ICCE
INSTITUTE OF CERTIFIED
CHARTERED ECONOMISTS

ME1

MANAGERIAL ECONOMICS I

PROFESSIONAL LEVEL

SYLLABUS & EXAMS GUIDE

PROFESSIONAL LEVEL

ME1 – MANAGERIAL ECONOMICS I

SYLLABUS & EXAMS GUIDE

OVERVIEW

Managerial economics extracts from microeconomic theory those concepts and techniques that enable managers to select strategic direction, to allocate efficiently the resources available to the organization, and to respond effectively to tactical issues. All such managerial decision making seeks to do the following:

- identify the alternatives,
- select the choice that accomplishes the objective(s) in the most efficient manner,
- taking into account the constraints
- and the likely actions and reactions of rival decision makers.

The decision-making model

The ability to make good decisions is the key to successful managerial performance. All decision-making shares several common elements. First, the decision maker must establish the objectives. Next, the decision maker must identify the problem.

For example, the CEO of electronics retailer Best Buy may note that the profit margin on sales has been decreasing. This could be caused by pricing errors, declining labor productivity, or the use of outdated retailing concepts.

Once the source or sources of the problem are identified, the manager can move to an examination of potential solutions. The choice between these alternatives depends on an analysis of the relative costs and benefits, as well as other organizational and societal constraints that may make one alternative preferable to another.

The final step in the decision-making process, after all alternatives have been evaluated, is to analyze the best available alternative under a variety of changes in the assumptions before making a recommendation.

This crucial final step is referred to as a sensitivity analysis. Knowing the limitations of the planned course of action as the decision environment changes, the manager can then proceed to an implementation of the
decision, monitoring carefully any unintended consequences or unanticipated changes in the market.

The responsibilities of management

In a free enterprise system, managers are responsible for a number of goals. Managers are responsible for proactively solving problems before they become crises and for selecting strategies to assure the more likely success of the current business model.

Managers create organizational structure and culture based on the organization's mission. Senior management especially is responsible for establishing a vision of new business directions and setting stretch goals to get there.

In addition, managers monitor, motivate, and incentivize teamwork and coordinate the integration of marketing, operations, and finance functions.

In pursuing, all of these responsibilities, managers in a capitalist economy are ever conscious of their overarching goal to maximize returns to the owners of the business—that is, economic profits.

Economic profit is the difference between total sales revenue (price times units sold) and total economic cost. The economic cost of any activity may be thought of as the highest valued alternative opportunity that is forgone.

To attract labor, capital, intellectual property, land, and materiel, the firm must offer to pay a price that is sufficient to convince the owners of these resources to forego other alternative activities and commit their resources to this use. Thus, economic costs should always be thought of as opportunity costs—that is, the costs of attracting a resource such as investment capital from its next best alternative use.

Managerial economics concerns the decisions made within a firm. Managers, the decision makers in firms, determine their pricing strategy, who to hire and fire, how to reward workers, and how to motivate workers. Managers must also solve logistical problems such as how to distribute their goods for sale, how to minimize the cost of producing a given production target, how much inventory to hold, where and how to spend advertising dollars, whether or not to expand the firm with more factory lines or more factories, and how to optimally search the market place for new ideas/technologies or competitors' prices. Firm owners must also decide how to reward their managers.

*[**Source:** Managerial Economics Applications, Strategy, and Tactics, 12th Edition, JAMES R. MCGUIGAN, R . CHARLES MOYER, FREDERICK H. de B . HARRIS, Cengage, 2011]*

LEARNING OBJECTIVES

The intention of this course is to introduce to you a wide variety of problems faced by managers. Faced with these problems, you will be given the opportunity to develop strategies and tools for solving the problems.

