DR. L.W. GERTMENIAN

MBFE 657.63

PRICES, PROFITS, AND THE MARKET ECONOMY

Wednesday
Ventura County Center

6:00 PM to 10:00 PM

FALL 2003
SYLLABUS
PEPPERDINE UNIVERSITY
Graziadio School of Business and Management

Pepperdine University Plaza
400 Corporate Pointe
Culver City, CA 90230
310-568-5500

From the north, go south on the San Diego Freeway (405) and exit at Slauson (90 east). Turn right at the first signal and go east on Slauson. Take an immediate right at the first corner and go south to Bristol. Turn left at the first light which is Hannum, and go one block to Uplander. Turn left into Corporate Pointe and enter the parking structure on the right.

From the south, go north on the San Diego Freeway (405) and exit at Jefferson. Turn right on Jefferson and go one block to Slauson. Turn right, go east on Slauson about 1/2 mile, and turn right on Bristol. Turn left at the first light which is Hannum, and go one block to Uplander. Turn left into Corporate Pointe and enter the parking structure on the right.

Enter the patio from the 4th floor of the parking structure. Bring your parking stub to be validated for a reduced fee.

Long Beach Center
One World Trade Center, Suite 200
Long Beach, CA 90831
562-495-0288

Directions: 405 Freeway to the 710 Freeway South to the Downtown Broadway exit, right on Magnolia, right on Ocean Boulevard and right into the World Trade Center parking structure.

The Long Beach campus is located at One World Trade Center in the heart of the downtown business district. Parking is available under the building, and the entrance is at the corner of Ocean Boulevard and World Trade Center. Take the elevator from the garage to the 2nd floor. Bring your parking stub to be validated for a reduced fee.

Ventura County Center
2829 Townsgate Road, Suite 180
Westlake Village, CA 91361
805-449-1181

Exit the Ventura Freeway (101) at Westlake Blvd. The rear entrance to the Hyatt Plaza Hotel on the south side of the freeway is the easiest access. If you miss this, proceed to Townsgate Road and turn left, and then left again into the Plaza parking lot.

Coming from the rear entrance, turn right, pass the Hyatt Plaza Hotel on your right, turn left before coming to Townsgate Road, pass Red’s Restaurant on your right, pass one building on your left, and park.

Pepperdine is on the ground floor; it's the first door on your left after you enter the building.
PRICES, PROFITS, AND THE MARKET ECONOMY

MBFE 657

Dr. L.W. Gertmenian

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• Introduction
• Course Description and Objectives
• Course Curriculum
• Procedures and Recommendations
• Course Outline
• Homework Assignments

PLEASE NOTE: Attendance at the first class meeting is MANDATORY. The Course Syllabus (pp. 2-12) should be read thoroughly prior to this session.
PRICE THEORY ONLINE

An Internet mailing list for my sections of Price Theory has been created.

The list is a forum for communication and group discussion. It is a helpful source of information and clarification of both the substantive material and class administrative matters.
Note: Rather than change the name to MBFE657 and lose the current content and archives, we’re going to keep the original name.

To join the Price Theory Mailing List:
Send a blank eMail message to:
MBA670-subscribe@yahoogroups.com
That’s it! You’re a new subscriber to our Internet mailing list.

To send a message to the list, address your email to MBA670@yahoogroups.com
Your message will be sent to everybody subscribed to the list.

To view the group homepage go to http://www.yahoogroups.com/group/ MBA670
You may also subscribe directly from the homepage above. From the subscription page on this site you can select your member settings. You can receive emails as they are sent to the list, in digest form (one message a day including all list traffic), or choose web access only.

On the group homepage there is a calendar, links, a chat forum, and archives. There is also a place to store files so the class can share them. Later in the term, I will be posting practice exams to help you study. I do not allow attachments to go through the list. This protects users with slow or limited access and also offers us some protection against an email spread virus. You’re welcome to post files on the homepage instead of sending them in an email.

Everyone is encouraged to ask questions on the open list so we all benefit from the discussion. If you have any questions that require private attention, you are welcome and encouraged to contact Dr. Steve directly. For help with the mailing list, contact Dr. Steve at stevenekstrand@earthlink.net

Note 1: The creation of separate folders is a convenient way to manage the list and reduce distractions. Most eMail programs will perform the required sorting. You can usually sort using a field such as TO, FROM, or SUBJECT. Try using SUBJECT: with a contents of (include the brackets): [MBA670]
This is a simple way to track and store the information derived from the list.

Note 2: Please do not forward Virus Warnings or the typical Internet jokes to the class list. If you have something really good that you’re dying to share, send it to me and let me take the heat for posting it to the list.

And remember keep it clean, this is Pepperdine, nuff said.
COURSE DESCRIPTION

This course examines the domestic and global creation and distribution of goods and services as guided by the price system. In addition, the impact of the microeconomic environment and technological changes on the behavior of business firms as well as consumer behavior in competitive and monopolistic markets will be examined. A study of changing and competitive industries in which the firm operates will also be of concern. Additional topics include domestic and global antitrust policy, pollution, and comparative advantage of firms.

INTRODUCTION

Most college graduates reflect on their economics courses with something less than good feelings. Economics is remembered as merely a bunch of useless theories taught by a tenured professor who seemed to bore even himself with this inexplicable science of wavy lines. Exasperated, most succumb to academic bulimia; a cramming binge the night before, purging on the exam, and hoping to never see any of that garbage again. The results are alarming. Economics grades are commonly the lowest of all general education courses. Indeed, studies have shown that five years after graduation, the economic literacy of those surveyed is generally no better than it was when they were entering freshman. As Guido Sarducci explains, after you graduate, you need only remember two words, "supply" and "demand".

But why? The freshman has prepared for college with multiple high school courses in English, math, literature, history, and a variety of life and physical sciences. This is rarely the case in economics. Thus, without a memory matrix to stuff the material into, much of what is taught falls on deaf ears. A second reason is a corollary to the first. The vocabulary of professional economists is unique to them. That is, while the words are common and ordinary, they have narrow and specific meanings known only to the enlightened.

Most of us entered college prepared to be either a "hard" science major, or a "soft" science major. Hard and soft imply the degree to which mathematics is used to explain a particular discipline. They do not refer to the degree of difficulty. Thus, physics and engineering are hard sciences, and philosophy and foreign language are soft sciences. Very few graduate with a hard science major and a soft science minor, or the reverse. But economics is neither hard nor soft; it is a hybrid that requires a simultaneous use of the tools of both. And this is extremely difficult for most.

Therefore, at the outset of the course, to ensure that every student hits the ground running, considerable time will be devoted to developing a memory matrix, defining the vocabulary, and mastering the tools of the discipline. Having done that, we can achieve our objectives:

COURSE OBJECTIVES

• To clarify the concepts of microeconomic analysis and to distinguish them from social philosophy.

• To use these concepts to evaluate current market factors and public policy.

• To enhance the manager's decision-making ability within the context of those factors and policies.
COURSE CURRICULUM

PART ONE  INTRODUCTION

I. Definitions  (VOCABULARY)

At the outset, such basic words as "methodology", "externality", "marginality", and other common terms will be given a *prima facie* treatment.

II. History of Economic Analysis  (MEMORY MATRIX)

It is helpful if the student can acquire a learning matrix within which to "stuff" and subsequently locate the great number and range of economic theories. For this reason, time is taken at this juncture to briefly review the contributions of the people and movements that have greatly influenced economic thought.

III. Mathematical Economics  (TOOLS)

Economics is both a hard and a soft science. Indeed neither philosophic concepts nor mathematical tools can, alone, adequately teach the essential lessons of the course. Therefore, a brief review of critical algebraic and geometric concepts will be given.

PART TWO  PRICE AND PROFIT

I. Consumer Behavior

We will begin by explaining how the conduct of a consumer (demand for a good or service) is governed by the utility he receives from the use of a given product. The consumer's responsiveness to a price change (elasticity of demand) will be an essential part of the student's understanding.

II. Producer Behavior

Production cost is the vantage point from which we will evaluate the elements of Supply Theory.

III. Supply and Demand Equilibrium

Theoretically, the market price will equate the quantity supplied with the quantity demanded. Price equilibrium will be considered with reference to auctions, sales taxes, interdependent markets, and government restrictions.

IV. Profit Maximization

"Theory of the Firm", as this subject is generally referred to, represents the culmination of our Price Theory analysis. The central theme is the interaction between the consumer and the producer in their independent efforts to maximize utility and profit. Both competitive and monopolistic markets will be considered.

