This course will teach you microeconomics. Much of microeconomics is theory, but I teach this class with a heavily applied focus. The University of Chicago believes that economics is important and this course will show you why. Economics is important for business decisions but it is also very helpful for future course work at the GSB and I teach the class as a foundation for the finance, marketing and competitive strategy classes you may take--trying to point out along the way which parts of economics are most useful for each.

The requirements of the class will include a mid-term and a final exam, problem sets, and several case studies. The case studies usually involve both preparing for discussion and turning in a one page case write-up. Historically, one of the problem sets has been a group project and I have dropped the worst problem set from the grade. The mid-term will be worth 20% of the grade, the final worth 60% and the problem sets and case discussions worth 20% together. I want people to participate in class and as an incentive, I give bonus points at the end of the quarter for quality class participation.

You are not required to know any economics to take this class and many of my best students have had none. That said, my experience, is that if you have never seen economics before you may feel overwhelmed in the first week or two. The textbook by Pindyck & Rubinfeld is required for the class and lays out the basic theory in a simple way. I have also arranged for the bookstore to stock the study guide which is at a more introductory level. It is entirely optional but if you find you are having trouble, you might look at this book.

Basic Issues:

What We Cover In Class Versus What Is In The Book

The topics you need to know are the ones we cover in class. The book is meant to help you understand what I discuss. Topics in the book that we don't cover, however, are not relevant for the course and you don't have to know them.

When You Feel Confused:

I have office hours every week and anyone can come talk to me or call in. My Secretary Maggie Newman has the sign-up sheet. Maggie is in Stuart 231 and her phone number is 702-8607 (Maggie also runs the Journal of Labor Economics so don't be thrown off if that's how she answers the phone). If you cannot catch me after class or make the office hours in person or by phone, talk to Maggie and she will set up an alternative time for us to meet.

I have also arranged for our class to have a T.A. to do grading and to help you understand
the problem sets. I will conduct a structured review session before the mid-term and the final to help your studying.

Group Work on Problem Sets:
I think group work is important and I encourage you to form study groups with other students to do your problem sets. Each group need turn in only one answer but the groups should be up to four people. You can, of course, do the problem sets on your own, too. The one page case write-ups can also be turned in as a group. They will not be graded but are instead meant to organize your thoughts for the case discussion.

Some of the problem sets can be difficult so I suggest you not save them for the last night. Make sure you understand the solutions to the homework and case problems because the final often has questions taken from them verbatim.

Grading and Regrades:
The Dean's office says that the grade point average in core classes should be a maximum of 3.25. I try to give every student the benefit of the doubt in grading and at the end of the quarter, before I hand back the exams, I take all the students on the margin and look at their class participation and case write-ups and raise many of the grades putting us at the maximum GPA we can have without aggravating the Dean's office. As a consequence of this, however, I am very un-generous with regrade requests. I do not think this is a very becoming habit for students to get into and unless there is an obvious error in your grading there is little chance that I will raise your grade. Any regrade request should be in writing and given to me in a reasonable time frame (getting a grade on the final and then asking for a regrade of the mid-term is not a reasonable time frame).

The GSB

Most of you have just arrived at the GSB. I try to encourage bonding among the class because it's nice to get to know some people and that's one of the things you come to business school for anyway. I hope you will find the course enjoyable. This is a great place to go to business school. The reading list follows.
READING LIST

Required Text: Microeconomics (1995), R. Pindyck & D. Rubinfeld [PR]
Optional Text: Study Guide to Pindyck and Rubinfeld

**Introduction and Basics**
Readings: PR, Sections 1.1 - 1.3, 1.5, “Preliminaries.”
“Economic Tools Used by Management in Large American Owned Corporations” Business Economics, 1984
Top 40 Grossing Movies of All Time, 1998

**Market Analysis & Supply and Demand**
Readings: PR, Chapter 2 & Section 1.4, “The Basics of Supply & Demand” and Section 4.3
Supply & Demand:
“The New Economics of Food,” Business Week, 1996

Elasticity and Market Definition:
Note: Markets & Market Definition

**Regulation, Taxes and Externalities**
Readings:
Regulation:
PR, Sections 2.6, 4.4 and 9.1-9.4
“German Consumers are Seeing Prices Cut In Deregulation Push,” WSJ 1997

MINI-CASE: THE CHICAGO HEAT WAVE, 1998
- “Can ComEd Keep the Lights On?” Chicago Daily Herald, 1998

Taxes: PR, Sections 9.4 & 9.5
“The Cartoonist Was Right” USA Today, 1997

CASE/PROBLEM SET: THE TOBACCO SETTLEMENT, 1997
- “Who Will Pay the Tobacco Industry’s Huge Bills?” NYT, 1997
- The Tax Burden on Tobacco 1997, Tobacco Institute, 1997

Externalities
PR, Sections 18.1-18.5
“Scenic Tours in Helicopters Spark Protests,” WSJ, 1994
(Optional) Demand Theory and Utility
Readings: Chapter 3, "Consumer Behavior"

**Economic Costs versus Accounting Costs**
Readings: PR, Section 7.1

Opportunity Cost
“The Real Key to Creating Wealth" *Fortune*, 1993

Sunk Costs
“America Online Announces A Newer Transformation," *NYT*, 1996

CASE: WATERWORLD--THE COSTLIEST MOVIE EVER MADE
- "That Sinking Feeling," *Vanity Fair*, 1995

**Risk, Net Present Value and Option Values**
Readings:

Risk
PR, Chapter 5, “Choice under Uncertainty" "Investment,Time, & Capital Markets"

NPV & Options
PR, Sections 15.1-15.4 & 15.6

**Production, Costs, Entry And Profit**
Readings:

Production & Cost Structure
PR, Chapter 6, "Production" & Sections 7.2 & 7.4

MINI-CASE: MORE EUROPEAN TEAMS FOR THE WORLD CUP?
- FIFA World Soccer Rankings, 1998

Output Choice and Supply
GROUP PROJECT: FLIGHT OPERATIONS AT AMERICAN AIRLINES
- Aircraft Operating Costs & Performance Report
- Airline Financial Statistics
- Air Carrier Traffic Statistics

Profit, Production and Entry in the Long-Run
PR, Sections 8.6-8.8
“Comparison Shopping is the Web’s Virtue,” WSJ, 1998
“In Some Industries Executives Forsee Tough Times Ahead,” WSJ, 1997
“Steel makers Run Mills Close to Capacity but Earn Little,” WSJ, 1996

CASE/PROBLEM SET: CAMBRIDGE SOFTWARE CORPORATION
“Cartels and Collusion,” *Financial Times*, 1996

Competitive Strategy and Game Theory
PR, Chapter 13, “Game Theory and Strategy”
“Keeping Ahead in the Competitive Game,” *Financial Times*, 1996
“Keeping Out the Competition,” *Financial Times*, 1996

**CASE: THE BOOK WARS (A) BORDERS VS. BARNES & NOBLE**

**CASE: THE BOOK WARS (B) AMAZON.COM**
- “Reading the Market,” *WSJ*, 1996
- “At the Gate,” *NYT*, 1997
- “Barnes & Noble Sues Amazon.com,” *WSJ*, 1997
- “Online Books Give Wall Street Cliff Hanger,” *USA Today*, 1997