



BUAD 351. BUSINESS ECONOMICS
Professor John G. Matsusaka
Spring Semester 2007

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HOH 602A

SYLLABUS*

Section 1. Foundations

Readings: Landsburg Ch. 1, Ch. 2 (37-38), Matsusaka [1][2]

<u>Date</u>	<u>Topic</u>	<u>Homework discussed</u>
1/9	Introduction	...
1/11	Demand	...
1/16	Supply and equilibrium	#1 (Coffee prices)
1/18	Immigration, coffee, and cocaine	#2 (Problems 1, 2, 19)
1/23	Minimum wage, education	#3 (Minimum wage)
1/25	PRACTICE QUIZ	

Section 2. Competition

Readings: Landsburg Ch. 5, Ch. 10 (330-334), Ch. 7, Ch. 16 (539-542), review Ch. 6 (149-155); Matsusaka [3][4][5]

1/30	Optimization: two key principles	...
2/1	Pricing strategies and costs	#4 (Disney)
2/6	Short run equilibrium	#5 (Costs)
2/8	Long run equilibrium	#5 (Short run)
2/13	Competition: vicious effect on profit	#5 (Long run)

2/15	Rents	...
2/20	American flags, movie studios	#6 (Flags)
2/22	MIDTERM	Last day to submit homework 1-6
2/27	REVIEW MIDTERM	

Section 3. Wealth Creation and Destruction

Readings. Landsburg Ch. 8 (229-266, 283-290), Ch. 9 (291-310), Ch. 10 (335-345); Matusaka [6]

3/1	Wealth creation concepts	...
3/6	Trade	#7 (GFT)
3/8	Invisible hand, diamond/water paradox	...
3/13, 3/15	SPRING BREAK	
3/20	Monopoly	...
3/22	Innovation	#8 (Innovation)
3/27	Efficiency, justice, and fairness	...
3/29	Fiscal policy: spending & depressions	...
4/3	Fiscal policy: taxes & deficits	#9 (Justice)
4/5	Information & motives	...

Section 4. Externalities

Readings: Ch. 13 (435-460), Ch. 14 (486-490)

4/10	Externalities	...
4/12	Coase Theorem	#10 (Bees)
4/17	Public goods and environment	...
4/19	Free agency	#11 (Free agency)

4/24	Reciprocal externalities	...
4/26	Loose ends & key concepts	Last day to submit homework 7-10

5/8	FINAL (4:30-6:30)
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* The schedule is subject to change. Any changes will be posted on the course web site.

Readings

Landsburg *Price Theory and Applications*, 6th Edition
By Steven E. Landsburg (Thomson, 2005)

Matusaka Unpublished course notes available online
[1] “Six Key Principles”
[2] “How to Find Market Demand”
[3] “Pricing Strategies, Chapter II”
[4] “Cost Minimization in Competitive Equilibrium”
[5] “Long Run Equilibrium when Firms Have Different Costs”
[6] “GFT Is Maximized in a Competitive Equilibrium”

“The chief object of teaching is to make a man who can do things he has never been taught how to do.”

— Blewett Lee, Professor, University of Chicago, ca. 1900

Course Goals

The goal of this course is to develop your ability to use economic principles to explain how the world works, and to develop strategies based on these principles that firms and individuals can use to achieve their goals. To accomplish this goal, we will study and seek to master the small number of economic principles that govern behavior. We will be particularly interested in understanding markets and competition because those are the central realities of the modern economy. The course draws on a body of knowledge called “price theory” or “microeconomics” that explains how individuals and firms make decisions, and how those decisions combine to produce market outcomes. We will begin with time-tested economic theory, and then spend quite a bit of time considering “real world” applications. By the end of the course, you should have a solid understanding of key economic concepts and a growing ability to apply those concepts profitably to real world situations.



Prerequisites

This is an *intermediate* level economics course. There are two prerequisites.

- (1) *Economics*. You must have taken a semester-long course in price theory/microeconomics and be familiar with the material contained therein.
- (2) *Math*. The course assumes familiarity with algebra and elementary calculus (to the extent of taking derivatives). Although most material will be presented graphically, calculus will be employed, and some homework problems and exam questions will *require* the use of calculus. This is not a math course; we will use math because it is an efficient language to communicate complicated ideas.

