Kellogg School of Management

Managerial Economics Course Coverage

Perfectly Competitive Markets

1) Supply & Demand
    a. Know how to categorize costs of a firm (fixed, variable, marginal, sunk, etc.)
    b. Know how to interpret supply and demand curves and equilibrium outcomes
    c. Be able to construct short-run and long-run supply curves from the cost data of an industry
    d. Understand long-run entry and exit decisions for a competitive industry
    e. Understand how uncertainty about market fundamentals influences entry and exit decisions
2) Market Interventions
    a. Understand the arguments for market intervention (externalities, redistribution, etc.)
    b. Be able to analyze the effects of the primary tools of intervention (taxes, subsidies, quotas, price controls) using equilibrium analysis
3) Welfare
    a. Be able to analyze welfare gains from market interactions
    b. Be able to analyze welfare losses and gains caused by market interventions

Pricing

1) Profit Maximization of a Dominant Firm
    a. Understand the pricing trade-offs facing a monopolist
    b. Understand the welfare loss caused by a monopolist
    c. Be able to construct marginal revenue from demand information
    d. Understand and interpret the inframarginal effect: the difference between price and marginal revenue
    e. Understand the profit maximization rule: MR(Q)=MC(Q)
    f. Be able to analyze the value of information as it relates to cost or demand uncertainty
2) Price Customization
    a. Understand why the potential for increased profits from market segmentation relies on the relative elasticities of those segments
    b. Understand the potential problems with variable pricing
    c. Know how to create incentives for customers to buy in their intended market segments

Oligopolies

1) The Cournot Model
    a. Be able to construct and interpret reaction functions
    b. Understand Nash equilibrium and how it applies to concentrated markets
    c. Be able to analyze the effects of changes in market fundamentals (marginal cost, demand, etc.) on equilibrium outcomes
2) The Bertrand Model
    a. Understand the qualitative difference between strategic substitutes (Cournot) and strategic complements (Bertrand)
    b. Understand the roles of vertical and horizontal differentiation in determining equilibria
3) Repeated interactions
    a. Have a basic understanding of the grim-trigger strategy

Reference: Besanko, David and Ronald R. Braeutigam, *Microeconomics: An Integrated Approach*, New York, John Wiley & Sons, 2007, third edition.