A rather restrictive set of assumptions makes the theory something less than realistic, but its predictive ability and contribution to the student's ultimate understanding of Price Theory recommend it highly as a worthwhile subject.
PART THREE  SELECTED APPLICATIONS

It is commonly understood that social science theories are restricted to *ex post* narrative rationalizations of what we already know happened. Regrettably, this falsely suggests that one person’s view is as good as another’s. In this regard, economics is a unique discipline. Economic models require a systematic way of thinking about the world *ex ante*. Though every theory does not predict accurately every time, the clarity and power of economic analysis, at once both mathematical and verbal, both deductive and inductive, provide a rigorous if imperfect expertise.

But this clarity and power can spoil you. Once you have a taste of a truly insightful model, you tend to be frustrated with looser speculations. The truth is that the other social sciences have nothing remotely equivalent to the logical framework of economics, and until they find their Adam Smith’s, economists must continue to endure their enmity.

The remaining time will be devoted to the study of three subjects which will be facilitated by the students' acquired understanding of Price Theory.

I. Commodity Markets
   The problem of parity price supports, food surpluses, and commodity futures will be evaluated.

II. Macroeconomics
   We will study the basics of fiscal and monetary policy and the relationship between interest rates, inflation, and unemployment. We will consider the impact of macroeconomics and stabilization policy upon the decision-making of the individual firm.

III. International Trade
   We will study classical trade theory, the role of common markets, and the impact of tariffs.

IV. Finance
   We will consider the comparative strengths of proprietorships and corporations, and introduce basic accounting concepts. Our course in microeconomics will conclude by examining security markets, with particular emphasis given to the principles of successful stock market speculation.
COURSE PROCEDURES AND RECOMMENDATIONS

1. SUGGESTED TACTICS

   a. The class mode is a direct and Socratic confrontation between the professor and the students. These confrontations, however loud and up close, are not to be taken personally. They will never affect a grade, nor the friendly relationship the professor enjoys with his students outside the classroom. The classroom is managed as a boardroom; the professor is its chairman. All issues of participant behavior, seating, climate control, starting and ending times, and breaks are determined by the board chairman. Of particular concern is the disruptive use of pagers and cell phones (see p. 11, No. 7.). Disagreement with, or discomfort caused by, board policies should be taken up with the chairman privately.

   b. The principal function of any graduate course is to sharpen each student's thought process. This is best achieved through Socratic argument with the professor, and collaborative discussion with classmates. Note well: The use of notes from a previous semester in preparation for the lecture is very destructive to this experience. It harms not only the user, but also cheats others out of the opportunity to intellectually muscle their way to conceptual understanding. This is not a class in memorization, it is a class in thought process. Those who parrot answers off old class notes are doomed to a poor final exam score.

   c. Since class notes are the predominant source of examination questions, it is generally best if you prepare your own complete set, and do it in your own handwriting. It may be helpful to use two colors of ink to distinguish the "important" material. If you have difficulty with spatial relationships, graph paper may be useful. Tape recorders are encouraged, but please be careful if you must use a power cord.

   d. Study groups will be formed during the first class meeting and should meet weekly to compare homework and review class notes; a lecture tape may be useful in this regard. Groups of four or five are optimum for encouraging ample feedback without restricting air time.

   e. Visual as well as aural contact with the professor is essential to a complete understanding of the material. And non-verbal communication skills are critical to your performance as a manager. Therefore, at times you will be requested to put down your writing implements and give your undivided attention during the lecture. When this happens, the professor will pause for note-taking purposes. During this period, specific lecture material will be repeated as often as required to complete your notes. If you need additional time to catch up with your notes, a short delay will be granted then or soon after the request is made. While computers may be used for note-taking purposes, please do not use the wireless internet capabilities without the permission of the professor. Surfing the internet in class is just plain rude, and being rude to the "chairman of the board" is generally bad form.

   f. Feel free at all times to raise questions concerning any relevant material. Occasionally, you will be asked to reserve your question for a later time (minutes or weeks) when it will be more propitious; i.e., easier to answer. When in doubt, ask your question and the instructor will decide if it is relevant or timely. Remember, the only dumb question is the one that is not asked.

   g. Due to the time and duration of class, food and beverages are permitted within center guidelines. However, the professor retains grazing privileges.
2. READING

a. The Worldly Philosophers (paperback) by Robert L. Heilbroner is an outstanding survey of the history of economic analysis by one of the best authors in economics. It should be read at the outset of the course.

b. Economath Primer by L. W. Gertmenian provides a review of the notations and mathematical tools commonly used in economics. The student might benefit most if this handbook is read prior to the lecture and reviewed often during the course. The straightforward explanation of elasticity theory should eliminate the confusion that is often attendant with this essential concept.

c. How to Buy Stocks (paperback) by Louis Engel is a widely acclaimed text on stock market analysis, and will be most useful during PART THREE of the course. It is an excellent introduction for those who are relatively unfamiliar with the market. William J. O’Neil’s How to Make Money in Stocks is an superb alternative for those who want a more sophisticated text. If the student prefers, A Random Walk Down Wall Street, Stock Market Primer, or Benjamin Graham’s The Intelligent Investor may also be used as alternatives.

d. THE TEXT: In academic jargon, there are three types of texts; principles, intermediate, and advanced. Principles texts are expected to include multiple treatments of every concept of a discipline, and should be well indexed to provide easy location of the material. They are written for introductory courses usually taken by lower division students. Intermediate texts generally have one treatment of each concept essential to the objectives of a course, and include applications for the practitioner. They are directed at upper division students and those earning masters degrees. Advanced texts are narrowly focused and provide a guide for doctoral students doing basic research.

e. **Do not buy an intermediate text** until the second week of the course (after they have been individually assigned by your study group). I do not lecture out of, or strictly follow, any textbook. We will chart our own course through parts one and three of the course and largely follow Alfred Marshall for the second. These texts will help achieve mastery in the major subject of the class (PART TWO of the Syllabus). The best case would have each member of a study group use a different book. This will provide the greatest possible cross-fertilization of applications from a variety of sources. If you have a favorite intermediate text not listed here, please check with the professor before using it as an alternative.

   • Microeconomic Theory and Applications by Edgar K. Browning (2nd biggest seller)
   • Price Theory and Applications by Steven E. Landsburg
   • Microeconomics: Theory and Application by Edwin Mansfield (N1 seller; math examples helpful)
   • Intermediate Micro and Its Application by Walter Nicholson (rated highest by PEP MBA’s)
   • Microeconomics by Robert S. Pinsky
   • Exploring Economics by Robert L. Sexton (Seaver College Professor)

f. If less sophisticated material is needed for clarification, a great number of principles texts are available including ones written by Roger Arnold, George Leland Bach, William J. Baumol, Ralph T. Byrns, Edwin G. Dolan, Richard G. Lipsey and Peter O. Steiner, Campbell R. McConnell, Roger Miller, Paul Samuelson, Paul and Ronald Wonnacott, et. al.
3. LIBRARY RESOURCES

a. Biographical Information:
   - Britannica Online
     (available to current Pepperdine students from on campus or home)
   - Who's Who in Economics
   - Dictionary of Modern Economics (MIT Press)
   ** - International Encyclopedia of the Social Sciences (volume 18-biographies)
     -(a copy of Vol. 18 is kept in the Librarian's Office at Plaza)
   ** - McGraw-Hill Dictionary of Modern Economics
     (handbook of terms and organizations)
   - New Palgrave: A Dictionary of Economics

b. Biblical Assignment:
   - Bible (a student bible with a modern translation with a good index may be useful)
   - Harper's Topical Concordance
   - Nelson's Complete Concordance of the Revised Standard Version of the Bible
   - Young's Analytical Concordance of the Bible
   - Bible Gateway (http://bible.gospelcom.net/bible?)
   - Canterbury Temple, Salvation Army (http://www.intervis.force9.co.uk/ctsa/sword.htm)

c. PART TWO (Price Theory)
   - Black's Law Dictionary
     (definitions of the terms and phrases of American and English jurisprudence)
   - Dictionary of Modern Economics (MIT Press)
   ** - McGraw-Hill Dictionary of Modern Economics
   - New Palgrave: A Dictionary of Economics

d. Stock Market Analysis
   - Daily Graphs (also see O'Neil Database)
   - Encyclopedia of Banking and Finance
   * - Handbook of Business and Financial Ratios (Prentice-Hall)
   * - Handbook of United States Economic and Financial Indicators (Greenwood Press)
   - Industriscope Edition
   - O'Neil Database (pub. weekly by William O'Neil in LA)
   - Standard and Poor's (S&P's) Stock Guide
   - S&P's Stock Reports (available online to current Pepperdine students)
   - Value Line Investment Survey