If your recollection of any prerequisite material is shaky, all is not lost. You should be fine if you review your old notes and textbooks the first week. (But if you wait until the second or third or . . . week you will find yourself in a deep hole that will be challenging to climb out of as the class picks up speed!)

Grades

Final grades will be based on performance as shown in the table below. There is no extra credit. The final distribution of grades will have a mean of approximately 3.00, in accordance with Marshall School policy. Extremely good or bad performance on the final may be used as a “tie breaker” for scores that are close to a dividing line for grades.

Homework	20%
Midterm	35%
Final (May 8, 4:30-6:30)	40%
Participation	5%

Homework

Homework is the core of the course. You should spend most of your study time working homework problems. Practicing homework is the main way to prepare for tests, and most learning will occur through homework. Allocate 6 or more hours per week for homework.

First drafts of the homework assignments must be completed by the date they are to be discussed in class, as indicated in the schedule above. You may turn in your assignment at that time, or wait until later in the semester if you want to revise it. Final drafts of assignments 1-6 must be submitted no later than February 22, and final drafts of assignments 7-12 must be submitted later than April 26.



Homework assignments will not be accepted after the final due date! NO EXCEPTIONS.

Homework assignments that are submitted the day they are discussed in class will be graded and returned promptly, and resubmissions may be invited for those that receive a 0 score. Homework assignments that are submitted after the day they are discussed in class may not be graded until the end of the semester.

Some homework problems include material not covered in class. The purpose of such assignments is for you to explore the problem before seeing a solution, possibly going down paths that lead to dead ends. Understanding what does not work is often as important as understanding what does work. It is important for you make progress on the homework assignments before we discuss them in class. If you find yourself completely stuck on a problem, please contact me (email is good) and I will help you get started.

I will distribute more homework questions than you are required to submit. Look at the end of each homework assignment to see what you have to turn in. The other problems are to give you something to practice while studying.

Homework Guidelines

Each homework assignment will receive a score of 1 if it is (1) is complete, (2) relates to the class, and (3) indicates a good faith attempt to make progress. You do not need a perfect or "correct" answer to receive credit. Except for purely mathematical problems, homework assignments should be written in plain English with graphs where relevant. Do not submit notes. The submitted answer should be written in a way that **explains** the reasoning to a person who does not know the answer; it should not just report the bottom line. Generally speaking, a thorough analysis will require about 1-3 pages per problem.

Exams

Exams will consist of short answer questions and numerical exercises. You will be asked to (1) define concepts, terms, and theorems, and (2) use course concepts to analyze situations not covered in class or the readings. Calculators, books, and notes may not be used during exams.

CAUTION *The final is listed on the Exceptions Schedule, not at the regular time for TTH classes. You must take the midterm and final at the scheduled time. There are no makeup or early exams, except when there is a conflict with a religious holiday. If you anticipate a difficulty in taking the midterm or final at the scheduled time, you must let me know in writing the first two weeks of the course.*

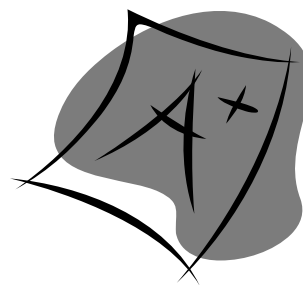
To help protect the integrity of the examination process, I will try to arrange for exams to be administered in an auditorium. This will permit students to sit at a distance from each other. The exam rooms will be announced later in the semester and posted on my web page. If you miss the announcement, ask a fellow student or an administrative assistant in Hoffman Hall 701.

The final will be held on the day and time indicated in the *USC Schedule of Classes*. Please pay special attention to the Exceptions Schedule at the bottom of the Final Examination Dates page. USC policies and procedures prohibit changes in the final exam:

“ALL INSTRUCTORS MUST ADHERE TO THE FINAL EXAMINATION SCHEDULE. No deviations from this schedule are permitted for those classes having a final examination unless authorized in advance by the Committee on Academic Policies and Procedures (CAPP). . . . CAPP will not consider any request for rescheduling final examinations without unanimous written consent of all students in the class. *No student in a course with a final examination is permitted to omit or anticipate a final examination, and no instructor is authorized to permit a student to do so.*”
– *USC Schedule of Classes.*

If you do not pick up graded work the day it is distributed in class, you can collect it in my office. All unclaimed materials will be discarded 4 weeks after the course ends.

