Instructor: Michael McIlhon  
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Office Hours: by appointment

Instructor Biography: 
Michael J. McIlhon received his undergraduate and graduate degrees in Economics from the University of Iowa, specializes in Public Finance Economics, and has been teaching economics for over 25 years. In addition to work as a public policy consultant and portfolio investment manager, Mr. McIlhon’s past experience includes tenures as Director and Research Director of taxpayer associations in Iowa and Minnesota.

Mr. McIlhon is currently on staff at the Economics departments at Augsburg College, the University of St. Thomas, Hamline University, and the MnSCU system.

Course Objectives: 
The ultimate goal of this course is to improve on-the-job performance by bringing economic concepts to bear upon managerial decision-making. Specific objectives are:

- To learn analytical techniques and their application to managerial problems.
- To develop a critical approach to evaluating alternative courses of action.
- To apply economic concepts to the management of people and units within organizations.

Course Methodology: 
Each regular class meeting will feature lectures on assigned material, demonstration of applications and class discussions. Please read and be prepared to discuss all assigned materials prior to class meetings. In addition, students will meet in teams to read and answer questions on assigned problems. Student teams should expect to meet at mutually agreeable times and places during the course.

I will be using Moodle for this class to post announcements, articles, and small team exercises. Students are responsible for checking Moodle. Contact Student Computing for help with using Moodle. Student Computing is located in the Lindell Link Computer Lab (2nd Floor, Lindell Library). Phone: (612) 330-1400. E-mail: stucomp@augsburg.edu
Required Materials:
The only required material for this course is the text:

- *Microeconomics for MBAs – The Economic Way of Thinking for Managers*

Nevertheless, you should also read regularly such additional periodicals as the *Wall Street Journal, Fortune, The Economist, or Business Week*. Additional handouts and materials can be downloaded from the course website on Moodle.

Description of Major Assignments:

1) Small team exercises

Small teams, organized at our first class (or before if any students have preferences), will answer question(s) covering the preceding week’s material. Teams should be limited to three students. Assigned questions will be posted following each class, and are due the following class. You can submit assignments by email or Moodle. See below for a grading rubric for these assignments.

*A guide for preparing these assignments will also be posted on Moodle. Subsequently, a key will also be posted on Moodle.*

2) Final Exam

A final take home exam will be due 3 days after the date of our last class. The comprehensive essay exam will be posted on Moodle, along with a guide for preparing your answers. The final exam is NOT a team project.

Grading Policy:

<table>
<thead>
<tr>
<th>Small team Assignments</th>
<th>50 points each</th>
<th>90% or above</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final exam</td>
<td>100 points</td>
<td>80% or above</td>
<td>3</td>
</tr>
<tr>
<td>Total:</td>
<td>350 points</td>
<td>70% or above</td>
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<td>60% or above</td>
<td>1</td>
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</table>

Attendance Policy:
Regular attendance is vital for full participation in and benefit from this learning experience. If you must miss a class, you are responsible for notifying the professor in advance and you are responsible for getting any handouts and otherwise catching up on the materials missed.

ACADEMIC HONESTY:
Augsburg College has adopted a policy regarding plagiarism and other forms of academic dishonesty. Please be sure to consult your student guide to ensure you understand it. You are expected to abide by this code in class. Any student guilty of violating these standards will receive a zero for that assignment.
## Course Outline:

<table>
<thead>
<tr>
<th>Session</th>
<th>Topics</th>
<th>Assignments</th>
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</thead>
<tbody>
<tr>
<td>Tuesday</td>
<td>Microeconomics: a way of thinking about business</td>
<td>chapters 1 &amp; 2</td>
</tr>
<tr>
<td>March 5</td>
<td>• Property rights vs. communal rights</td>
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<td></td>
<td>• Competitive product markets and firm decisions</td>
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<tr>
<td>Tuesday</td>
<td>Principles of rational behavior in society and business</td>
<td>chapters 3 &amp; 4</td>
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<tr>
<td>March 12</td>
<td>• The logic of group behavior in business and elsewhere</td>
<td>small team exercise 1 due</td>
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<tr>
<td>Tuesday</td>
<td>Government controls: how management incentives are affected</td>
<td>chapters 5 &amp; 6</td>
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<tr>
<td>March 19</td>
<td>• Reasons for firms</td>
<td>small team exercise 2 due</td>
</tr>
<tr>
<td>Tuesday</td>
<td>Production costs and business decisions</td>
<td>chapters 8 &amp; 9</td>
</tr>
<tr>
<td>March 26</td>
<td></td>
<td>small team exercise 3 due</td>
</tr>
<tr>
<td>Tuesday</td>
<td>Firm production under idealized competitive conditions</td>
<td>chapters 10 &amp; 11</td>
</tr>
<tr>
<td>April 2</td>
<td>• Monopoly conditions and price discrimination</td>
<td>small team exercise 4 due</td>
</tr>
<tr>
<td>Tuesday</td>
<td>Competitive and monopsonistic labor markets</td>
<td>Chapter 13</td>
</tr>
<tr>
<td>April 16</td>
<td>• Problems in collective decision making</td>
<td>small team exercise 5 due</td>
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<tr>
<td>Tuesday</td>
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<td>Chapter 14</td>
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<tr>
<td>April 8</td>
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<td>Final exam due</td>
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</table>
### Written Assignment Grading Rubric

**Grammar:** The extent to which your assignment demonstrates control of conventions, including paragraphing, grammar, punctuation, and spelling.