* Probably available at Pepperdine University Plaza only.
** Probably available at Pepperdine University Payson Library only.
COURSE PROCEDURES - Continued

4. HOMEWORK

a. There will be 20 points possible on each of ten assignments. The intent of the homework is to prepare the student in a specific subject prior to its presentation in the classroom. Therefore, all work is to be submitted (placed on the instructor's desk) before the beginning of the lecture.

b. The math problems are assigned for a specific purpose. To a significant degree, they represent the process of economic thinking. Indeed, few ideas are more critical to the economist than the concept of "slope" (or whatever else it might be called, including first derivative, differential calculus, y prime, marginal function, "the rise over the run", et. al.). Substantial class time will be saved by establishing these mathematical tools as a common language at the outset of the course.

c. Begin by attempting all of the homework assignment yourself. Then meet with your study group and compare results. Give special attention to those areas where one or more member's homework is incomplete or confused, being ever mindful of the need to contribute any applications that you know of through reading or experience.

d. Please prepare all work on 8½ by 11 paper. Math problems must be done by hand; i.e., do NOT use a computer to generate the graphs. All other answers should be printed. Handwritten verbal answers will receive a 10% penalty. Where verbal answers are called for, do not phone the professor with an oral response. "Verbal" means "with words" as opposed to using numbers or pictographs.

e. To facilitate grading and filing, please place your NAME, DAY of the week class is held, and the assignment NUMBER in the upper left hand corner of your first page of answers (do not use a cover page); be sure to number your answers; and staple the pages in the upper left corner at a 45° angle to avoid losing pages.

f. Homework will NOT be returned to the student. Please keep the original and SUBMIT a PHOTOCOPY. Have the original (including math problems) with you for review during subsequent classes. It will always be needed for checking your grade on each assignment and studying for exams. If you don't understand a homework score, please call the professor for an explanation.

g. A 20% penalty will be assessed for any assignment submitted late. You may not submit an assignment twice. In no case will homework be accepted after the respective material has been examined on.

h. If, for whatever reason, you do not turn in an assignment on time, please submit your name on a piece of paper so that the professor doesn't worry about misplacing your work, or worse, inadvertently drop you from the class.

i. Grades will be posted weekly. It is essential to the success of the class that each student take responsibility for knowing who needs help, and providing that help when possible.

NOTE WELL: The work load may seem onerous. It is understood that the first duty of every graduate student is to complain; but not to the professor.
5. EXAMINATIONS

a. Midterms take precisely one hour and are difficult to complete in the time allotted. They are followed by two hours of lecture and then a review of the graded exam (*with a little help from my friends*). If for any reason you are unable to take a midterm when scheduled, you must notify the professor or his graduate assistant prior to the exam. Failure to do so will result in a course penalty of one half grade; i.e., 5% of the total points possible.

b. Exam format is generally short answer and will require no student-provided materials except a pen with a dark color of ink and a straightedge (a credit card will do).

c. Last names are sufficient answers for exam questions on the economists. Answer True-False questions with a complete word (do *NOT* use T or F), and multiple choice questions with a capital letter (A, B, C, D, or E).

d. Calculators or other alphanumeric devices, bluebooks, and scratch paper are *NOT* to be used during examinations. Use the back of the page if more room is necessary to prepare or present your answer, and call attention to this with a note.

e. Please, please, please, keep your eyes on your own paper, and your answers covered. The use of, or sound from, any communication device during an exam is absolutely forbidden. If you need a hint or clarification during the exam, ask the professor.

f. As a courtesy to your fellow students attempting to concentrate, please do *NOT* leave your seat during the last five minutes of an exam.

g. If a midterm exam cannot be taken as scheduled, arrangements should be made with the professor for a make-up exam. If arrangements cannot be made, the professor reserves the right to prorate all other course work to compensate for a midterm not taken.

h. While the final exam is *scheduled* for three hours, most students will finish in about 150 minutes.

i. There will be no pop quizzes.

j. The professor does not presume to tell a graduate student how to prepare for an exam. However, from time to time, students have asked for advice. Each of the following may (or may not) prove useful:

- A good night's sleep **THE NIGHT BEFORE** the night before.
- A complete set of self-written notes with all important material in **RED**, and support material in blue or black.
- Lecture tapes.
- Flash cards.
- **DARK** chocolate or Ginkgo Biloba (sold at health food stores) may improve short-term memory.
- Given that the ear is the captain of the nervous system, ten minutes of classical music (e.g., **MOZART’S** Sonata for Two Pianos in D Major, K. 488) may provide temporary help.
- Be careful of diet drinks containing **PHENYLALANINE** (NutraSweet) as it may hinder short-term memory.
6. GRADING (A class "curve" will NOT be used to determine or affect grades.)

a. There are 700 total points possible:

200 Homework (plus 5 bonus points possible on Assignment No 10)
100 First midterm exam on the course INTRODUCTION (1 hour, 5th Meeting)
100 Second midterm exam on PRICE AND PROFIT (1 hour, 10th Meeting)
200 COMPREHENSIVE Final Exam (3 hours)
100 Class Participation (See Note No 10 below.)

b. A university point scale will be used:

<table>
<thead>
<tr>
<th>% Total</th>
<th>Grade</th>
<th>GPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>93% (651)</td>
<td>A</td>
<td>4.0</td>
</tr>
<tr>
<td>90% (630)</td>
<td>A-</td>
<td>3.7</td>
</tr>
<tr>
<td>87% (609)</td>
<td>B+</td>
<td>3.3</td>
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<tr>
<td>83% (581)</td>
<td>B</td>
<td>3.0</td>
</tr>
<tr>
<td>80% (560)</td>
<td>B-</td>
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<tr>
<td>77% (539)</td>
<td>C+</td>
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</tr>
<tr>
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<td>63% (441)</td>
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</tr>
<tr>
<td>60% (420)</td>
<td>D-</td>
<td>0.7</td>
</tr>
</tbody>
</table>

7. PAGERS AND CELL PHONES

Students have complained so vociferously about the disruption and perceived rudeness of sounds from communication devices, that the following policy has been adopted: Unless agreed to by the professor in advance, each disruption caused by a pager or cell phone during class will invoke a 6-point penalty charged against the student’s grade; i.e., the final numerical total will be reduced by approximately one percent.
Do not hesitate to use vibrate mode and quietly excuse yourself from the room. This will in no way disrupt the class and allows you to handle your private business.

8. ATTENDANCE POLICY

**Attendance at the first class meeting is MANDATORY.** If for some reason you cannot attend the first session, please contact the professor to inquire whether an alternative maybe arranged. During the rest of the semester, I recognize that each of you has responsibilities that must, from time to time, assume a higher priority than learning economics. It is the student’s responsibility to make arrangements, with the professor, for make-up work if necessary. It is strongly recommended that notes or tapes from missed lectures be obtained from your group members or classmates.
9. UNIVERSITY POLICY ON CONDUCT AND DISABILITIES

Conduct
“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.
The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:
• Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
• Forgery, alteration, or misuse of University documents, records, or identification.
• Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
• Interference with the academic or administrative process of the University or any of the approved activities.
• Otherwise unprotected behavior that disrupts the classroom environment.
• Theft or damage to property.
• Violation of civil or criminal codes of local, state, or federal governments.
• Unauthorized use of or entry into University facilities.
• Violation of any stated policies or regulations governing student relationships to the University.
Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:
Dismissal – separation of the student from the University on a permanent basis.
Suspension – separation of the student from the University for a specified length of time.
Probation – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.” GSBM Catalog, pgs. 221-222.

