

Module Study Guide

Academic Year 2020–2021

Managerial Economics

Level: 4

Credits: 10 ECTS; 20 UK credits

Academic Partner:

Marbella International University Centre
(MIUC)

Table of contents

Key team contact details	3
1 Module overview	4
1.1 Introduction	4
1.2 Module summary content and aims.....	4
1.3 Learning outcomes to be assessed.....	4
1.4 Indicative Contact Hours	5
1.5 Summative assessment grid	6
1.6 Assessment brief including criteria mapped to learning outcomes.....	6
1.6.1 Assessment 1: In-class Exercise (1)	6
1.6.2 Assessment 2: In-class Exercise (2)	7
1.6.3 Assessment 3: In-class Exercise (3)	7
1.6.4 Assessment 4: In-class Exercise (4)	7
1.6.5 Assessment 5: Case Study	8
1.7 Learning materials.....	8
1.7.1 Core textbook(s):	8
1.7.2 IT, audio-visual or learning technology resources.....	8
1.7.3 Other recommended reading:	8
2 Things you need to know	10
2.1 Engagement.....	10
2.2 Need help, just ask.....	10
2.3 Getting support for your studies	11
2.4 Student support.....	11
2.5 Module evaluation – have your say!.....	11
3 Appendix: Weekly content	13
This week we will study how M&A can play a role in corporate governance and examine its effectiveness. We will also examine whether a strong competition is a necessary condition for efficiency.	15

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1 Module overview

1.1 Introduction

Welcome to the module Fundamentals of Business!

This module provides an overview of economic tools and analytic approaches available to the manager for business decision making. It includes such topics as pricing, demand analysis, production and cost analysis, financial management and corporate governance.

In this module, you will be required to undertake several assignments which will be posted on learning platform. These tasks will develop your analytical skills and build on your self-study. As this module combines analytical tools with practical applications, you will find yourself gaining the skills needed for your further study and future career.

1.2 Module summary content and aims

The course aims to enhance your understanding of how markets operate and develop your capability in applying economic analysis into business decision making as well as making economic predictions about market outcomes. It would also serve as a foundation for your further studies in management and finance.

In this module, you will learn the economic analysis and apply to a wide array of business problems. This will encourage you to develop awareness on the application of economic tools rather than only allowing yourselves to pursue a purely theoretical understanding of economics.

Our analytical framework will rest upon four parts: (1) how a firm chooses its organisational form based on the theory of firms; (2) Industrial organisation, which focuses on firms' competition strategy, as well as how market structures and government policy affect firms' behaviour; (3) Financial management which focuses on firms' financing source decision, including debt and equity financing or the mixture of the two and other alternative tools for financing such as convertible debt, option contracts etc. And finally, in part (4), corporate governance will be introduced. We will study different types of agency problems and the cost associated with them. Furthermore, we will derive and examine the firms' strategies which alleviate the agency problems, such as incentive compatible contract, control by board of directors and the pressure from other competitors with potential acquisition threat.

1.3 Learning outcomes to be assessed

LO1. Develop capacity to express and explain to yourself and to non-economist clearly using an economic framework when discussing an industry or business and how that market structure affects firm decisions.

LO2. Solve well-defined problems related to business decision making and provide solution to strategic interactions with other firms in the industry

LO3. Be able to conduct demand and supply analysis for individual firm as well as for the aggregate economy

LO4. Be able to explain and discuss the macroeconomic conditions required for a variety of firm pricing strategies to be profitable.