**Assignment question:** The extent to which your assignment focuses on and completely answers the assignment question.

**Text Material and Course Concepts:** The extent to which your assignment demonstrates knowledge of subject matter through use of economic concepts and terms (relevance, purpose, explanations, support, argument as appropriate).

**Analysis:** The extent to which your assignment states assumptions, defines terms, and demonstrates coherent reasoning in support of final conclusions.

**Organization:** The extent to which your assignment demonstrates a unified structure, direction, paragraphing or grouping of information, logical connections and transitional devices.

<table>
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<th>&lt;3</th>
<th>3</th>
<th>3.5</th>
<th>4</th>
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<tbody>
<tr>
<td><strong>Grammar</strong></td>
<td>Many mechanical and grammatical errors</td>
<td>Several errors</td>
<td>One or two errors</td>
<td>No errors</td>
</tr>
<tr>
<td><strong>Assignment question</strong></td>
<td>not addressed</td>
<td>partially addressed</td>
<td>nearly fully addressed</td>
<td>Fully addressed</td>
</tr>
<tr>
<td><strong>Text Material and Course Concepts</strong></td>
<td>Not applied</td>
<td>Applied with errors</td>
<td>Applied with better understanding</td>
<td>Excellent use of text concepts</td>
</tr>
<tr>
<td><strong>Analysis</strong></td>
<td>Minimal and Vague</td>
<td>some connections</td>
<td>Clear and direct but less than a 10</td>
<td>Clear, direct with rationale and explanations well reasoned</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>no consistent or effective organization</td>
<td>minor organizational problems</td>
<td>well organized</td>
<td>strategically organized</td>
</tr>
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</table>
Statement of Accommodations:

"To request academic accommodations due to a disability, please contact the CLASS Office(x1053). If you have a letter from this office indicating you have a disability which requires academic accommodations, please present the letter to me so I will be able to provide the accommodations that you will need in this class."

"Students with disabilities who believe that they may need accommodations in this class are encouraged to contact the CLASS Office at x1053, as soon as possible to better ensure that such accommodations are implemented in a timely manner."

"If you need course adaptations or accommodations because of a disability, please see the CLASS Office 612-330-1053.

Assignments

Assignment 1

1. Suppose we are analyzing the market for hot chocolate. Graphically illustrate the impact each of the following would have on demand or supply. Also show how equilibrium price and quantity have changed.
   a. Winter starts and the weather turns sharply colder.
   b. The price of tea, a substitute for hot chocolate, falls.
   c. The price of cocoa beans decreases.
   d. The price of whipped cream falls.
   e. A better method of harvesting cocoa beans is introduced.
   f. The Surgeon General of the U.S. announces that hot chocolate cures acne.
   g. Protesting farmers dump millions of gallons of milk, causing the price of milk to rise.
   h. Consumer income falls because of a recession and hot chocolate is considered a normal good.
   i. Producers expect the price of hot chocolate to increase next month.
   j. Currently, the price of hot chocolate is $0.50 per cup above equilibrium.
Assignment 2

1. In most restaurants, waiters receive a large portion of their compensation through tips from customers. Customers usually determine the amount of the tip. However, many restaurants require a 15% tip for parties of eight or more.
   
   a) Why has tipping emerged as a major method of compensating the wait staff?
   b) Why does the customer typically decide the amount of the tip?
   c) Why do restaurants require tips from large parties?

   Hint: applicable concepts are asymmetric information, specific knowledge, the agency problem and problems associated with group actions.

2. Some advocates of antipoverty programs claim that fighting poverty is a public good. What is a public good? If poverty reduction is a public good, describe why it might require government intervention to achieve an ‘efficient’ level poverty.

Assignment 3

1. Using the graph shown below, answer the following questions.
   
a. What was the equilibrium price in this market before the tax?
   b. What is the amount of the tax?
   c. How much of the tax will the buyers pay?
   d. How much of the tax will the sellers pay?
   e. How much will the buyer pay for the product after the tax is imposed?
   f. How much will the seller receive after the tax is imposed?
   g. As a result of the tax, what has happened to the level of market activity?

2. Using a supply-demand diagram, compare and contrast the ‘conventional’ view of the effects of binding minimum wage with that of the ‘unconventional’ view.