Policy on Disabilities
Assistance for Students with Disabilities
“Students with disabilities, whether mental or physical, are encouraged to contact the Equal Opportunity Office before the academic year begins or soon after classes are in session. This office will assist each student by providing general information about campus facilities and available resources. The office will assist in providing reasonable accommodation to students with disabilities pursuant to applicable laws. Inquiries should be directed to equal opportunity officer, (310) 506-6500. (Students who wish to file a formal grievance should refer to the “Nondiscrimination Policy,” which is listed in the “Legal Notices” section of this catalog.)” GSBM Catalog, pg. 33.
10. CLASS PARTICIPATION

a. At the outset of each subject covered, basic concepts and vocabulary will be introduced. This will provide a foundation for continual interaction among class participants as they comprehend the parameters and analytical tools of the material. The professor's intent throughout will be to raise the level of sophistication as quickly as possible and thereby encourage enlightened interchange.

b. To facilitate class participation and reduce professorial embarrassment, please use a **two-sided nameplate** during each class throughout the semester **without being asked**. (Simply fold an 8½ by 11 paper piece of paper into three lengthwise sections, use one side as a base, and put the name **you wish to be called** on the other two sides with a **BROAD-TIPPED** black marker.)

c. Every class has a few leaders whose conduct is a positive force in establishing the attitude and learning environment of that class. Unfortunately, there are also on occasion students whose behavior is dysfunctional. Usually a class will "tilt" toward the dominant group (10 to 20%) and the subsequent difference in academic achievement can be dramatic.

d. Leaders come to class prepared, **form study teams**, assist their peers, and look at education as an opportunity to expand their range and depth of knowledge however it may be defined. Obstructionists reject learning what they don't already know, quibble over grade points **during class time**, and have an endless supply of complaints such as: "Why do we have to print our homework"; "Why must we memorize for the exam"; "Why do we have to use mathematics"; "What does this subject have to do with my job"; and "How come you didn't tell us where to find the answers to the homework?" Leaders light a candle; obstructionists curse the darkness.

e. Near the end of the course, a sociogram (see Assignment No. 10) will be completed by all students, thereby ranking each participant's influence on the class. This exercise is mandatory and must be completed to receive a course grade. A penalty of **ten points** will be assessed if this assignment is not submitted on time. It is recommended that each student read the evaluation form at the outset of the course to avoid surprises at the conclusion of the course.

The highest percentage (the **subtotal** of all homework and exams divided by 600), achieved by the "top" student in the class, will be assigned to the student who ranks highest on the sociogram; the second highest percentage will be assigned to the student who ranks second on the sociogram; . . . ; and the lowest percentage will be assigned to the student who ranks lowest on the sociogram.

A collaborative environment is so critical for maximizing student benefit, that the professor has chosen to measure individual contribution to that environment with this instrument. While uncomfortable for some, a sociogram has proven to be both revealing and fair, while exposing the student to yet another management tool.

f. An additional bonus will be awarded based on class performance (the class mean average on homework and exams). For each point **ABOVE** 83% that the class achieves, each member of the class will receive one bonus point. For example, if the class mean average after the final exam is 88%, each student will have five (5) points added to his or her total score.

The **total** (homework + midterms + final exam + sociogram score + class mean average bonus minus communication-device penalties) will then be divided by 700 to determine the course grade.
COURSE OUTLINE

PART ONE  INTRODUCTION

I. Definitions
   A. Theory
      1. Common Usage
      2. Methodology
      3. Conditions
      4. Normative Ambiguity
   B. Economics
      1. Study of Scarcity
      2. Economy vs. Efficiency
      3. Hard vs. Soft Science
      4. Macro, Micro, and Megaconomics
      5. Statics vs. Dynamics
      6. Marginality
      7. Opportunity Cost
   C. Applications of Economics
      1. What to Produce
      2. How to Produce
      3. For Whom to Produce
      4. When to Produce
      5. Where to Produce

II. History of Economic Analysis

   A. Pre-Classical Period
      1. Religion
      2. Chinese Philosophers (Confucius and Mencius)
      3. Greek Philosophers (Plato and Aristotle)
      4. Scholastics (St. Thomas Aquinas)
      5. Mercantilists (Thomas Mun and Jean Colbert)
      6. Physiocrats (François Quesnay)
   B. Classical Economists
      1. David Hume
      2. Adam Smith
      3. Thomas Robert Malthus
      4. David Ricardo
      5. John Stuart Mill
      6. Karl Heinrich Marx
   C. Marginalists
      1. Carl Menger
      2. William Stanley Jevons
      3. Leon Walras
   D. Neo-Classical Economists
      1. Alfred Marshall
      2. Vilfredo Pareto
      3. Francis Ysidro Edgeworth
      4. John Maynard Keynes
      5. Joseph Alois Schumpeter
   E. Modern Economists
      1. Friedrich August von Hayek
      2. John Kenneth Galbraith
      3. Milton Friedman
      4. Paul Anthony Samuelson
COURSE OUTLINE - Continued

III. Mathematical Economics     (Refer to the Economath Primer )

A. Common Notation
   1. Specific Economic Usage (see Notes A and B)
   2. General Mathematical Usage (see Note C)

B. Common Terms and Operations
   1. Algebra (see Note D)
   2. Geometry (see Note E)

C. Concept of Slope
   1. Graphical Analysis (see Note F)
   2. Differentiation (see Note G)
   3. Economic Applications (see Note H)

PART TWO PRICE AND PROFIT

I. Consumer Behavior

A. Utility
   1. Introduction
      a. Price is an Equilibrium
      b. Supply is a Derivative of Cost
      c. Demand is a Derivative of Utility
      d. Two Methods of Measuring Utility
   2. Cardinal Utility
      a. Total Utility
      b. Marginal Utility (Walras)
      c. Law of Diminishing Marginal Utility
      d. Derived Demand
      e. Consumer Surplus (Marshall)
   3. Ordinal Utility
      a. Indifference Curve (Edgeworth)
      b. Budget Constraints
      c. Indifference Curve Map
      d. Derived Demand

B. Demand
   1. Introduction
      a. Effective Demand
      b. Demand Shift
   2. Law of Downward Sloping Demand
      a. Normal Goods
      b. Conspicuous Consumption (Thorstein Veblen)
      c. Inferior Goods (Sir Robert Giffen)
   3. Elasticity (see Note O in the Economath Primer)
   4. Revenue (see Note P in the Economath Primer)
II. Producer Behavior

A. Cost
   1. Total Cost = Fixed Costs + Variable Costs
      a. Fixed Costs
      b. Variable Costs
      c. Total Costs and Normal Profit
   2. Marginal Costs
      a. Slope of Total Costs
      b. Diminishing Returns
   3. Average Costs
      a. Average Fixed Costs
      b. Average Total Costs
      c. Minimum Average Costs

B. Supply
   1. Introduction
      a. Supply is a Derivative of Marginal Cost
      b. Aggregate Supply
      c. Elasticity of Supply
   2. Supply Curves
      a. Increasing Costs
      b. Decreasing Costs
      c. Constant Costs
      d. Fixed Supply
   3. Time Periods
      a. Long-Run
      b. Short-Run
      c. Momentary

III. Supply and Demand Equilibrium

A. Auctions
   1. Introduction
      a. Walrasian Equilibrium
      b. Partial vs. General Equilibrium
   2. Legal Contracts (Man-made Law)
      a. Offer, Acceptance, and Consideration
      b. Statute of Frauds
   3. Types of Auctions
      a. Auction With Reserve
      b. Auction Without Reserve
      c. Dutch Auction

B. Tax Incidence
   1. Introduction
      a. Concept of Ultimate Burden
      b. Elasticity of Supply and Demand
      c. Graphical Analysis
   2. Extreme Conditions
      a. Totally Elastic Supply
      b. Totally Elastic Demand
      c. Totally Inelastic Supply
      d. Totally Inelastic Demand
   3. Special Cases
      a. Tariffs
      b. Superstars
      c. Subsidies
C. Interdependent Markets
   1. Introduction
      a. Equilibrium
      b. Dynamics
   2. Comparative Statics
      a. Substitution Goods
      b. Complementary Goods
      c. Factor Goods
      d. Graphical Analysis

D. Government Intervention
   1. Introduction
      a. Caveat Emptor
      b. Government Paternalism
      c. Black Markets
      d. Income Redistribution
   2. Wage and Price Controls
      a. Minimum Wages
      b. Rent Ceilings

IV. Profit Maximizing in a Competitive Market

A. Assumptions of Perfect Competition
   1. Market Price
      a. The Single Firm
      b. Collusion
      c. Totally Elastic Demand
   2. Homogeneous Product
      a. Standardized Commodities
      b. Differentiated (Non-Homogeneous) Products
   3. Free Enterprise
      a. Free Entry
      b. Free Exit

B. Decision Points
   1. Shut-Down Point
      a. Total Revenue = Variable Costs
      b. Graphical Analysis
   2. Break-Even Point
      a. Total Revenue = Total Costs
      b. Graphical Analysis
   3. Profit Maximization Point
      a. Profit = Total Revenue - Total Costs
      b. Graphical Analysis
      c. Algebraic Analysis

