

**MBA –I**  
**Semester I**  
**Economics for Managers (EFM)**

**1. Course Objective**

This course is designed to impart knowledge of the concepts and principles of Economics, which govern the functioning of a firm/organisation under different market conditions. It further aims at enhancing the understanding capabilities of students about macro-economic principles and decision making by business and government.

**2. Course Duration**

The course will have 40 sessions of 75 minutes duration.

**3. Course Content**

Assignment of sessions to the modules of course is as follows:

Module No.	Modules/Sub-Modules	Session	Marks (20% of 70)
<b>I</b>	<p><b>Ten principles of economics</b>            How people make decisions; How people interact; How the economy works as a whole.</p> <p><b>Thinking like an economist</b>            The scientific method; Role of assumptions; Economic models; The circular-flow diagram; Production possibilities frontier; Micro and macro economics; Positive versus normative economics; Why economists disagree’’</p> <p><b>The market forces of supply and demand</b>            Markets and competition; Individual demand; Demand schedule and demand curve; Market demand versus individual demand; Shifts in the demand curve; Supply schedule, Supply and demand– equilibrium, analyzing changes in equilibrium.</p> <p><b>Elasticity and its application</b>            The elasticity of demand; The elasticity of supply, application of elasticity.  <b>Case:</b> Pricing, admission to a museum.</p> <p><b>Consumers, producers and the efficiency of markets</b>            Consumer surplus; Producer surplus; Market efficiency– the benevolent social planner; evaluating the market equilibrium; Market efficiency and market failure</p> <p><b>The costs of production</b>            Costs – total revenue, total cost and profit, costs as opportunity costs, cost of capital as an opportunity cost, economic profit versus accounting profit; Production and costs – the production function, from production function to the total cost curve; various measures of cost – FC, VC, AC, MC, cost curves and their shapes and relationship; Costs in the short run and long run – relationship between SR and LR ATC, economies and diseconomies of scale.</p>	<b>08</b>	<b>14</b>

<b>II</b>	<p><b>Firms in competitive markets</b></p> <p>What is a competitive market; Profit maximization and the competitive firm's supply curve; The supply curve in a competitive market?</p> <p><b>Case:</b> Near empty restaurants and off-season miniature golf.</p> <p><b>Monopoly</b></p> <p>Why monopolies arise; How monopolies make production and pricing decisions; The welfare cost of monopoly – deadweight loss, social cost; Public policy towards monopolies; Price discrimination – the analytics of price discrimination, examples of price discrimination (movie tickets, airline prices, discount coupons, financial aid, quantity discounts).</p> <p><b>Case:</b> The De Beers Diamond Monopoly.</p> <p><b>Oligopoly</b></p> <p>Markets with only a few sellers – duopoly, competition, monopolies and cartels, the equilibrium for an oligopoly, how the size of an oligopoly affects the market outcome; Game theory and the economics of cooperation – prisoners' dilemma, oligopolies as a prisoners' dilemma, other examples of prisoners' dilemma (arms race, advertising, common resources), the prisoners' dilemma and the welfare of society, why people sometimes cooperate.</p> <p><b>Case:</b> OPEC and the World Oil Prices</p>	<b>8</b>	<b>14</b>
<b>III</b>	<p><b>Oligopoly – contd.</b> Public policy towards oligopolies – restraint of trade and the antitrust laws, controversies over antitrust policy, resale price maintenance, predatory pricing, tying.</p> <p><b>Case:</b> An Illegal Phone Call</p> <p><b>Monopolistic competition</b></p> <p>Competition with differentiated products – firms in the short run, the long-run equilibrium, monopolistic versus perfect competition (excess capacity, mark up over marginal cost), monopolistic competition and the welfare of society; Advertising – the debate over advertising, advertising as a signal of quality, brand names.</p> <p><b>Case:</b> Advertising and the price of eyeglasses.</p> <p><b>The theory of consumer choice</b></p> <p>The budget constraint; Preferences – representing preferences with indifference curves, four properties of indifference curves, two extreme examples of indifference curves; Optimization – the consumer's optimal choices, change in income, change in prices, income and substitution effects, deriving the demand curve; Four applications – do all demand curves slope downward, how do wages affect labor supply, how do interest rates affect household saving, do the poor prefer to receive cash or in-kind transfers</p> <p><b>Measuring a nation's income</b></p> <p>The economy's income and expenditure; The measurement of GDP; The components of GDP; Real v/s nominal GDP; GDP and economic wellbeing.</p> <p><b>Case:</b> International difficulties in GDP and Quality of life.</p> <p><b>Measuring the cost of living</b></p> <p>The consumer price index; Correcting economic variables for the effects of inflation, Impact of Inflation on various sections of society- producers and consumers.</p>	<b>8</b>	<b>14</b>