1.4 Indicative Contact Hours

Teaching Contact Hours	56 hours
Independent Study Hours	144 hours (for modules with 20 UK credits) 44 hours (for modules with 10 UK credits)
Total Learning Hours	200 hours (for modules with 20 UK credits) 100 hours (for modules with 10 UK credits)

1.5 Summative assessment grid

Type of Assessment	Word Count or equivalent	Threshold (if Professional Body-PSRB applies)	Weighting	Pass Mark	Indicative Submission week	Method of Submission & Date of Feedback (refer to NEOlms)
A1: Written Examination (In-class exercise 1)	n/a	n/a	10%	40	Week 4 (Date and Time TBC)	Via NEOlms&5 working days after in-class exercises
A2: Written Examination (In-class exercise 2)	n/a	n/a	10%	40	Week 7 (Date and Time TBC)	Via NEOlms&5 working days after in-class exercises
A3: Written Examination (In-class exercise 3)	n/a	n/a	10%	40	Week 10 (Date and Time TBC)	Via NEOlms&5 working days after in-class exercises
A4: Written Examination (In-class exercise 4)	n/a	n/a	10%	40	Week 13 (Date and Time TBC)	Via NEOlms&5 working days after in-class exercises
A4: Written Assignment Case Study	1800 words (+/-10%)	n/a	60%	40	Week 15 (Date and Time TBC)	Via NEOlms& 10 working days after the assessment

1.6 Assessment brief including criteria mapped to learning outcomes

1.6.1 Assessment 1: In-class Exercise (1)

This assessment will assess your analytical skills in determining a firm's optimal pricing and production strategy given a duopolistic and a monopolistic market. There will be one analytical question.

Assessment criteria

Assessment criteria for Assessment 1 (LO1, LO3 will be assessed)

These assessments will be marked according to the following criteria:

- **Knowledge and Understanding (40%):** Students need to understand how market structure affect a firm's production decision and how agency cost plays an important role in determining the capital structure of a firm.
- **Cognitive Skills (60%):** Students will need to apply the economic tools in deriving the firm's option strategy under different situations.

1.6.2 Assessment 2: In-class Exercise (2)

This assessment will assess your understanding of how different financing sources relate to agency cost and how a firm decides its optimal capital structure. There will be two short answer questions.

Assessment criteria

Assessment criteria for Assessment 2 (LO1, LO2 will be assessed)

These assessments will be marked according to the following criteria:

- **Knowledge and Understanding (50%):** Students need to understand how market structure affect a firm's production decision and how agency cost plays an important role in determining the capital structure of a firm.
- **Cognitive Skills (50%):** Students will need to apply the economic tools in deriving the firm's option strategy under different situations.

1.6.3 Assessment 3: In-class Exercise (3)

This assessment will assess your practical skills in determining which option contract to use for a given scenario and derive the option pricing. There will be one analytical question.

Assessment criteria

Assessment criteria for Assessment 3 (LO2 will be assessed)

These assessments will be marked according to the following criteria:

- **Cognitive Skills (50%):** Students will need to apply the economic tools in deriving the firm's option strategy under different situations.
- **Practical/Professional Skills (50%):** Students need to select correct risk management tools when a firm faces uncertainty.

1.6.4 Assessment 4: In-class Exercise (4)

This assessment will assess your professional skills in designing a simple incentive compatible contract to align the principle and the agent's incentives. There will be one analytical question.

Assessment criteria for Assessment 4 (LO1, LO4 will be assessed)

These assessments will be marked according to the following criteria:

- **Cognitive Skills (100%):** Students will need to apply the economic tools in deriving the firm's option strategy under different situations.

1.6.5 Assessment 5: Case Study

At the end of the module, you will deliver a business case analysis individually. This will encourage you to develop awareness on the application of economic tools in the field of corporate governance, rather than only pursuing a purely theoretical understanding of economics and business management.

Assessment criteria 5: Case study (LO1, LO2, LO3 will be assessed)

These assessments will be marked according to the following criteria:

- ❖ **Knowledge and Understanding (20%):** Students need to be able to identify why a principal-agent relationship occurs and demonstrate an understanding of principal-agent problems.
- ❖ **Cognitive Skills (35%):** Students will need to be able to identify the types of principal-agent problems by examining the factors (such as hidden information, hidden action, the role of verifiability and observability) leading to the problems.
- ❖ **Practical/Professional Skills (35%):** Students need to propose solutions to the principal-agent problems.
- ❖ **Transferable Skills (10%):** Students need to communicate in a clear manner given the word count requirement and use Harvard Referencing system.

