

DePaul University
Kellstadt Graduate School of Business

ECO 555: Economics of Decision Making
Fall 2019

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Loop Office Phone: (312) 362-6787
Office Hours: One hour before class or by appointment.

Text: *Microeconomics, 1st. or 2nd. ed.*, B. Douglas Bernheim and Michael Whinston, McGraw Hill, 2007/2013. Find an older/used edition online so you do not spend much money on the text.

Lecture Slides: Will be posted on D2L before each class. Updated and annotated slides will be posted one or two days after class. Please note that these slides are not complete notes. They are intended to provide an outline of the material and help make class more interactive.

Cases/Readings: Posted on D2L.

Objective: To learn the economic way of thinking and be able to apply economic frameworks to decision-making in the business world.

Description: In this class, we will learn fundamental economic tools and models for decision-making. The economic approach provides an excellent foundation for business decisions because it is based on solid principles and careful evaluation of costs and benefits associated with different actions. In class we will first learn the economic frameworks and models, then apply them to the real world through examples and short case studies. I welcome you to share any examples you wish as well. I think this approach will help hone your decision-making skills because it provides a good theoretical foundation within which to think about decision-making, and then allows the theory to come to life (or not) through examples and cases.

Prerequisites: This is an intermediate level class, which uses some math and lots of graphs. You are responsible for reviewing basic algebra, calculus, and probability. The material from GSB 420 is more than enough for this purpose.

Grading: Your grade will be determined by the following components and weights:

Case reports (joint grade)	35%
Midterm Exam (distributed 10/14, due 10/20) (individual grade)	30%
Final Exam (distributed 11/18, due 11/24) (individual grade)	35%

Case Reports: Groups of two students will prepare a two-three page (maximum) report on the cases assigned in class. These reports will be based on questions I will post on D2L. Reports, in WRD format only, are due in the D2L Submissions before class on the day of the case discussion.

Case Discussions: Not all cases have written reports. However all cases will be discussed in class and you are expected to come to class prepared to contribute to the discussion. These cases are important to help you develop your economic intuition and decision-making skills.

Important Dates:

Midterm Exam distributed week 5 (10/14) due week 10/20

Final exam distributed week 10 (11/18) due 11/24

Please note:

1. I adhere to DePaul University's Academic Integrity Policy.
2. I use Turn-it-In plagiarism detection technology for all written work submitted for this class.
3. Please do not use laptops or other electronics for non-class purposes.
4. Please do not ask for extra credit assignments.

Outline of Topics and due dates—subject to change: Schedule subject to change depending on progress through material. Any changes will be announced in class. If you will be absent from any class because of work-related travel, please make sure to ask your peers about announcements you may have missed.

I. Introduction and Preliminaries (week 1—Sept 16)

Bernheim and Whinston (B&W), Ch. 1

Week 1 Cases (no report): "The Real Reason the EpiPen is so Expensive" (Holbrook). And "How Frackers beat OPEC"

II. Supply, Demand, Costs, and Benefits (weeks 2 and 3—Sept 23, 30)

B&W, Ch. 2-3

Week 2 : 9/23 Case (no report): "Demand Estimation of LG Air Conditioners" (Bashir *et. al.*)

***Week 3: 9/30 Case Report Due : "Tourist Price Sensitivity and the Elasticity of Demand: The Case of BC Ferries" (Pritchard).

III. Production and Cost (week 4—Oct 7)

B&W, Ch. 7-8

***Week 4: 10/7 Case Report Due: "Does the 'New Economy' Measure up to the Great Inventions of the Past?" (Gordon).

IV. Balancing Costs and Benefits, Profit Maximization by Competitive Firms (weeks 5 and 6—Oct 14, 21)

B&W, Ch. 3 and 9

***Midterm exam distributed week 5, due week 6

***Week 5: 10/14 Case Report Due: "An Economist Sells Bagels" (Levitt).
Week 6 No Case, No Report, midterm exams due

V. **Surpluses, Market Interventions, and Externalities (Weeks 7, 8—Oct 28, Nov 4)**

B&W, Ch. 6.2, 9.5, 15 and 20.1-20.3

***Week 7: 10/28 Case Report Due (2 articles): "Employment effects of Minimum Wages" (Neumark); Excerpts from Hearing on "Keeping up with a Changing Economy: Indexing the Minimum Wage" (Dube)

***Week 8: 11/4 Case Report Due "Coase and Immigration" (Nowrasteh).

VI. **Monopoly and Monopoly Power (Week 9—Nov 11)**

B&W, Ch. 17

***Case (Optional Report) 11-11: "The Web's New Monopolists" (Fox).

VII. **Price Discrimination (Week 9—Nov 11)**

B&W, Ch. 18

Cases: "New Push Ties Cost of Drugs to how Well they Work" (Loftus); "Pay for Performance is no Miracle Cure" (Pauly).

VIII. **Game Theory (Week 10—Nov 18)**

B&W, Ch. 12

Case: "The Game Theory Behind the Snow White War" (Bettinger).

IX. **Oligopoly and Monopolistic Competition (Week 10—Nov 18)**

B&W, Ch. 19

Case: "Our Customers Are Our Enemies: The Lysine Cartel of 1992–1995" (Hammond).

You will not be writing case reports for all of the cases listed in this topic list. The cases listed here are to supplement the class material. Cases that must be written up are starred and will also be assigned in class. Cases that will be discussed will also be assigned in class in order to clarify what I expect you to prepare each week.

Grade Cut-offs:

A: 93-100

A-: 90-92

B+ 87-89

B 83-86

B- 80-82

C+ 77-79

C 73-76

C- 70-72

D+ 67-69

D 60-68

F below 60