<b>IV</b>	<p><b>Production and growth</b> Economic growth around the world; The role and determinants of productivity; Economic growth and public policy; The importance of long-run growth.</p> <p><b>Saving, investment and the financial system</b> Financial institutions in the US economy; Saving and investment in the National Income Accounts; The market for Loanable funds, Supply and Demand for Loanable Funds.</p> <p><b>The monetary system, Money growth and inflation</b> The meaning of money; Functions and Kinds of Money, The classical theory of inflation; The Cost of inflation.</p> <p><b>Open-economy macroeconomics – Basic concepts</b> The international flow of goods and capital – the flow of goods (exports, imports, net exports), the flow of capital (net foreign investment), the equality of net exports and net foreign investment; savings, investment and their relationship to the international flows; The prices for international transactions (real and nominal exchange rates); A first theory of exchange-rate determination (purchasing power parity)</p>	<b>8</b>	<b>14</b>
<b>V</b>	<p><b>Aggregate demand and aggregate supply</b> Three key facts about economic fluctuations; Explaining short-run economic fluctuations; The aggregate demand curve; The aggregate supply curve; Two causes of economic fluctuations (the effects of shifts in aggregate demand and supply).</p> <p><b>The influence of monetary and fiscal policy on aggregate demand</b> How monetary policy influences aggregate demand – the theory of liquidity preference, the downward slope of the aggregate demand curve, changes in the money supply, the role of interest-rate targets in Fed policy; How fiscal policy influences aggregate demand – changes in government purchases, the multiplier effect, a formula for the spending multiplier, other applications of the multiplier effect, the crowding-out effect, changes in taxes; Using policy to stabilize the economy – the cases for and against active stabilization policy.</p> <p><b>The short-run trade-off between inflation and unemployment</b> The Phillips Curve – origins, aggregate demand, aggregate supply and the Phillips Curve; Shifts in the Phillips Curve – the role of expectations; Shifts in the Phillips Curve – the role of supply shocks; The cost of reducing inflation – the sacrifice ration, rational expectations and the possibility of costless disinflation, the Volcker disinflation, the Greenspan era.</p> <p><b>Five debates about macroeconomic policy (pros and cons)</b> Should monetary and fiscal policymakers try to stabilize the economy; Should monetary policy be made by rule rather than by discretion; Should the Central Bank aim for zero inflation; Should fiscal policymakers reduce the government debt; Should the tax laws be reformed to encourage saving.</p>	<b>8</b>	<b>14</b>

#### 4. Pedagogy of the course

The course will use the following pedagogical tools:

- (a) Case discussion covering a cross section of decision situations.
- (b) Discussions on issues and techniques of Economics.
- (c) Projects/ Assignments/ Quizzes/ Class participation etc

#### 5. Evaluation:

The evaluation of participants will be on continuous basis comprising of the following elements:

A	Projects/ Assignments/ Quizzes/ Class participation etc	Weightage 10% (Internal Assessment)
B	Mid-Semester examination	Weightage 20 % (Internal Assessment)
C	End –Semester Examination	Weightage 70% (External Assessment)