More detailed instructions to all assessments will be provided in the assessment guideline which will be available on NEOlms.

For guidance on online submission of assignments, including how to submit and how to access online feedback, please refer to the MIUC NEOlms student guideline.

1.7 Learning materials

The reading list for this module is available on NEOlms in the module area

1.7.1 Core textbook(s):

- Mallin, C. A. (2016) *Corporate Governance*. 5th Edition. Oxford University Press
- McGuigan, J. R., Moyer, R. C. and Harris, F. (2016) *Managerial Economics: Applications, Strategies and Tactics*. 14th Edition. Cengage Learning.
- Varian, H. R. (2014) *Intermediate Microeconomics: A Modern Approach*. 9th Edition. W. W. Norton & Company

1.7.2 IT, audio-visual or learning technology resources

n/a

1.7.3 Other recommended reading:

- Berk, J. and De Marzo, P. (2014). *Corporate Finance*. 4th Edition. Pearson Prentice Hall.

- Brandenburger, A. M. and Nalebuff, B (1995), "Right Game: Use Game Theory to Shape Strategy", Harvard Business Review
- Casadesus-Masanell, R (2015), "Strategy Reading: Competitive and Cooperative Dynamics", Harvard Business Review
- Harris, R. S. and Conroy, R. M. (2007), "Option Contracts and Their Valuation", Harvard Business Review
- Luehrman, T. A. (2016), "Finance Reading: NPV and Capital Budgeting", Harvard Business Review
- Raviv, A., Thompson, T., Gresh, P. and Hennessy, S. (2007), "Bed Bath & Beyond: The Capital Structure Decision", Harvard Business Review

Remember to log into MIUC NEOlms daily to receive all the latest news and support available at your module sites.

2 Things you need to know

2.1 Engagement

During the academic year 2020-21, the health, welfare and safety of all our students and staff is our top priority as Spain continues to deal with the ongoing implications of the COVID-19 outbreak.

Face to-face-teaching, access to MIUC facilities and being part of our unique University community are key parts of the excellent student experience at MIUC. We have been working to create a safe and efficient plan that will allow us to deliver these elements when you start with us in the fall semester, subject to government regulation.

MIUC will be ready to teach in September and we are committed to engaging with you as closely as we can, and to ensuring that you have a rich educational experience that is safe and protected to ensure that you continue to get the most from the University life and the city of Marbella.

Whether you are engaging with teaching and learning activities on site or via the MIUC Virtual Learning Environment, we expect the same level of commitment and engagement from you. If you are unable to attend scheduled on site or online activities or complete activities in the timeframes set out, you should let your module leaders know. You should aim to stick to assessment deadlines; if you are concerned that you will not be able to complete your assessments on time, you should talk to your module leaders. Your engagement, whether online or on site, will be tracked and if we see that you are not engaging, we will get in contact with you. However, we encourage you to let us know if you are struggling so we can work with you to find solutions and get you back on track as soon as possible. Give yourself the best possible chance to succeed by engaging with the full range of learning and teaching activities available to you.

2.2 Need help, just ask

The University recognises that there are times when you may encounter difficulties during your course of study and provisions are made to help you. If you are struggling with meeting deadlines please talk to us, whether it's your course/module leader, personal tutor or any member of staff, speak to them so they can get you the support you need to succeed. You can extend your deadline if you have a good reason why you are not able to submit a piece of coursework on time, [apply online for an extension](#) before your deadline. An extension will allow you an extra 10 working days. If an extension is not sufficient and circumstances beyond your control are preventing you from completing your assessment, then you can, [apply online for mitigation](#).

Please remember late submission without extension or mitigation will result in penalties depending on how late it is, see [Academic Regulations](#).

You are reminded that MIUC applies penalties to students who commit an academic offence, in which case the Academic Offences Regulations will be used to deal with any cases of academic misconduct including examination offences, plagiarism and other means of cheating to obtain an advantage.