- Develop greater knowledge of the types of problems faced by firm managers.
- Improve your economic intuition concerning these problems and their solutions.
- Improve your presentation skills, including developing an ability to convey information to others and to clearly explain and defend your decisions and results.
- Improve your small-group and inter-personal skills.
- Apply economic reasoning to business decisions
- Understand the fundamentals of individual and firm behaviour
- Estimate simple equations using regression and apply them in an economic context
- Use optimization to determine equilibria under a variety of market structures
- Apply game theory to economic decision making
- Understand advanced pricing strategies under market power

RECOMMENDED TEXTS

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READING TOPICS

Managerial Challenge: How to Achieve Sustainability: Southern Company

- What is Managerial Economics?
- The Decision-Making Model
- The Role of Profits
- Objective of the Firm
- Separation of Ownership and Control: The Principal-Agent Problem
- What Went Right/What Went Wrong: Saturn Corporation
- Implications of Shareholder Wealth Maximization

Fundamental Economic Concepts

- Demand and Supply: A Review
- Marginal Analysis
- The Net Present Value Concept
- Meaning and Measurement of Risk

Demand Analysis

- Managerial Challenge: Health Care
- Demand Relationships
- The Price Elasticity of Demand
- International Perspectives: Free Trade and the Price Elasticity of Demand: Nestlé Yogurt
- The Income Elasticity of Demand
- Cross Elasticity of Demand
- The Combined Effect of Demand Elasticities

Estimating Demand

- Managerial Challenge: Global Warming and the Demand for Public Transportation
- Estimating Demand Using Marketing
- Statistical Estimation of the Demand
- A Simple Linear Regression Model

READING TOPICS

- Using the Regression Equation to Make Predictions
- Multiple Linear Regression Model

Business and Economic Forecasting

- The Significance of Forecasting
- Selecting a Forecasting Technique
- What Went Right/What Went Wrong: Crocs Shoes
- Alternative Forecasting Techniques
- Deterministic Trend Analysis
- Smoothing Techniques
- Barometric Techniques
- Survey and Opinion-Polling Techniques
- Econometric Models
- Stochastic Time-Series Analysis
- Forecasting with Input-Output Tables
- International Perspectives: Long-Term

Managing in the Global Economy

- Managerial Challenge: Financial Crisis
- International Perspectives: Collapse of Export and Domestic Sales at
- Outsourcing
- China Trade Blossoms
- Determinants of Long-Run Trends in Exchange Rates
- Purchasing Power Parity
- What Went Right/What Went Wrong:
- GM, Toyota, and the Celica GT-S Coupe
- International Trade: A Managerial Perspective
- Free Trade Areas: The European Union and NAFTA
- Largest U.S. Trading Partners: The Role of NAFTA

READING TOPICS

Production Economics

- Managerial Challenge: Green Power Initiatives Examined: What Went Wrong in California's Deregulation of Electricity?
- The Production Function
- Production Functions with One Variable Input
- Determining the Optimal Use of the
- Production Functions with Multiple
- Determining the Optimal Combination of Inputs
- A Fixed Proportions Optimal Production Process
- Measuring the Efficiency of a Production Process

EXAMINATION GUIDE

EXAMS GUIDE

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- You are not allowed to take to your exam desk, possess, use or intend to use while at that desk, any books, notes or other materials except those authorized by the exam supervisor. If you are found to have taken to your desk, or possessed while at that desk, unauthorized materials which are relevant to the syllabus being examined, it will be assumed that you intended to use them to gain an unfair advantage in the exam. In any subsequent disciplinary proceedings, it shall be for you to prove that you did not intend to use the materials to gain an unfair advantage in the exam.
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EXAM STRUCTURE

- The **Professional Level exams** consists of **140 multiple choice questions** which are all compulsory
- The duration for the exam is **3 hours & 15 minutes**

EXAM RESULTS

- Learners receive instant results after each exam.
- Results are available and accessible via MyICCE.

ADDITIONAL READING PLATFORMS

NEWS PORTALS

- The Economy360
- FI Sense
- The Economist
- Bloomberg Business week
- Harvard Business Review
- Sloan Management Review

JOURNALS

- The Economic Journal
- Quarterly Journal of Economics
- Journal of Financial Economics
- Journal of International Economics
- American Economic Review
- The Review of Economic Studies
- The Journal of Finance
- Journal of Political Economy
- Journal of Accounting and Economics
- The Review of Economics and Statistics
- The Review of Financial Studies
- Quantitative Economics
- Journal of Management Studies
- Journal of Econometrics
- Journal of Banking and Finance

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QUICK LINKS

- About ICCE exams
- Exams Proctor
- About ICCE Scholarships
- About ICCE Application
- ICCE Fees

