



BA507

**MANAGERIAL ECONOMICS**

Approved: Minutes No12 of 20.09.2023

Lecturer: Prof. Mariya Neycheva, PhD

**ANNOTATION**

This course is designed for student following Master in Business Administration Program. It discusses the issues related to functioning and efficiency of contemporary markets while the course content focuses on the behavior of the companies with market power. The problems related to economic and social consequences of imperfect competition, the effects of government intervention in the markets are also considered. An emphasis is placed on the real-life examples.

**MAIN OBJECTIVES AND LEARNING OUTCOMES**

The main objective of the course is to develop practical knowledge about imperfectly competitive markets in which the modern company operates. Specifically, students are expected to acquire or enhance their knowledge about:

- different types of market structures, market demand and the concept of price elasticity of demand
- the economic approach to costs, revenues and profit
- the characteristics and optimal managerial decisions of the company with market power: dominant firm, collusive and non-collusive oligopoly
- models of strategic behavior such as price discrimination, predatory pricing, product differentiation
- the basics of Game Theory for strategic decisions making.

In addition, the course develops skills which allow students:

- to apply the opportunity price approach for the purposes of calculating firm's economic cost and profit
- to apply the marginal analysis in the process of business decision making
- to recognize the type of the market structure in a given industry, to distinguish between market share and market power, to measure the degree of market concentration

**PREREQUISITES**

Students must have basic knowledge about the market economy and the firm. Thus, the course must be preceded by fundamental economic disciplines such as macroeconomics, microeconomics, management and marketing.

**STATUS AND STRUCTURE**

Specialty	Status	Credits	Full time and distant learning				Part time			
			L	S	P	Total	L	S	P	Total
International Business and Management (in English)	Mandatory	6	30	30		60	30			30

# COURSE CONTENT

## *I. Introduction*

### *Topic 1. Subject and main definitions in Managerial economics*

The subject of Managerial Economics. Types of market structures. Efficient and inefficient competition. The SCP (Structure – Conduct - Performance) hypothesis

### *Topic 2. The firm: costs, revenues and profit*

Profit as a main objective of the firm's management. Alternative objectives. Firm costs: accounting vs. economic approach. Short-run vs. long-run costs. Marginal analysis and short-run optimal solutions. Optimal and excess capacity

### *Topic 3. Market and market structure*

Market and elements of the market: concentration, barriers to enter, market share. Factors defining the structure of the market.

### *Topic 4. Analysis of Demand*

Individual demand. Income effect and substitution effect. Market demand. Network externalities and dependent demand: the bandwagon effect, the snob effect. Elasticity of demand: definition and factors. Arc elasticity of demand and firm's revenues. Cross-elasticity of demand. Consumer surplus. Demand estimation and forecasting

### *Topic 5. Pure monopoly vs. perfect competition*

Monopoly position vs. monopoly power. Sources of market power. Defining and measuring monopoly power. Lerner index. Social cost of monopoly: monopoly vs. perfect competition. Regulation of monopoly. European competition policy and legislature. Perfect competition and efficiency Allocative efficiency; business (internal efficiency); static vs. dynamic efficiency; X – inefficiency.

## *II. Oligopoly models and behavior*

### *Topic 6. The dominant firm model*

Dominant firm: definition, factors and characteristics of the dominant firm markets. Models of Dominant Firm.

### *Topic 7. Price discrimination*

Characteristics and conditions for price discrimination. The economics of price discrimination: first-degree, second-degree and third-degree price discrimination. Other forms of discrimination: inter-temporal pricing, peak-load pricing, bundling, tying, product differentiation, coupons, etc. Effects of price discrimination on the company profit, efficiency and market competition. European legislature for price discrimination

### *Topic 8. Tight oligopoly. Non-collusive oligopoly*

Characteristics of tight oligopoly. Optimal solutions and efficiency in non-collusive oligopoly: competition in quantities (Cournot models), competition in prices (Bertrand model). The advantage of moving first: the model of Stackelberg. Comparison of the models in terms of equilibrium price and quantity

### *Topic 9. Collusive oligopoly*

Main characteristics and types of cartels: market sharing cartel, centralized cartel. Centralized cartel: optimal solutions, factors for a cartel to sustain. Cartels in practice: OPEC vs. CIPEC, the story of DeBeers, etc. Price leadership and other forms of tacit agreements. Public policy against collusions; antitrust Legislature. European antitrust policy

### *Topic 10. Models of strategic behavior*

Product differentiation: the model of Hotelling. Predatory pricing. Entry deterrence

## *III. Further topics*

### *Topic 11. Game theory and its application*

Main terms and definitions. Dominant strategy. Nash Equilibrium. Prisoners' Dilemma. Dynamic Games. Tit-for-tat strategy

### *Topic 12. Capital Budgeting*

The time value of money. Discounting and present value. Net Present Value method for project assessment. Internal rate of return

### *Topic 13. Uncertainty and Information Asymmetry*

Actions, Moral Hazard, Adverse Selection.

## PLANNED LEARNING ACTIVITIES AND METHODS OF INSTRUCTION

Full-text lectures, presentations, video lessons, case studies, problems.

## ASSESSMENT METHODS

The semester (midterm) evaluation consists of two modules: a coursework and a test. On the basis of the term grade, students could be exempt from the final exam. Students who have passed one of the two modules but fail the other, are exempt from re-taking the module they have passed, but must re-take the failed module. The methods of assessment, the deadlines as well as the grading scale are presented in details in the e-course published in the e-learning platform.

## CORE READINGS

1. Neycheva, M. Managerial Economics. Moodle platform, Burgas Free University, <https://e-learn.bfu.bg>.

## SUGGESTED READINGS

2. Allen, B., K. Weigelt, N. Doherty, E. Mansfield (2012) Managerial Economics, 8<sup>th</sup> Ed., W.W.Norton & Company, Inc., New York.
3. Besanko, D., D. Dranove, M. Shanley, S. Schaefer (2013) Economics of Strategy. 6<sup>th</sup> Ed., Wiley & Sons.
4. Cabral, L. (2010) Introduction to industrial organization. PHI Learning Private Ltd.
5. Chekil, I, P. Anderson (2010) Applied Game theory and Strategic Behavior. CRC Press, Taylor and Francis Group.
6. De Jong, H., W. Shepherd (2007) Pioneers of industrial organization. Edward Elgar Publishing.
7. Floeb, L., B. McCann, M. Shor, M. Ward (2018) Managerial Economics. A Problem Solving Approach. 5<sup>th</sup> Ed., Cengage
8. Mansfield, E. (2002) Study Guide and Casebook for Managerial Economics. V<sup>th</sup> Ed., W.W.Norton & Company, Inc., New York.
9. Mankiw, G. (2021) Principles of Microeconomics, 9<sup>th</sup> Ed., Cengage.
10. OECD, Glossary of Industrial Organization, Economics and Competition Law, <http://www.oecd.org/regreform/sectors/2376087.pdf>
11. Pyndick, R., D. Rubinfeld (2017) Microeconomics. 8<sup>th</sup> Ed., Pearson India.
12. <http://www.marketwatch.com/>



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**EXAM TOPIC LIST**

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Dean:

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2. The firm: costs, revenues and profit
3. Market and market structure
4. Analysis of Demand
5. Pure monopoly vs. perfect competition
6. The dominant firm model
7. Price discrimination
8. Tight oligopoly. Non-collusive oligopoly
9. Collusive oligopoly
10. Models of strategic behavior
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