You are encouraged to seek advice from the Students' Union and counselling service which support you with all aspects of your academic experience by providing advice and guidance to ensure you are fully informed of the academic regulations as well as advocate for student views.

You are expected to behave in line with University expectations, irrespective of whether your interactions with staff and other students are in person or online. As you will be engaging with others

online and a range of online materials, it is important to consider how to stay safe online and ensure your communications are secure and appropriate. If you have any questions about how to manage your online activities, please contact your module leader.

If you have an issue about the module, you should speak to your Module Leader or Course Leader informally in the first instance. Your Course Representative can also raise your concerns at Course Committees, which take place each semester. If you are unable to resolve it informally, you should refer to the Complaints Procedure which is outlined in the student handbook and consult the Students' Union about it. The University aims to ensure that issues are resolved informally as quickly as possible to have minimum impact on your studies.

2.3 Getting support for your studies

Throughout your course of study, you will have access to a wide variety of sources of support depending on your individual circumstances and needs. Your first point of call for getting general academic support is your Personal Tutor. As well as approaching your Module Leader with any questions specifically related to your module and your Course Leader with questions on your Course, do contact your Personal Tutor for academic advice in relation your studies and your academic development.

Apart from the University-wide support framework, which encompasses the Module Leaders, Course Leader, the Subject Librarian and your Course Administrator, you will also have at your disposal the MIUC Academic Support Team. The Team offers Academic Skills Workshops throughout the year, helping you to develop skills relevant to your degree. Workshops include for instance Essay Planning and Writing; Critical Thinking; Reflective Writing; Group Work and Presentation Skills.

English Language support and One-to-one academic support opportunities are also available. For information about all these services, please consult the Academic Office.

2.4 Student support

In addition to the support listed in the previous section, there is also more help offered by MIUC Student services, consisting of Student Life Department, Internship Support, Life Coaching Service and Counselling service. They offer a wide range of support and services consisting of extracurricular activities; Careers and internship support; Student Welfare and Counselling.

Contact Student Services for more information at:

Student Life Department: student.life@miuc.org

Internship Support: [TBC](#)

Life Coaching Service: Ms. Ana Cante, ana.cante@miuc.org

Counselling Service: Ms. Eva Berkovic, eva@miuc.org

2.5 Module evaluation – have your say!

Towards the end of the module you will be invited to provide some anonymous feedback to the Module Leader through a (online) survey. This is your opportunity to give some direct feedback about the module through a series of questions and free text. Your constructive feedback will help the Module Leader and teaching team to understand the module experience from your perspective and helps inform the development of the module.

3 Appendix: Weekly content

Week 1

Key concepts/issues: Module organisation, structure and assignments; Review basic economic concepts.

This session will introduce you to the module organization, structure and assignments. You will explore the time commitments you will need to make and the skills you will develop through the duration of the module. We will also review basic economic concepts which would be useful for this module.

Week 2

Key concepts/issues: Optimal decision; Perfect competitive market; Monopoly

Literature for this session:

- Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 18: Technology).
- Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 19: Profit Maximization).

Following Week 1's material, this week you will be introduced to how a firm make decisions (pricing and quantity) under different market structures. Firms are assumed to be profit maximize. You will learn how to derive optimal decisions taking into account a firm's objective function and its constraints.

Week 3

Key concepts/issues: Simultaneous-move game, sequential-move game, Prisoners' delimma.

Literature for this session:

- Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 27: Oligopoly)
- Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 28: Game Theory)

This week, students will learn basic game theory and its application in firm competition. Students will learn how to derive the best-response function for a firm given its opponent's decision. We will also play an interactive game and use it to demonstrate the concepts of game theory.

Week 4 and 5

Key concepts/issues: Market structures, Firm competition: Bertrand and Cournot Competition, Kinked Demand Model, Oligopoly,

Literature for this session:

- Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 24: Monopoly).
- Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 25: Oligopoly).
- Wall Street Journal (2003) How Media Giants Are Reassembling The Old Oligopoly". Available at: <https://www.wsj.com/articles/SB106357548527696300> (Accessed: 8 February)

- Wall Street Journal (2015). "ObamaCare's Oligopoly Wave". Available at: <http://archive.is/wQ3jC#selection-4077.0-4077.26> (Accessed: 8 February 2019)

This week students will study various types of market structures and how firms decide their price and production quantity depending on the market structure. Also, students will learn how firms compete in price and quantity.