C. Perfect Competition Model
   1. Applicable Functions
      a. Marginal Cost
      b. Average Cost
      c. Demand
      d. Average Revenue
      e. Marginal Revenue
   2. Equilibrium
      a. Price and Quantity
      b. Excess Profit
      c. Long-Run Equilibrium
V. Non-Competitive Markets

A. Monopoly (single seller) and Monopsony (single buyer)
   1. Introduction
      a. Greek Root: Monos
      b. No Close Substitute
      c. Continuum of Economic Activity: Perfect Competition vs. Monopoly
   2. Profit Maximization
      a. Equilibrium
      b. Welfare Effects
   3. Government Regulation
      a. Major Legislation
      b. Utility Commissions and Essential Services

B. Monopolistic Competition (Edward H. Chamberlin)
   1. Introduction
      a. Imperfect Competition (Joan Robinson)
      b. Definitions of Oligopoly and Oligopsony
      c. Oligopolistic Industries (Few Sellers)
   2. Oligopoly Model
      a. Price Stability
      b. Discontinuous Marginal Revenue Function
   3. Collusion
      a. Merger (Explicit)
      b. Cartel (Explicit)
      c. Price Fixing (Implicit)

C. Price Discrimination (Joan Robinson)
   1. First Degree (Perfect Price Discrimination)
      a. Elasticity of Demand
      b. Consumer Surplus
   2. Second Degree (Quantity Discounts)
   3. Third Degree (Market Separation)
      a. Time
      b. Labeling
      c. Geographic
      d. Profit Potential

PART THREE SELECTED APPLICATIONS

I. Commodity Markets

A. Commodity Futures
   1. Introduction
      a. Contract of Ownership
      b. Chicago Board of Trade
   2. Speculation
      a. Concept of Risk
      b. Margin Requirement

B. Historical Review
   1. Population Shift
      a. Agricultural Work Force
      b. Disguised Unemployment
   2. Malthusian Prophecy
      a. Poor Nations
      b. Rich Nations
3. Price Stability  
   a. Inelasticity of Demand  
   b. Inelasticity of Supply  
   c. Fallacy of Composition  

C. Government Assistance  
1. Introduction  
   a. Physiocracy  
   b. State Land-Grant Colleges  
   c. Federal Farm Board  
   d. Relief Payments  
2. Changes in Demand  
   a. Food Stamps and School Lunch Programs  
   b. Foreign Trade and Tariff Agreements  
   c. Public Law 480  
3. Changes in Supply  
   a. Crop Limitation Programs  
   b. Technical Assistance  
   c. Parity Prices  

D. Price Supports  
1. Two Major Programs  
   a. Government Purchase  
   b. Price Differential  
2. Pros and Cons  
   a. Food Cost to the Consumer  
   b. Elasticity of Demand  
   c. Farmers  
   d. Foreign Goodwill  
3. Impact  
   a. Short-Run Supply  
   b. Long-Run Supply  
4. Legislation  
   a. Countervailing Interests  
   b. Solutions  

II. Macroeconomics  

A. Introduction  
1. Measurements  
   a. GNP/GDP  
   b. Consumer Price Index  
2. Historical Perspective  
   a. Keynesians  
   b. Monetarists  

B. Policy Tools  
1. Fiscal Policy  
   a. Discretionary Fiscal Policy  
   b. Automatic Stabilizers  
   c. Supply-side Fiscal Policy  
   d. Laffer Curve  
   e. Budget debate
2. Monetary Policy
   a. Money Supply
   b. The Federal Reserve
   c. FOMC
   d. Interest Rates

C. Issues
   1. Inflation
      a. Demand-Pull
      b. Cost-Push
      c. Money, Interest Rates, and Inflation
      d. Liquidity Trap
   2. Unemployment
      a. Sticky wages
      b. Minimum Wage Laws
      c. Phillips Curve
      d. FEUR

III. International Trade

A. Trading Partners
   1. Free Trade Area
      a. Characteristics
      b. Examples
   2. Customs Union
      a. Characteristics
      b. Examples
   3. Common Market
      a. Characteristics
      b. Examples

B. Theory of Comparative Advantage
   1. Ricardo's Basic Concept
      a. Definition
      b. Example
   2. Classical Case Study
      a. The United Kingdom and Portugal
      b. Advantages of Trade
      c. Monetary Comparison
   3. Equilibrium
      a. Limits of Trade
      b. Terms of Trade

C. Tariffs
   1. Tariff Implications
      a. Economic Growth and Development
      b. Production Possibilities and Efficiency
      c. Welfare Effects
   2. Protection Arguments
      a. Infant Industries
      b. National Security
      c. Retaliation
      d. Scientific Tariff
      e. Balance of Trade
      f. Unemployment and Unions
      g. Tax Revenue
D. Non-Tariff Barriers
   1. Import Limitations
      a. Quotas
      b. Import Licenses
      c. Exchange Control
   2. Local Standards and Cultural Differences
      a. Language and Customs
      b. Labeling Laws
      c. Buy-American Campaigns
   3. Cost Differences
      a. Subsidies
      b. Transportation

IV. Finance
   A. Business Organization
      1. Proprietorships and Partnerships
         a. Definitions
         b. Characteristics
      2. Corporations
         a. Definition
         b. Advantages of the Corporate Form Over the Proprietary Form
         c. Disadvantages of the Corporate Form
   B. Accounting  (See Note Q in the Economath Primer.)
      1. Statement Definitions
         a. Balance Sheet
         b. Income Statement
      2. Basic Equations
         a. Current Ratio
         b. Illiquidity and Insolvency
      3. Bankruptcy
   C. Corporate Finance
      1. Debt
         a. Characteristics of a Bond
         b. Cash Value
      2. Equity
         a. Characteristics of Stocks
         b. Preferred Stock Variations
         c. Securities Exchange Commission
      3. Risk
         a. Marginal Utility of Gambling
         b. Rules of Gambling
         c. Hedging
         d. Arbitrage
   D. Stock Market
      1. Introduction
         a. Market Operations
         b. Leverage
         c. Periodicals
      2. How to Pick a Stock
         a. Define the Client's Needs
         b. Value Analysis
         c. Decision Matrix
         d. Technical Analysis (Decision Timing)
      3. Speculation Requirements
         a. Money Management (the Ultimate Rule)
         b. Information
HOMEWORK ASSIGNMENTS

ASSIGNMENT: № 1
DUE: 2nd Meeting
SUBJECTS: Economic Analysis and Mathematical Economics

A. (1. - 4.) Read Notes A through F of the Economath Primer and do the steps requested for problems 1 through 4 in Note R.

B. (5. - 12.) Read chapters 1 through 4 of Heilbroner's Worldly Philosophers and submit EIGHT short-answer test questions with answers; i.e., TWO ON EACH CHAPTER.

- The questions must be "reasonable" for a "one-time" reader; i.e. they should require a conceptual understanding rather than pure recall.
- Each question must be written in 25 words or LESS, require a one, two, or three-word answer, and be free of ambiguity; i.e., have only one appropriate answer. (Test this requirement with the other members of your study group.)
- Do NOT submit true-false or multiple-choice questions.

C. (13.-17.) Identify each of the five men listed below by stating their dates of birth and death, and give a short statement (FEWER than 50 words) that describe EITHER the man OR his work.

The intent of this section (and those like it in future assignments) is merely to ensure a prima facie recognition of the authors. Thus when their contributions are discussed in class, there will be a "memory matrix" already in place to hold the information.

13. Confucius
14. Mencius
15. Plato
16. Aristotle
17. St. Thomas Aquinas

D. See the following page.
D. (18. - 20.) Submit one CHRISTIAN Normative Ambiguity (18. and 19.) taken from two places in the first four books of the New Testament. Then explain (20.) how these two tenets (or parables) might be inconsistent within the context of some business application; i.e., tell why your two tenets are normatively ambiguous.

NOTE: Each member of a group must submit a unique pair of tenets.

NORMATIVE AMBIGUITY defined: TWO tenets of social behavior that suggest counter-directional outcomes when applied arbitrarily to the same set of circumstances.

