ECO 512: Managerial Economics

Credits: 3
Lecture Hours: 48

Course Objective

The course aims to develop students' knowledge and skills in the tools and techniques of economics applicable to managerial decision making.

Course Description:

This course deals with introduction to managerial economics and theories of firm, demand forecasting, production and cost analysis, pricing theory and practice, risk analysis, and market efficiency and role of government.

Course Details

Unit 1: Introduction to Managerial Economics and Theories of Firm LH 7

(a) Concept and scope of managerial economics, Managerial economics and business decision-making.

(b) Business profit and economic profit.

(c) Theories of firm: Profit maximisation, Value maximisation, Sales revenue maximisation, Williamson's model of managerial discretion.

Unit 2: Demand Analysis and Forecasting LH 8

(a) Concept and significance of demand forecasting.

(b) Techniques of demand forecasting: Survey methods, Market experiment, Time series analysis, Moving average method, Regression analysis, Barometric technique.

(c) Use of elasticities of demand in business decision making.

(d) Limitations of forecasting.

Unit 3: Production and Cost Analysis LH 5

(a) Production function: Short run production function, Long run production function, Cobb-Douglas production function.

(b) Optimal use of one variable input and two variable inputs.

(c) Learning curve, Empirical estimation of short run cost function

Unit 4: Pricing Theory and Practice LH 14

(a) Pricing under oligopoly: Cartel arrangement, Price leadership, Kinked demand curve model.

(b) Strategic behaviour and game theory: Concept, Payoff matrix, Nash equilibrium, Prisoner's dilemma, Simultaneous move one shot game, Simultaneous move repeated game, Multistage game

(c) Pricing techniques: Cost-plus pricing, Incremental cost pricing, Predatory pricing, Multiple product pricing (fixed proportion), Transfer pricing, Peak-load pricing, Two-part tariff.

(d) Economics of discriminations: Wage differential, Price discrimination

Unit 5: Risk Analysis LH 4

(a) Concept of risk and uncertainty

(b) Attitude toward risk and uncertainty: Utility Theory and risk aversion

(c) Information and risk: Asymmetric information, Adverse selection, Signaling, Moral hazard, Principal -agent problem

Unit 6: Market Efficiency and Role of Government **LH 10**

(a) Market and efficiency: Effect of government policy (tax and price control policy) in market equilibrium and market efficiency

(b) Market failure: Concept and sources of market failure: Market power and deadweight loss, Incomplete information, Externalities, Public goods.

(c) Government response to market failure: Rationale for regulation, Monopoly regulation, Antitrust policy, Patent system, Operating controls, Subsidy policy, Tax policy, Regulation of environmental pollution.

(d) Regulation of international competition.

(e) Problems of regulation, effects of regulation on efficiency.

(e) Government failure: Theory of public choice.

Note: Numerical illustrations and case analysis will be used wherever applicable.

Reference Books:

Adhikari, G.M., Paudel, R.K. and Regmi, K. (2017). ***Managerial Economics.*** Kathmandu: KEC Publication and distributors

Dhakal, R. (2017). ***Managerial Economics.*** Kathmandu: Samjhana Publication

Mansfield, E. (1996). ***Managerial economics***. New York: W.W. Norton and Co.

Petersen, H.C. and Lewis, W.C. (2008). ***Managerial Economics*****.** New Delhi: Pearson Education Ltd.

Pappas, J.L. and Hirschey, M. (1989). ***Fundamentals of Managerial Economics***. New York: The Dryden Press.

Salvatore, D. (2012). ***Managerial Economics***. New York: McGraw Hill.