SAMPLE QUESTIONS

1. The form of economics most relevant to managerial decision-making within the firm is:
    A. macroeconomics
    B. welfare economics
    C. free-enterprise economics
    D. microeconomics

2. Which of the following statements concerning the shareholder wealth maximization model is (are) true?
    A. The timing of future profits is explicitly considered
    B. The model provides a conceptual basis for evaluating differential levels of risk
    C. The model is only valid for dividend-paying firms
    D. a and b

3. According to the profit-maximization goal, the firm should attempt to maximize short-run profits since there is too much uncertainty associated with long-run profits.
    A. true
    B. false

4. Which of the following (if any) is not a factor affecting the profit performance of firms:
    A. innovation
    B. managerial skills
    C. existence of monopoly power
    D. all of the above are factors

5. Agency problems and costs are incurred whenever the owners of a firm delegate decision-making authority to management.
    A. true
    B. false

6. Managerial economics seeks to accomplish all of these goals EXCEPT:
    A. identify the alternatives
    B. select the choice that accomplishes the objective most efficiently
    C. take into account the opportunities
    D. take into account the likely actions & reactions of rival decision makers

7. A Real Option Value is:
    A. An option that been deflated by the cost of living index

makes it a “real” option
B. An opportunity cost of capital.
C. An opportunity to implement cost savings or revenue expansion in a flexible business plan.
D. An objective function and a decision rule that comes from it.

8. The flat-screen plasma TVs are selling extremely well. The originators of this technology are earning higher profits. What theory of profit best reflects the performance of the plasma screen makers?
   A. risk-bearing theory of profit
   B. dynamic equilibrium theory of profit
   C. innovation theory of profit
   D. managerial efficiency theory of profit

9. Recently, the American Medical Association changed its recommendations on the frequency of pap-smear exams for women. The new frequency recommendation was designed to address the family histories of the patients. The optimal frequency should be where the marginal benefit of an additional pap-test:
   A. equals zero
   B. is greater than the marginal cost of the test
   C. is lower than the marginal cost of an additional test
   D. equals the marginal cost of the test

10. Managers should concentrate on maximizing shareholder value alone if which of the following conditions are met?
   A. complete markets
   B. no significant asymmetric information
   C. known re-contracting costs
   D. all of the above

11. Generally, investors expect that projects with high expected net present values also will be projects with:
   A. low risk
   B. high risk
   C. certain cash flows
   D. short lives

12. The standard deviation is appropriate to compare the risk between two investments only if:
   A. the expected returns from the investments are approximately equal

B. the investments have similar life spans
C. objective estimates of each possible outcome is available
D. the coefficient of variation is equal to 1.0

13. Based on risk-return trade-offs observable in the financial marketplace, which of the following securities would you expect to offer higher expected returns than corporate bonds?
    A. U.S. Government bonds
    B. municipal bonds
    C. common stock
    D. commercial paper

14. The primary difference(s) between the standard deviation and the coefficient of variation as measures of risk are:
    A. the coefficient of variation is easier to compute
    B. the standard deviation is a measure of relative risk whereas the coefficient of variation is a measure of absolute risk
    C. the coefficient of variation is a measure of relative risk whereas the standard deviation is a measure of absolute risk
    D. the standard deviation is rarely used in practice whereas the coefficient of variation is widely used

15. Receiving $100 at the end of the next three years is worth more to me than receiving $260 right now, when my required interest rate is 10%.
    A. true
    B. false

16. Two investments have the following expected returns (net present values) and standard deviations:

PROJECT	Expected Value	Standard Deviation
Q	$100,000	$20,000
X	$50,000	$16,000

Based on the Coefficient of Variation, where the C.V. is the standard deviation dividend by the expected value.
    A. All coefficients of variation are always the same
    B. Project Q is riskier than Project X
    C. Project X is riskier than Project Q
    D. There is not enough information to find the coefficient of variation

17. Regarding demand and supply, which of the following statements is NOT correct?
    A. Demand and supply simultaneously determine equilibrium market price
    B. Demand expresses intentions, but supply does not
    C. Demand is a potential concept distinguished from the transactional even of "units sold"
    D. Supply is more like scenario planning for operations than for actual production