   Whose interests are harmed by a binding minimum wage? Whose interests are promoted?
Assignment 4

- What economic distortions are created by asymmetrically distributed information in the markets for health insurance and health care?
- How would guaranteed coverage laws affect adverse selection costs?
- How do insurance benefit coverage mandates affect moral hazard costs? Explain.

Assignment 5

1. What are economic profits?
   - Do economic profits harm the interests of consumers?
   - Can there be a socially useful outcome when economic profits exist?
   - Do lower prices benefit consumers?

2. Movie theatres practice price discrimination; they charge a variety of admission prices to see the same film: one price for matinees, another for evening showings; one price for students, another for adults, another for ‘golden-agers’. Very young children often are admitted for a zero money price.
   - Why then does everyone pay the same price for popcorn?
   - Can price discrimination improve social welfare? If so, explain how. If not, explain why.
Economic Riddles

1. Suppose you appreciate the music of both Eric Clapton and Bob Dylan. (Or, if you prefer, Ludacris and Atmosphere.) Suppose as well that without cost you acquired a $50 ticket to Clapton’s performance, that it has no resale value, and that it cannot be used by anyone else.

Dylan and Clapton are playing simultaneously; you cannot see them both. You value seeing Dylan at $50, and ticket prices are $40.

What is your opportunity cost of attending the Clapton concert?

A) $0
B) $10
C) $40
D) $50
E) $90
F) $100

2. Since men often have many occasions to wear a tuxedo while brides wear a very costly wedding gown only once, it would seem to make sense for women to rent wedding gowns and for men to own tuxedos. Yet rental shops commonly offer tuxedos but not wedding gowns. Why don’t rental shops carry wedding gowns?

3. Why are flights from Hawaii to the mainland more expensive than the same flight from the mainland to Hawaii?

4. Why do many retail establishments post signs saying that any buyer who isn’t offered a receipt will get their purchase at a zero price?

5. Why do so many retail prices end in .99? (Related: why do more and more end in .95?)

6. Why do male dominated legislatures enact anti-polygamy laws?

7. Why do female models earn more than male models?

8. When you purchase a soda, you deposit coins and a can is dispensed. When you buy newspapers, you deposit coins and you get access to the entire inventory. Why are vending machines for soda and newspapers differently designed?

9. Why do grocery stores offer discounts to people who bring in coupons? (Hint: it is NOT to entice more people to shop at their store.)
10. Why do passengers who fly on Thursday and return Monday receive a cheaper fare than passengers who fly the same route on Monday and return Thursday?

11. Why are people in large cities less inclined to stop and help someone seeking directions than people in small towns?

12. Why do people tend to drive more slowly on rural highways than on urban highways?

13. The taste of brown eggs cannot be distinguished from that of white eggs, and both have the same nutritional value. Why are brown eggs priced higher?

14. Why is aged wine priced higher than newer vintages?

15. Why do drive-up ATM machines have buttons with Braille writing on them?

16. Two part riddle:

   Having a professional apply a coat of high quality paint to the exterior of your used car prior to selling it will

   1. increase the market value of the car
   2. decrease the market value of the car
   3. have no impact on the market value of the car.

   Explain your reasoning.

17. True or false: seat belts cause traffic accidents. Explain.

18. True or false: FAA requirement that parents place infants in baby seats on airplanes (and thus purchase another seat) makes travel safer for children. Explain.

19. Why are the queues in grocery stores located in low-income areas longer than the lines in stores located in upscale areas?

20. Related: why do queues exist at all? Wouldn’t it be more efficient to put in more checkout counters to handle the customers?

21. Do government mandates concerning greater business expenditures on ‘worker safety’ make workers better off?
1. "Restrictions on housing development make housing less affordable."  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

2. "Mandatory licensing of professional services increases the prices of those services."  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

3. "Rent control leads to housing shortages."  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

4. "A company with the largest market share is a monopoly."  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

5. “Monopolies charge any price they want and thus exploit consumers.”  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

6. “Manufacturers design products to wear out faster so they can sell more.”  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

7. “It is worth any cost to save a life.”  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

8. “We are running out of natural resources.”  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

9. “Recycling paper insures we will have more trees.”  
   1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

10. “Following the advice of successful stockbrokers will help you pick more winners.”  
    1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

11. “Banning their advertising harms the interests of tobacco firms.”  
    1) strongly agree;
2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

12. “Regulations requiring that infants be strapped into safety seats on airplanes makes travel safer for them.” 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

13. "Third World workers working for American companies overseas are being exploited." 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

14. "Free trade and ‘globalization’ lead to higher unemployment." 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

15. "Minimum wage laws lead to higher unemployment." 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

16. “The money supply changes when the government prints more money.” 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

17. “Inflation is bad because (among other things) it raises the cost of living.” 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

18. “Increases in the national debt are unavoidably a net burden on future generations.” 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

19. “The recently passed health care legislation will reduce health care costs.” 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.

20. “Economists agree that government spending programs create jobs.” 1) strongly agree; 2) somewhat agree; 3) somewhat disagree; 4) strongly disagree; 5) not sure.