

Text: Allen, Doherty, Weigelt and Mansfield, Managerial Economics, 6th ed.

- Week 1: Jan. 28 – Feb 1
Chap. 1
Problems 3, 7, 10
Appendix A
Problems Clayco 1, 2
- Week 2: Feb 4 - 8
Chap. 2
Problems 1, 2, 4(a,b), 6, 7(a,b), 9
- Week 3: Feb 11 – 15
Chapter 15 (except, pp. 615-621,627-8)
Problems 3 and Clayco 3
Chap. 3
- Week 4 Feb 18 - 22
Chap. 3
Problems 8, 11, 12
Chap. 4
Problem 11
Chap. 5
- Week 5 Feb 25 – 29
EXAM
Chap. 5
Problems 1, 3, 5, 7, Clayco 4, 5
- Week 6 Mar 3 - 7
Chapter 6
Problems 2, 3, 4
- Week 7 March 10 – 14
Chap. 7
Problems 1, 6, Clayco 6, 7
- Week 8 Mar 24 - 28
Chap. 8
Problems 1, 2, 3, 4, 5, 7

Week 9	Mar 31– Apr 4 Chap 9 Problems 2, 4, 10, 12
Week 10	Apr 7 - 11 EXAM Chap. 10 Problems 1, 2 Chap. 11
Week 11	Apr 16 - 18 Chap. 11 Problems 1, 2, 5, 10, 12, 13
Week 12	Apr 23 - 25 Chap. 12 Problems 3, 4, 8
Week 13	Apr 30 – May 2 Chap. 13 Problems 1, 4, 7, 8, 9
Week 14	May 5 - 9 Chap. 14(as time allows)

Grades:

Hour Exams: 2	each worth	20%
Final		25%
Homework		15%
Class attendance and participation		10%
Final Project		10%

Note: be sure to show work on all homework problems. Short answers are given in the back of the book, which I encourage you to use to confirm your results. When you have trouble, come to me for help or work on it with a classmate. **(Collaborative work is permitted on homework, but the final product should not appear as if it was copied from another paper. If I feel that your work is not sufficiently independent, I will give you one warning.)**

Final Project

Toward the end of the course we will begin a large review problem that will require you to apply much of what you've studied. You will be given information pertaining to the demand and costs and of a firm and behavior of its competitors and your task will be to critique the decisions that have been made and to devise future strategies for price, advertising and production. A paper containing your reasoning and your results will be due on the last day of the semester. It should contain not only a description of what you did and thought, but it should show all regressions and calculations that you employed. More detail on the assignment will be provided when we are ready for it.

Clayco Problems – Econ 3324

1) Suppose that you are a publisher and that a potential book contract is before you. The deal will involve \$800000 of cost on your part payable at the end of the first year. You expect to sell 20000 copies during the second year, 17500 in year three, 12500 in year four and 2500 in year five. At the end of year five, you expect to sell the rights to the book for \$10000. The variable cost per book will be \$15 and the book will sell for \$35. Use a spreadsheet to do the following calculations and it will be much less tedious.

- a) Calculate the present value of the profit from the deal, assuming an 18% discount rate and that all cash is received at year end.
- b) Calculate the present value of the profit from the deal, assuming an 18% discount rate and that all cash is received evenly over the year, except that from the sale of the book rights, which comes in at year end.
- c) Do parts a and b again with the discount rate at 8%
- d) Under which of preceding variations is the contract profitable?

2) Your client thinks his business is worth \$400000. It has inventory, equipment and plant which have a current market value of \$250000. They have a useful life of 5 years and have a scrap value of 50000. Over those five years the business will generate a profit stream of \$30000 per year.

- a) Do you think the business is worth \$400000? Why?
- b) What value does it have if the profit is received evenly throughout the year and the discount rate is 15%.
- c) What value does it have if the profit is received at years end and the discount rate is 15%.
- d) Repeat b and c with a profit stream of 60000 per year and a scrap value of 100000.

3) Do problem 1 on page 636, except let part d be: d) if $MRS (dEV/d\sigma) > 0$ (i.e., risk adverse), which investment has the highest certainty equivalent?

4) “Empirical Case 3” is attached.

5) “Empirical Case 4” is attached.

6) Refer to problem 2 on page 282 of Allen. If the production function is as given there, solve for L and K as on page 264, given that $P_L = P_K = 5$ and $Q = 7586$.

7) “Empirical Case 6” is attached.