18. In regression analysis, the existence of a high degree of inter-correlation among some or all of the explanatory variables in the regression equation constitutes:
    A. autocorrelation
    B. nonlinearities
    C. heteroscedasticity
    D. multicollinearity

19. Non-redeployable durable assets that are dependent upon unique complementary and perfectly redeployable assets to achieve substantial value-added will typically be organized as:
    A. an export trading company
    B. a spot market contract
    C. a vertically integrated firm
    D. an on-going relational contract

20. Contracts are distinguished from tactical alliances by which of the following characteristics:
    A. involve sequential responses
    B. require third-party enforcement
    C. raise shareholder value
    D. elicit diminished reactions from competitors

ANSWERS

1. D	11. B
2. D	12. A
3. B	13. C
4. D	14. C
5. A	15. B
6. C	16. C
7. C	17. B
8. C	18. D
9. D	19. C
10. D	20. B

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ICCE
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ME2

MANAGERIAL ECONOMICS II

PROFESSIONAL LEVEL

SYLLABUS & EXAMS GUIDE

PROFESSIONAL LEVEL

ME2 – MANAGERIAL ECONOMICS II

SYLLABUS & EXAMS GUIDE

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The ability to make good decisions is the key to successful managerial performance. All decision-making shares several common elements. First, the decision maker must establish the objectives. Next, the decision maker must identify the problem.

For example, the CEO of electronics retailer Best Buy may note that the profit margin on sales has been decreasing. This could be caused by pricing errors, declining labor productivity, or the use of outdated retailing concepts.

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READING TOPICS

Cost Analysis

- Managerial Challenge: US Airways Cost Structure
- The Meaning and Measurement of Cost
- Short-Run Cost Functions
- Long-Run Cost Functions
- Economies and Diseconomies of Scale
- International Perspectives: How Japanese Companies Deal with the Problems of Size

Applications of Cost Theory

- Managerial Challenge: How Exactly Have Computerization and Information Technology Lowered Costs at Chevron, Timken, and Merck?
- What Went Right/What Went Wrong: Boeing: The Rising Marginal Cost of Wide-Bodies
- Break-Even Analysis

Prices, Output, and Strategy: Pure and Monopolistic Competition

- Managerial Challenge: Resurrecting
- What Went Right/What Went Wrong: Xerox
- A Continuum of Market Structures
- Price-Output Determination under Pure Competition
- Price-Output Determination under Monopolistic Competition
- What Went Right/What Went Wrong: The Dynamics of Competition at Amazon.com
- Selling and Promotional Expenses
- Competitive Markets under Asymmetric Information
- Solutions to the Adverse Selection Problem

Price and Output Determination: Monopoly and Dominant Firms

- Managerial Challenge: Dominant Microprocessor Company Intel Adapts to Next Trend
- Monopoly Defined
- What Went Right/What Went Wrong: Pilot Error at Palm

READING TOPICS

- The Optimal Markup, Contribution Margin, and Contribution Margin Percentage
- Regulated Monopolies
- What Went Right/What Went Wrong: The Public Service Company of New Mexico
- The Economic Rationale for Regulation

Price and Output Determination: Oligopoly

- Managerial Challenge: Are Nokia's Margins on Cell Phones Collapsing?
- Oligopolistic Market Structures
- Interdependencies in Oligopolistic Industries
- Cartels and Other Forms of Collusion
- International Perspectives: The OPEC Cartel
- Price Leadership
- The Kinked Demand Curve Model
- Avoiding Price Wars

Best-Practice Tactics: Game Theory

- Oligopolistic Rivalry and Game Theory
- Analyzing Simultaneous Games
- The Escape from Prisoner's Dilemma
- Analyzing Sequential Games
- Business Rivalry as a Self-Enforcing Sequential Game
- Credible Threats and Commitments
- Mechanisms for Establishing Credibility
- Replacement Guarantees

Pricing Techniques and Analysis

- Managerial Challenge: Pricing of Apple Computers: Market Share versus Current Profitability
- Optimal Differential Price Levels
- Differential Pricing in Target Market Segments