Here are three ANGLO-SAXON examples on activism:

- "Nothing ventured, nothing gained." (Anonymous) vs. "One bird in the hand is worth two in the wood." (Thomas Lodge)
- "If at first you don't succeed, try, try again." (William Edward Hickson) vs. "No use beating a dead horse." (Anonymous)
- "He who hesitates is lost." (Anonymous) vs. "Look before you leap." (Samuel Butler)

NOTE: A modern translation may facilitate the investigation. A Bible concordance might also prove useful.

• State EACH tenet (including the citation; i.e., book, chapter, and verse) and explain its relevance to economics (e.g., labor, activism, profit, wealth, debt, taxes, welfare, etc.).

• Omit non-Christian citations (e.g., "an eye for an eye and a tooth for a tooth" from Hammurabi's Code) and statements you can't find (e.g., "the Lord helps those who help themselves").

NOTE: This assignment is not given to attack anyone's religious feelings or convictions. For our purposes, investigating the impact of religion, we are reading the Bible as magnificent literature, NOT as holy scripture.

The existence of Normative Ambiguity does not imply that the teachings of Christ are contradictory a priori, but rather, that these tenets, if applied by differing minds, may lead to different conclusions.

Remember, the student must avoid any moral interpretations and evaluate the tenets strictly in terms of economic application. It is irrelevant whether or not the statements are taken out of context. E.g., when Jesus cures two men possessed of evil spirits by casting out the devil and driving them into a herd of swine which plunges over a steep cliff and perishes (Matthew 8:32), it could be pointed out that no consideration was given to the pig farmer's lost investment. CAVEAT: This is NOT an example of a Normative Ambiguity; but merely an example of a SINGLE literal interpretation.

Students who feel that "there are no contradictions in God's Holy Bible" or that this assignment is a "sin against God", might consider that the assignment is intended to further the learning process and their contributions to any discussion will be beneficial to their classmates.
ASSIGNMENT: No 2
DUE: 3rd Meeting
SUBJECTS: Economic Analysis and Mathematical Economics

A. Identify each of the men listed below by stating their dates of birth and death, the title of their major work in economics, AND a brief note (FEWER than 50 words) on the PERSONAL life of each.

   1. François Quesnay
   2. David Hume
   3. John Stuart Mill
   4. Thomas Mun and Jean Colbert

B. (5. - 13.) Read Notes G and H of the Primer and do problems 5 through 13 in Note R.

C. (14. - 20.) Read chapters 5 through 8 of the Worldly Philosophers and submit SEVEN short-answer test questions with answers. NOTE: Draw AT LEAST ONE question from each of the four chapters. Follow the same modus operandi outlined in Assignment No 1.
ASSIGNMENT: № 3  
DUE: 4th Meeting  
SUBJECTS: Modern Economic Analysis and Mathematical Economics

A. (1. - 6.) Read chapters 9 through 11 of the *Worldly Philosophers* and submit SIX short-answer test questions (with answers); i.e., **TWO ON EACH CHAPTER**.  
Follow the same *modus operandi* outlined in Assignment № 1.

B. Read the introductory chapter of your intermediate text.

C. Identify each of the men listed below by stating their dates of birth and death, the title of their major work in economics, **AND** a brief note (**FEWER** than 50 words) on the author's **PERSONAL** life.

7. Carl Menger  
8. Leon Walras  
9. Alfred Marshall  
10. Vilfredo Pareto  
11. Francis Ysidro Edgeworth  
12. Joseph Alois Schumpeter  
13. Friedrich August von Hayek

D. (14. - 20.) Do problems 14 through 20 found in Note R of the Primer.
ASSIGNMENT: No 4  
DUE: 6th Meeting  
SUBJECT: Consumer Behavior  

A. Read any three chapters in your intermediate text and additional materials as needed for the questions that follow.  

NOTE WELL: Do not read textbook chapters on ELASTICITY theory until the subject is covered in class. 

1. Describe in FEWER than 50 words, one APPLICATION of consumer behavior theory that you found in your intermediate text. 
2. Describe in FEWER than 50 words, one APPLICATION of consumer behavior theory from your own experience. 
3. What is an Indifference Curve? 
4. Why is an Indifference Curve convex to the origin? 
5. Describe VERBALLY how a change in Money Income would alter the consumer's Indifference-Curve/Budget-Constraint equilibrium; and use a GRAPH to illustrate your answer. 
6. Describe VERBALLY how a change in Price would alter the consumer's Indifference-Curve/Budget-Constraint equilibrium; and use a GRAPH to illustrate your answer. 
7. VERBALLY describe a "change in demand" (i.e., give an example), explain what would CAUSE this change to take place, and use a GRAPH to illustrate your answer. 
8. VERBALLY describe a "change in the quantity demanded", explain what would CAUSE this change to take place, and use a GRAPH to illustrate your answer. 
9. What is a "substitution effect"? 
10. What is an "inferior good"? 

B. The Brazilian government used to burn a substantial portion of the coffee harvest in order to increase the revenue from coffee exports. 

11. What description of consumer behavior would be ESSENTIAL in order to make this policy economically beneficial to Brazil? 
12. From the perspective of producer behavior, what other market condition would be ESSENTIAL in order for this policy to be successful? 
13. What impact would this policy have on the consumer's budget constraint? Use a GRAPH to illustrate your answer. 

C. Read Notes O and P of the Primer and do problems 21 through 27.
A. Read any three chapters in your intermediate text and additional materials as needed for the questions that follow.

NOTE WELL: Do NOT read text book chapters on elasticity theory until the subject is covered in class.

1. **VERBALLY** explain what Fixed Costs are.

2. Illustrate FC with a **GRAPH**.

3. **VERBALLY** explain what Variable Costs are.

4. Illustrate VC with a **GRAPH**.

5. **VERBALLY** explain what Marginal Costs are.

6. Illustrate MC with a **GRAPH**.

7. **VERBALLY** explain what Average Costs are.

8. Illustrate AC with a **GRAPH**.

9. Draw a **GRAPH** showing the long-run supply curve of an industry experiencing decreasing costs.

10. Draw a **GRAPH** showing the long-run supply function of an industry experiencing constant costs.

11. Give a **VERBAL** description of the elasticity of supply of the function in the question above.

12. Draw a **GRAPH** illustrating an industry with a fixed supply.

13. Give a **VERBAL** description of the elasticity of supply of the function in the question above.

14. Distinguish the long-run from the short-run as it pertains to the elasticity of supply.

   Use a graph to illustrate your answer.

B. A musical comedy producer recently said: "The funny thing is that we're not having trouble selling orchestra seats at $50, but we're losing money because we can't sell the cheap seats."

   You are hired as a consultant to solve this "real world" problem.

15. Using your understanding of marginal utility, recommend a solution.

16. Using your understanding of demand elasticity, recommend a solution.

17. Using your understanding of supply theory, recommend a solution.

C. A burglar-alarm company specializing in high-rise apartments agrees to install a central-station system in a large building for a uniform charge of $20 per apartment. The landlord guarantees a minimum purchase of 100 units. To encourage a larger number of tenants to buy, the company offers to deduct 10 cents from the $20 price for every installation in excess of 100; for example, if 110 apartments were to participate, **ALL** units would be priced at $19.

18. Use **CALCULUS** to find the number of installations that would generate the highest TR.

   **SHOW YOUR WORK.**

D. Milton Friedman is responsible for developing and popularizing the **NEGATIVE INCOME TAX** concept.

19. Explain how it works.

20. How would its implementation affect the Social Security Administration?
A. Read any three chapters in your intermediate text and additional materials as needed.

B. Tax Incidence

1. What is meant by the term "incidence of tax"?
2. Explain the relationship between elasticity and tax incidence.
3. If the government were to impose a tax on the sale of salt, upon whom would the incidence of the tax fall?
   Explain your answer.
4. Use a Marshallian Cross to demonstrate your answer to the above question.
5. If the government were to impose a tax on the sale of television sets, who would incur the burden of the tax?
   Explain your answer.
6. Use a Marshallian Cross to demonstrate your answer to the above question.

C. Interdependent Markets

7. What is a "substitution good"?
8. Assume that an article in the Journal of the AMA reduced the perceived MU of coffee.
   In what way would you expect the tea market to be affected?
9. Use two Marshallian Cross graphs to describe the markets in the above question.
10. What is a "complementary good"?
11. Assume that the marginal cost of chips was to fall and thereby reduce the price of microcomputers.
    In what way would you expect the software market to be affected?
12. Use two Marshallian Cross graphs to describe the markets in the above question.

D. Government Intervention

13. What is a "black market"?
14. Define the term "caveat emptor".
15. In 1976, a British physician, Dr. Max Gammon, developed the "theory of bureaucratic displacement".
    Explain this theory popularized by Milton Friedman.
16. What is Parkinson's Law?