Week 6 and 7

Key concepts/issues: Modigliani-Miller theorem, Agency cost of debt, Agency cost of equity. Debt financing, Equity financing, Cost of financing, Mixture of debt and equity financing, Sources of financing and tax implication

Literature for this session:

- Berk, J. and De Marzo, P. (2014). Corporate Finance. 3rd Edition. Pearson. (Chapter 6: Valuing Bonds)
- Berk, J. and De Marzo, P. (2014). Corporate Finance. 3rd Edition. Pearson. (Chapter 9: Valuing Stock)

This week we will examine various sources of financing and its implications on agency problem. It is common that a firm faces agency problem due to the conflict of interests between different agents. Choosing an optimal financing mix could minimize the agency cost. Furthermore, students will learn the implication of M-M theorem and its fundamental assumptions. Students will learn the tax implication on different financing sources.

Week 8

Key concepts/issues: Measuring cash flows, Real option as risk management tool

Literature for this session:

- Berk, J. and De Marzo, P. (2014). Corporate Finance. 3rd Edition. Pearson. (Chapter 7: Investment Decision Rule)
- Berk, J. and De Marzo, P. (2014). Corporate Finance. 3rd Edition. Pearson. (Chapter 8: Fundamentals of Capital Budgeting)

This week students will learn how to measure cash flows of various investment projects a firm has. In order to accurately measure the present value of an investment opportunity, students need to learn to adjust the firm's profit/income to free cash flow. Moreover, in practice, the decision making for a manager is dynamic instead of being static. Therefore, we will study how real option could affect the project evaluation.

Week 9

Key concepts/issues: Risk management, Call options, Put options, Real option: option to expand, option to delay and option to abandon

Literature for this session:

- Berk, J. and De Marzo, P. (2014). Corporate Finance. 3rd Edition. Pearson. (Chapter 21: Option Valuation)

In week 8, students will learn how a firm cope with uncertainty using option contracts. They will also learn the differences and similarity between different option contracts. Students will also learn how to price an option contract.

Week 10 and 11

Key concepts/issues: The “lemon” market, unobservable effort, non-verifiability

Literature for this session:

Varian. H. R. (2014) Intermediate Microeconomics. 9th edition. W. W. Norton & Company (Chapter 37: Asymmetric Information)

This week students will learn the problems caused by asymmetric information. Asymmetric information results in agency problem which negatively affect a firm’s value. We will focus on two types of asymmetric information: adverse selection and moral hazard, and we will derive incentive compatible contracts in order to overcome the agency problems.

Week 12

Key concepts/issues: Merger and Acquisition

Literature for this session:

- Mallin, C. A. (2016). Corporate Governance. 5th Edition. Oxford University Press. (Chapter 6: The Role of Institutional Investors in Corporate Governance)

This week we will study how M&A can play a role in corporate governance and examine its effectiveness. We will also examine whether a strong competition is a necessary condition for efficiency.

Week 13

Key concepts/issues: Board of directors in practice, Free-riding problem, Who monitors the monitor?

Literature for this session:

- Mallin, C. A. (2016). Corporate Governance. 5th Edition. Oxford University Press. (Chapter 8: The Role of Institutional Investors in Corporate Governance)

This week we will study the most common corporate governance channel: Board of directors. We will examine its effectiveness in monitoring the manager.

Week 14

Key concepts/issues: Multiple Valuation

Literature for this session:

- Global Equity Research (2001). Valuation Multiples: A Primer (Valuation Multiples Primer.pdf)

This week students will learn another valuation method which is commonly used by investment bankers. Multiple valuation method is simple compared to DCF method. Students will learn the limitation of this method and they will be able to select a suitable multiple and comparables when adopting the multiple valuation method.



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