#### 7. Text Book:

Sr. No.	Author/s	Name of the Book	Publisher	Edition and Year of Publication
T1	N Gregory Mankiw;	<i>Principles of Economics</i>	Thomson South-Western	2 <sup>nd</sup> edition, 2002 Indian reprint
T2	Pindyck & Rubinfeld	Microeconomics	Pearson	5 <sup>th</sup> edition
T3	8/e Christopher R. Thomes, S. Charles Maurice	Managerial Economics – Concepts and Applications	Tata McGraw Hill	Latest Edition

#### 8. Reference Books:

Sr. No.	Author/s	Name of the Book	Publisher	Edition and Year of Publication
R1	DSalvatore	Managerial Economics in a Global Economy	Thomson South Western	Latest Edition
R2	Ravindra H. Dholakia and Ajay N. Oza	Microeconomics for Management Students	Oxford University Press	Latest Edition
R3	G. S. Gupta	Managerial Economics	Tata Mc Graw Hill	Latest Edition
R4	C. Rangaragan and B. H. Dholakia	Principles of Macroeconomics,	The McGraw-Hill companies	Latest Edition
R5	G. S. Gupta, 3/e	Macroeconomics – Theory and Applications	Tata McGraw Hill	Latest Edition
R6	Samuelson and Nordhaus	Economics	Tata McGraw Hill	Latest Edition

R7	Atmanand	Managerial Economics	Excel Books	Latest Edition
R8	I C Dhingra (SCS)	Essentials of Managerial Economics	Educational	Latest Edition
R9	D Salvatore	Microeconomics: Theory and Applications	Oxford University Press	4 <sup>th</sup> Edition (Indian Edition)
R10	Lipsey and Chrystal	Economics	Oxford University Press	11 <sup>th</sup> Edition (Indian Edition)
R11	D. Salvatore	Managerial Economics-Principles and Worldwide Applications	Oxford University Press	6 <sup>th</sup> Edition (Indian Edition)
R12	H.L Ahuja	Managerial economics	S Chand	3 <sup>rd</sup> edition
R13	Hirschey,	Economics for Managers	Ceenge Learning	Latest Edition
R14	Satya P. Das	Microeconomics for Business	Sage Text Books	Latest Edition
R15	Geetika, Piyali Ghosh, Purba Roy Choudhary	Managerial Economics	Tata Mcgrawhill	Latest Edition
R16	Mankiw,	Econimcs – Principles and Application	Ceenge Learning	Latest Edition
R17	D. N. Dwivedi	Managerial Economics	Vikas	7 <sup>th</sup> Edition

8. List of Journals/Periodicals/ Magazines/ Newspapers etc.: Economist, Economical and Political Weekly, Economic Times, Business Standard, etc.

## 9. Session Plan

### Economics for Managers (EFM)

Session No.	Topic
1	Ten principles of economics
2	Thinking like an economist
3 - 4	The market forces of supply and demand
5	Elasticity and its application <i>Case: Pricing, admission to a museum.</i>
6	Consumers, producers and the efficiency of markets
7-8	The costs of production
9-10	Firms in competitive markets
11-13	Monopoly <i>Case: The De Beers Diamond Monopoly.</i>
14-16	Oligopoly <i>Case: OPEC and the World Oil Prices</i>
17	Oligopoly – contd. <i>Case: An Illegal Phone Call</i>
18-19	Monopolistic competition
20-21	The theory of consumer choice
22-23	Measuring a nation's income <i>Case: International difficulties in GDP and Quality of life.</i>
24	Measuring the cost of living
25-26	Production and growth
27-28	Saving, investment and the financial system
29-30	The monetary system, Money growth and inflation
31-32	Open-economy macroeconomics – Basic concepts
33-34	Aggregate demand and aggregate supply
35-36	The influence of monetary and fiscal policy on aggregate demand
37-38	The short-run trade-off between inflation and unemployment
39-40	Five debates about macroeconomic policy (pros and cons)

The Instructor/s (Faculty Member/s) will be required to guide the students regarding suggested readings from the Text(s) and references in items 6 and 7 mentioned above.