E. Minimum Wage

17. Give a VERBAL description of the elasticity of supply of workers generally affected by minimum wages.
18. Considering their members usually earn SIGNIFICANTLY above the minimum wage, why do labor
    unions favor raising minimum wages?
19. Minority groups generally favor raising minimum wages. EVALUATE the wisdom of their position.

F. Assume you have been hired as a marketing manager with orders to help maximize profits.
   The firm's sales records indicate that profit is a function of advertising (A); i.e., \( \pi = 40A - 2A^2 \)

20. Use CALCULUS to determine the optimal advertising budget. SHOW YOUR WORK.

G. Read Assignment № 8, Part D, and Assignment № 10, Part B.
   Depending on your trimester schedule, it may prove helpful to
   initiate interviews with the stockbroker and corporate executive
   earlier in the term than suggested by these instructions.
ASSIGNMENT:  No 7
DUE:  9th Meeting
SUBJECTS:  Profit Maximization in Competitive and Non-Competitive Markets

A.  Read any three chapters in your intermediate text and other materials as needed.

B.  Define each of the following terms and then describe what conditions must exist for each of them to occur.
NOTE WELL:  Your answer must be applied to all firms, not merely competitive ones.

1. Shut-Down Point
2. Break-Even Point
3. Profit Maximization Point

C.  Perfect Competition

4. What is the single most important assumption of the Perfect Competition Model?
5. How is the assumption asked for in the above question reflected in the demand curve faced by a perfect competitor?
6. Distinguish homogeneous products from differentiated products.
7. What is meant by "Free Entry"?
   Give an example of what might annul such a free market assumption.
8. What is meant by "Free Exit"?
   Give an example of what might annul such a free market assumption.
9. Draw a LONG-RUN Perfect Competition Model (ONE GRAPH) for an individual firm displaying each of the following: demand, AR and MR functions, MC and AC functions, equilibrium price and quantity.

D.  Imperfect Competition

10. Define and distinguish the following:
    a. "monopsony" and "oligopsony"  (Give an example of each.)
    b. "maximum" and "optimum"
11. Draw a Monopoly Model (ONE GRAPH) displaying each of the following: Demand, AR and MR functions, MC and AC functions, equilibrium Price and Quantity, and Excess Profit.
12. Draw an Oligopoly Model displaying each of the items listed in question 11.
13. Explain why an oligopolist's marginal revenue function is discontinuous.

E.  Anti-Trust Legislation

14. Distinguish a "TRO" from a "Preliminary Injunction".
15. Identify the FTC in fewer than 50 words.
16. What is the raison d'être of a utility commission?

F.  Price Discrimination

17. Define the term "price discrimination".
18. What is the "perfect" price discriminator trying to "capture"?
19. Explain what is meant by "Peak-Load Pricing".
20. How would a price discriminator use "Tie-in-Sales" to separate a market?
ASSIGNMENT: N° 8
DUE: 11th Meeting
SUBJECTS: Agriculture, International Trade, and Finance

A. (1. - 5.) Agriculture--explain what is meant by each of the following:

1. Soil Banking vs. Payment in Kind (PIK)
2. Parity Price Support Programs (Government Purchase vs. Price Differential)
3. GATT and Public Law 480 (of 1954)
4. CBT, et. al.
5. Margin on a Commodities Market

B. (6. - 12.) International Trade

6. Define the Law of Comparative Advantage in fewer than 30 words. Then give an example.
10. - 12. Give three examples of "non-tariff barriers" to trade.

C. (13. - 15.) Economics of Risk. Read Note L of the Primer and then consider the following:

In a "fair" bet, the expected return (E = output — input) is commensurate with the probability of success (P); i.e., P(E) = 1. Thus, if P = 0.5, E must equal 2; or if P = .25, E must equal 4.

13. If the probability of success is 5% and the bet is $25, how big must the payout be if the bet is FAIR?
14. Using the terminology of probability theory, explain why revenue producing state-run lotteries are a poor bet.
15. From your understanding of marginal utility theory, explain why a FAIR BET is a poor bet.

D. (16. - 20.) Equity Analysis

16. - 18. Read the first half of the book you have selected on the stock market (e.g., Engel’s How to Buy Stocks or O’Neil’s How to Make Money in Stocks) and submit THREE short-answer test questions (with answers). Follow the same modus operandi outlined in Assignment N° 1.

19. Read Assignment N° 10 thoroughly. Describe your progress to date in completing Assignment N° 10. What company have you selected? Whom have you contacted in the firm? Have you met with your contact? If not, what plans have you set forth to accomplish this assignment? There will be five (5) bonus points awarded to those students who actually meet with a corporate executive and report the results of that meeting when they submit Assignment N° 10.

20. Assume you need, or will need, to hire a stock broker (account executive) to handle your equity investments. Go into a brokerage house, introduce yourself as a Pepperdine MBA student, and interview a broker. Use this opportunity to gain experience interviewing someone who may someday work for you.

N.B.: Get the broker’s business card

Find out what a "Series 7" license is. Ask if the Series 7 exam was difficult?

a. How long has the broker had his Series 7 license?
b. What clues did you get about the broker’s honesty?
c. What clues did you get about the broker’s dependability?
d. What clues did you get about the broker’s resourcefulness?

• You may NOT interview (for this assignment) a broker you know or already use.
• DON’T bother a broker during market hours.
• Please include a photo copy of the broker’s business card when you submit this assignment.
ASSIGNMENT: № 9  
DUE: 12th Meeting  
SUBJECTS: Accounting and the Stock Market

A. Read the Note on Accounting in the Primer and then:

1. Give the basic accounting equation for a Balance Sheet and then set forth the important characteristics which distinguish it from an income statement.
2. Give the basic accounting equation for an Income Statement and then set forth the important characteristics which distinguish it from a balance sheet.
3. Distinguish Depreciation from Depletion.
4. Explain what is meant by each of the following: insolvent, illiquid and bankrupt.

B. (5. - 8.) Read the second half of the book you have selected on the stock market and submit FOUR short-answer test questions (with answers). Follow the same modus operandi outlined in Assignment № 1.

C. (2 points; i.e., ½ point per question) Leverage--identify each of the following:
   9. Warrant
   10. Calls and Puts
   11. Financial Futures
   12. Margin Requirements

D. (3 points; i.e., ½ point per question) Earnings and Ratios--identify each of the following:
   13. Earnings per Share
   14. Interim Earnings
   15. Price/Earnings Ratio
   16. Price/Equity Ratio
   17. Payout Ratio
   18. Current Ratio

E. (4 points; i.e., ½ point per question) Markets--identify each of the following:
   19. Big Board
   20. Curb Market
   21. Over-The-Counter
   22. Bulls and Bears
   23. Limit Orders
   24. Odd Lots
   25. Selling Short
   26. Averaging Down

F. (3 points; i.e., ½ point per question) Technical Indicators--identify each of the following:
   27. Daily, Weekly, and Monthly Bar Charts
   28. Dow Jones Industrial Average
   29. Head and Shoulders Formation
   30. Beta
   31. Upside/Downside Volume
   32. Moving Average
ASSIGNMENT: N° 10  
DUE: 13th Meeting  
SUBJECT: Stock Market

A. COLLABORATION EVALUATION (See last page.) Submit this separately and directly to Dr. Steve.

B. Equity Analysis

TO AVOID ERRORS AND WASTED EFFORT, READ THIS ENTIRE ASSIGNMENT AT LEAST TWICE BEFORE BEGINNING THE WORK. THIS IS IMPERATIVE.

Each study team must select one industry for its analysis. No two teams in all of the professor's current classes may choose the same industry. The industry must be picked from the Media General list.

After the second exam is taken, the professor will assign industries on a first requested, first assigned basis. When making your request, your team representative must submit both the industry group NAME and the group CODE appearing on the Media General list. The Media General Codes are available online, check the bookmarks section of the class website.

Having picked an industry, each group member must select a different company listed under their specific industry group code. The following guidelines are critical to the completion of the assignment:

- Select a company with a headquarters office (general, regional, or area) in the local metropolitan area to facilitate an in-person investigation. You must pick a company that is on the Big Board (NYSE), Amex (ASE), or NASDAQ (National Association of Security Dealers Automated Quotations). Stocks on the Toronto Stock Exchange or non-NASDAQ O-T-C are not permitted for this assignment.

