies, and legal institutions', *Journal of Institutional Economics*, vol. 6, no. 1, pp. 1-37.
- Prendergast, Canice (1999), 'The provision of incentives in firms', *Journal of Economic Literature*, vol. 37, no. 1, pp. 7-63.
- Saloner, Garth (1991), 'Modeling, game theory, and strategic management', *Strategic Management Journal*, vol. 12, no. S2, pp. 119-136.
- Shleifer, Andrei, and Robert W. Vishny (1991), 'Takeovers in the '60s and the '80s: Evidence and implications', *Strategic Management Journal*, vol. 12, no. S2, pp. 51-59.
- Simon, Herbert A. (1991), 'Organizations and markets', *Journal of Economic Perspectives*, vol. 5, no. 2, pp. 25-44.
- Weigelt, Keith, and Colin Camerer (1988), 'Reputation and corporate strategy: A review of recent theory and applications', *Strategic Management Journal*, vol. 9, no. 5, pp. 443-454.
- Williamson, Oliver E. (2010), 'Transaction cost economics: The natural progression', *American Economic Review*, vol. 100, no. 3, pp. 673-690.
- Zingales, Luigi (2017), 'Towards a political theory of the firm', *Journal of Economic Perspectives*, vol. 31, no. 3, pp. 113-130.

Syllabus topics***Part I: Foundational concepts****1. Strategy and game theory*

What do managerial economists mean by the term “strategy”? How do economists use game theory to understand managerial decision-making? How do managers use strategic planning to capture value for their organisations? And what is the relationship between organisational strategy and organisational structure?

Core reading: Brickley et al. (2016, chap. 8 & 9); Douma and Schreuder (2017, chap. 5)

Further reading: Saloner (1991)

Lecture case study: Market entry into UK grocery retailing

2. Information and agency theory

How do information requirements result in organisational inefficiencies and market failures? How do the conflicting objectives of owners, managers and employees result in principal-agent problems in business organisations? In what ways can formal contracting be used to solve these incentive conflicts?

Core reading: Brickley et al. (2016, chap. 10); Douma and Schreuder (2017, chap. 4 & 8)

Further reading: Akerlof (1970); Milgrom and Roberts (1987); Weigelt and Camerer (1988)

Lecture case study: The 2016 US presidential elections

3. Transaction costs and behavioural economics

What are the limitations of treating agents as consistently rational and narrowly self-interested? How can transaction costs, institutional economics and insights from behavioural economics be used to improve our understanding of real business organisations?

Core reading: Douma and Schreuder (2017, chap. 7 & 9)

Further reading: Ghoshal and Moran (1996); Williamson (2010)

Lecture case study: The Nudge Unit

Part II: Organisation and motivation in the firm*4. Decision rights*

What determines the level of empowerment within organisations? What are the trade-offs between decision rights and control systems? What determines the level of specialisation of employees? Why has there been a trend towards the separation of ownership from control in large business organisations?

Core reading: Brickley et al. (2016, chap. 12 & 13)

Further reading: Jensen (1983); Simon (1991); Chandler (1991); Fama and Jensen (1983)

Lecture case study: Queen’s University Belfast and Vision 2020

5. Personnel economics

How do business organisations attract and retain personnel? How do they incentivise and reward their employees and managers? What is the relationship between internal and external labour markets?

Core reading: Brickley et al. (2016, chap. 14 & 15)

Further reading: Gibbons (1998); Prendergast (1999); Holden (2005)

Lecture case study: Academic careers in the US versus the UK

6. Performance evaluation

How do firms set performance benchmarks for individuals and business units? How are internal accounting systems used to evaluate performance? How are accounting systems used in the management of organisations?

Core reading: Brickley et al. (2016, chap. 16 & 17)

Further reading: Chandler and Daems (1979); Kaplan (1984); Brickley, et al. (1997)

Lecture case study: The historical origins of management accounting

Part III: Applications and extensions

7. Organisational form and corporate governance

What explains organisation form, or the choice between corporation, cooperative and partnership? Why have formal corporate governance rules become necessary to ensure the long-run survival of the corporation? How is corporate governance affected by the external economic environment?

Core reading: Brickley et al. (2016, chap. 18); Douma and Schreuder (2017, chap. 3)

Further reading: Guinnane et al. (2007); Posner (2010); Kahle and Stulz (2017); Colvin (2017)

Lecture case study: The Dutch financial crisis of the 1920s

8. Integration, diversification and outsourcing

What factors determine the boundaries of the firm and the decision to integrate or outsource? How do buyers and sellers overcome asymmetric information problems in M&A transactions? How does government policy shape M&A transactions?

Core reading: Brickley et al. (2016, chap. 19); Douma & Schreuder (2013, chap. 13)

Further reading: Shleifer and Vishny (1991); Holmström and Roberts (1998)

Lecture case study: Cadbury, Kraft, Heinz and Mondelez

9. Economic regulation and government intervention

How does industrial policy influence managerial decision-making? Why and how are natural monopolies regulated? What is the relationship between the politics and economics of government regulation? What will be the likely regulatory impact of Britain's exit from the European Union?

Core reading: Brickley et al. (2016, chap. 21)

Further reading: Kovacic and Shapiro (2000); Zingales (2017)

Lecture case study: Britain's railways, past and present

10. Optimal taxation and tax competition

Who exactly should be taxed in society, and by how much should they be taxed? How should governments tax the profits of multinational business organisations? What role did taxation play in the recent financial crisis?

Core reading: Devereux and Vella (2014)

Further reading: Keen et al. (2010); Birnie and Brownlow (2016)

Lecture case study: Apple, Ireland and the EU

Timetable and deadlines

Week	Lectures	Tutorials	Deadlines
1	Topic 1	<i>No tutorials – extra lecture!</i>	
2	Topic 2	Topic 1	
3	Topic 3	Topic 2	Case study team formation 1
4	Topic 4	Assessment 1: workshop	Assign assessment cases 1
5	Topic 5	Assessment 1: assessment	<u>Report (due by Friday)</u>
6	Topic 6	<i>No tutorials – extra lecture!</i>	
7	Topic 7	Topic 6	
8	Topic 8	Topic 7	Case study team formation 2
9	Topic 9	Assessment 2: workshop	Assign assessment cases 2
10	Topic 10	Assessment 2: assessment	<u>Presentation (due in tutorials)</u>
11	Revision	Assessment 3: peer review	
12	<i>No lecture</i>	Assessment 3:	<u>Reflective essay (due by Friday)</u>

Last updated: 17 September 2017.