If you believe a mistake has been made in the grading of your work, please bring it to my attention. *Questions about the grading of an exam must be presented to me in writing no more than one week after the graded exam is distributed in class.* I will review your inquiry and prepare a written response within one week that you can pick up in my office. Whenever I am asked to regrade I will re-examine the entire exam.



Participation

Classroom learning is enhanced when all students attend regularly and are prepared to discuss the materials. To reward those students who are good citizens, I will assign participation points on the basis of class participation:

- 1) Attendance. I will take roll several times during the semester.
- 2) Preparedness. I will call on students at random during the lecture.
- 3) General participation. I will learn many names by the end of the semester, and take into account general contributions to the intellectual environment of the classroom.



Academic Integrity

Academic integrity is central to the mission of USC. All students are expected to be familiar with and abide by academic integrity guidelines. Students who violate USC standards of academic integrity are subject to disciplinary sanctions, including a grade of “F” in the course and suspension from the Marshall School and USC. Since dishonesty in any form harms the individual, other students, and the University, policies on academic integrity will be strictly enforced. Please familiarize yourself with the material on academic integrity in *SCampus*.

How to Succeed in This Course

The course is organized so that it will be easy to see how the pieces fit together and what you have to do to succeed. The basic strategies for success are fairly straightforward:

1. Work the assigned homework problems before they are discussed in class.
2. Work the assigned and unassigned homework problems after they are discussed in class until you master them. Do not simply read through the problems and solutions – actually work them out with pencil and paper.
3. Do not rely on the lecture notes and readings. They will help you understand the material, but only the homework will give you mastery to do well in the course.
4. Do not fall behind in the class. The material in each section of the course builds on concepts from the previous section. The first few weeks may seem “easy” if you have a strong background in economics, but the course quickly picks up speed.

Contact Information

Email: matsusak@usc.edu

The best way to reach me. I check my mail throughout the day. I will use email to contact you, so keep an eye on your own account, too.

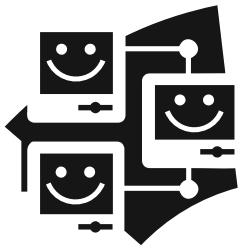
Office hours: After class (Hoffman Hall 602A)

Please prepare in advance by reviewing the relevant class materials.

By appointment

If you cannot come to my office hours, I will be happy to make an appointment to meet with you at another time. Send me a message at matsusak@usc.edu.

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WEB PAGE: www-rcf.usc.edu/~matsusak.

All class materials will be posted on my web page: homework assignments, homework solutions, lecture notes, study guides, class notes. I will also use the web page to post important announcements. Common questions and responses will be posted on the web site's forum section. Please check the page regularly.

PROFESSOR JOHN G. MATSUSAKA
INSTRUCTOR PROFILE

Ph.D., M.A. Economics, University of Chicago, Chicago, Illinois.

B.A. Economics, University of Washington, Seattle, Washington.

Professional

Professor of Finance and Business Economics, USC Marshall School of Business.

Professor of Business and Law, USC School of Law.

Professor of Political Science, Department of Political Science, USC.

President, Initiative & Referendum Institute at USC (www.iandrinstute.org)

Visiting Positions at Hoover Institution at Stanford University, Anderson School at UCLA, California Institute of Technology, GSB at the University of Chicago.

Consultant, White House Council of Economic Advisors, U.S. Government, Washington D.C., 2002.

Recent Research

Corporate Finance, Governance, and Organization

- “Decision Processes, Agency Problems, and Information: An Economic Analysis of Capital Budgeting Procedures,” *Review of Financial Studies*, 2005.
- “Internal Capital Markets and Corporate Refocusing,” *Journal of Financial Intermediation*, 2002.
- “Corporate Diversification, Value Maximization, and Organizational Capabilities,” *Journal of Business*, 2001. [Merton Miller Prize for “most significant” paper.]

Political Economy

- *For the Many or the Few: The Initiative, Public Policy, and American Democracy*, University of Chicago Press, 2004.
- “The Eclipse of Legislatures: Direct Democracy in the 21st Century,” *Public Choice*, 2005.