- You must NOT pick a firm with a fiscal year ending in June. Reporting errors are so common with these companies that an inordinate amount of time would be required to verify the data.

- Avoid stocks with insufficient information. That is, if the answers to more than a very few questions are NA (not applicable or available) or NM (not meaningful), select another company.

- You may NOT select a firm directly related to you through employment, employment of a family member, or a firm associated with your employer, either as a supplier or a customer. You MAY select a firm in which a fellow student is employed; you MAY select a firm in which you own stock.

C. (1.) Get a business card and submit a photocopy with the assignment. 
NB: Do not ask an executive for a business card unless an exchange is offered. Ask the executive secretary for the executive’s card or a receptionist for the company’s card.

There will be five (5) bonus points awarded to those students who actually meet with a corporate executive and report the results of that meeting when they submit Assignment N° 10.

D. (2.- 3.) Acquire a prima facie familiarity with the following periodicals and keep an issue of each (or copies of relevant pages) with you during the last two class meetings for reference. In most cases, one copy per study group will be sufficient.

Wall Street Journal
Barron’s
Business Week
Forbes
Fortune

Investor's Business Daily (Newsstand)
Standard & Poors Stock Guide (Your Broker)
Standard & Poors Stock Report (Your Broker or the Library)
Value Line (Library)
Daily Graphs (Company Report plus the Legend or "Key" Page)

2. Give the name of a source that ranks industries based upon a prediction of FUTURE "fundamental" performance.

3. Describe and explain the method you used to make your worksheet profit estimates.
E. (4. - 20.) ANALYSIS WORKSHEET. Submit only the worksheet, the corresponding S&P Stock Report page, answers to questions 1-3 (including a photocopy of a business card), and a short description of your personal interview (if it occurred).

- Before starting this assignment, make extra copies of the form for trials and future use. Provide copies of the completed worksheet to each of the classmates on your team.

- Your grade will be determined by resourcefulness (finding the most current documentation), thoroughness (completing all blanks), and accuracy.

- Put your TWO earnings projections in the appropriate columns (the current QTR and the next QTR leaving two cells blank) on the row marked "Estimates". Rows identified by years are to include historical data only.

F. Volatility and Value Grades

Your evaluation (grade) of Volatility (A - G) and Value (1 - 23) should be a COMPOSITE of your evaluations (i.e., High, Medium, or Low) of each statistic, which should be based on the following criteria:

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- Item B (% price change) = 200 (P₁ - P₂) / (P₁ + P₂), where P₁ = High P and P₂ = Low P. If the Float (item D) is unavailable, use Shares Outstanding.

- For items 10, 12, and 14, 20% to 40% is High, 10% to 20% is Medium, and less than 10% is Low.

- When an INDUSTRY-WIDE statistic is used (as in items 7 and 9), the grade is found by taking a RATIO of the Firm statistic to the Industry statistic. For items 11, 13, and 15, 1.6 is High, 1.3 is Medium, and 1.0 is Low.

- For item 17, a positive number >4 is High, Zero (0) is Medium, and a negative number is Low. For items 18 and 19, a rank of 20 is High, 45 is Medium, and 70 is Low.
STOCK ANALYSIS WORKSHEET

Analyst (Your Name): __________________________________________  Date: ________________
Symbol: _________          Company: ______________________________  Exchange: ____________
Company Contact: ________________________________________   Phone Number: ______________________
Industry: ________________________________________________      Media General Industry Code: _________
Month FY Ends: ____________     S&P Guide Date: ________________      S&P Report Date: ________________

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<th>1st QTR</th>
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<th>EPS Total</th>
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COMPOSITE VOLATILITY (A - G) RATING: _____________ and VALUE (1 - 23) RATING: ____________

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<th>Statistic</th>
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<tbody>
<tr>
<td>A. Price Per Share</td>
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<td>E. Average Daily Volume (000)</td>
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<td>B. 52 Week Price Range</td>
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<td>F. Debt to Equity Ratio</td>
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<td>C. Beta</td>
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<td>G. No. of Institutions Holding Stock</td>
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<td>D. Float (in millions)</td>
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1. Price / Earnings Ratio |       | 6. Profit Margin (FIRM) |       |
2. Price / Equity Ratio   |       | 7. Profit Margin (INDUSTRY-WIDE) |       |
5. Payout Ratio           |       |           |       |

10. Earnings Per Share Percent Change Last 3 Months (FIRM) |       |
11. Earnings Per Share Percent Change Last 3 Months (INDUSTRY-WIDE) |       |
12. Earnings Per Share Percent Change Last 12 Months (FIRM) |       |
13. Earnings Per Share Percent Change Last 12 Months (INDUSTRY-WIDE) |       |
14. Earnings Per Share 5 year Growth Rate (FIRM) |       |
15. Earnings Per Share 5 year Growth Rate (INDUSTRY-WIDE) |       |
16. Percent of Float Held by Institutions (5% is High, 20% is Medium, and 40% is Low) ________ _____

17. Last 6 Months Insider Net Trades (Pluses less Minuses in Daily Graphs) ________ _____

18. Value Line Industry Rank (PRIMARY) Find Ranking in Value Line SUMMARY ________ _____

19. Value Line Industry Rank (SECONDARY) Do if >25% of TR is from 2nd Industry ________ _____

20. Value Line Timeliness Rank ________ _____

21. O'NEIL Industry Rank (Database or Daily Graphs) ________ _____

22. O'NEIL Relative Strength (Database or Investor's Daily) ________ _____

23. NEWS ITEMS (Comment about any of the following items that may be relevant to the price of the stock, and assign a grade using your own judgement.) Note: The older the information, the less important.

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SUBMIT SEPERATELY

COLLABORATION EVALUATION  (Please keep this pink original separate from the rest of Assignment N= 10, and submit it directly to Dr. G.)

A. INTERACTIVE PROCESS

How important is an interactive educational process? The professor would appreciate your evaluation:

1. An interactive process in the study of Economics is:
   a. Very Important  b. Important  c. Unimportant  d. Counterproductive ______

2. The extent of interactive education in this class has been:
   a. About right    b. Too much    c. Too little ______

3. Please make a specific suggestion that might enhance your preference:
   __________________________________________
   __________________________________________
   __________________________________________

4. Compared to all other university courses taken, collaboration in this class has been:
   a. Much greater  b. Greater  c. About the same  d. Less  e. Much less ______

5. Compared to all other Pepperdine courses taken, this collaboration has been:
   a. Much greater  b. Greater  c. About the same  d. Less  e. Much less ______

6. Compared to your Human Behavior course, collaboration in this class has been:
   a. Much greater  b. Greater  c. About the same  d. Less  e. Much less ______

B. COURSE MATERIALS AND OBJECTIVES

1. If, due to time limitations, some subject of this course (Price Theory) must be dropped, which topic would you recommend be eliminated?
   __________________________________________

2. Assuming this course were restructured, which topic is the most important to retain?
   __________________________________________

3. Did your ability to listen for extended periods of time improve? If so, how so; if not, why not?
   __________________________________________
   __________________________________________

4. Who was the author of your intermediate text?
   __________________________________________

5. The usefulness of this text in learning Price Theory has been:
   a. Excellent  b. Good  c. Fair  d. Poor  e. Awful ______
PLEASE NOTE WELL: Submission of this survey by the thirteenth meeting is mandatory. TEN POINTS will be deducted from your total score if it is submitted late. An Incomplete (I) will be given if it is not turned in by the end of the trimester.

Managers often find that productivity can be significantly improved by reassigning their personnel. A sociogram can provide immediate information on existing group dynamics, suggest specific team combinations, and identify potential leaders.

Generally, all participants, regardless of level, are asked to rank everyone according to whom they would most prefer in each of three categories: supervisor, co-worker, and subordinate. The purpose of this sociogram is to rank each participant's influence on the class according to the following criteria:

- a. Energized a positive classroom environment.
- b. Contributed regularly without dominating air time.
- c. Helped colleagues understand by asking questions or providing explanations.
- d. Initiated and cooperated in the study group process.

FIRST list the current class members in alphabetical order (by family name) on the lines provided below.

n = [Counting yourself, how many students are currently attending this class?]

Begin by ranking yourself as number one, placing that number (1) in the space provided at left for rank. Then assign number two (2) to the one student besides you who best meets the criteria, and number three (3) to the next best contributor. The least effective participant must be rated as number n. Everyone must be rated once, no one can be rated twice, and there can be no ties.

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