READING TOPICS

- Pricing in Practice
- The Practice of Revenue Management, Advanced Material

Contracting, Governance, and Organizational Form

- The Role of Contracting in Cooperative Games
- Corporate Governance and the Problem of Moral Hazard
- The Principal-Agent Model
- Choosing the Efficient Organizational Form
- International Perspectives: Economies of Scale and International Joint Ventures in Chip Making

Government Regulation

- Managerial Challenge: Cap and Trade, Deregulation, and the Coase Theorem
- The Regulation of Market Structure and Conduct
- Antitrust Regulation Statutes and Their Enforcement
- Antitrust Prohibition of Selected Business Decisions
- Command and Control Regulatory Constraints: An Economic Analysis
- Governmental Protection of Business
- The Optimal Deployment Decision: To License or Not

Long-Term Investment Analysis

- The Nature of Capital Expenditure Decisions
- The Capital Budgeting Process
- Estimating the Firm's Cost of Capital
- Cost-Benefit Analysis
- Steps in Cost-Benefit Analysis
- Objectives and Constraints in Cost-Benefit Analysis
- Analysis and Valuation of Benefits and Costs
- The Appropriate Rate of Discount
- Cost-Effectiveness Analysis

EXAMINATION
GUIDE

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- FI Sense
- The Economist
- Bloomberg Business week
- Harvard Business Review
- Sloan Management Review

JOURNALS

- The Economic Journal
- Quarterly Journal of Economics
- Journal of Financial Economics
- Journal of International Economics
- American Economic Review
- The Review of Economic Studies
- The Journal of Finance
- Journal of Political Economy
- Journal of Accounting and Economics
- The Review of Economics and Statistics
- The Review of Financial Studies
- Quantitative Economics
- Journal of Management Studies
- Journal of Econometrics
- Journal of Banking and Finance

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QUICK LINKS

- About ICCE exams
- Exams Proctor
- About ICCE Scholarships
- About ICCE Application
- ICCE Fees

SAMPLE QUESTIONS

1. Evidence from empirical studies of long-run cost-output relationships lends support to the:
    A. existence of a non-linear cubic total cost function
    B. hypothesis that marginal costs first decrease, then gradually increase over the normal operating range of the firm
    C. hypothesis that total costs increase quadratically over the ranges of output examined
    D. hypothesis that total costs increase linearly over some considerable range of output examined

2. Break-even analysis usually assumes all of the following *except*:
    A. in the short run, there is no distinction between variable and fixed costs
    B. revenue and cost curves are straight-lines throughout the analysis.
    C. there appears to be perfect competition since the price is considered to remain the same regardless of quantity
    D. the straight-line cost curve implies that marginal cost is constant.

3. In a study of banking by asset size over time, we can find which asset sizes are tending to become more prominent. The size that is becoming more predominant is presumed to be least cost. This is called:
    A. regression to the mean analysis.
    B. breakeven analysis.
    C. survivorship analysis.
    D. engineering cost analysis.

4. George Webb Restaurant collects on the average $5 per customer at its breakfast & lunch diner. Its variable cost per customer averages $3, and its annual fixed cost is $40,000. If George Webb wants to make a profit of $20,000 per year at the diner, it will have to serve____________ customers per year.
    A. 10,000 customers
    B. 20,000 customers
    C. 30,000 customers
    D. 40,000 customers

5. Which of the following is not a limitation of the survivor technique for measuring the optimum size of firms within an industry?
   A. since the technique does not employ actual cost data in the analysis, there is no way to assess the magnitude of the cost differentials between firms of varying size and efficiency
   B. the managerial and entrepreneurial aspects of the production process are not included in the analysis
   C. because of legal factors, the long-run cost curve derived by this technique may be distorted and may not measure the cost curve postulated in economic theory
   D. a and b

6. The primary disadvantage of engineering methods for measuring cost functions is that they deal with the managerial and entrepreneurial aspects of the production process or plant.
   A. true
   B. false

7. Long distance telephone service has become a competitive market. The average cost per call is $0.05 a minute, and it's declining. The likely reason for the declining price for long distance service is:
   A. Governmental pressure to lower the price
   B. Reduced demand for long distance service
   C. Entry into this industry pushes prices down
   D. Lower price for a barrel of crude oil

8. Which of the following statements is (are) true concerning a pure competition situation?
   A. Its demand curve is represented by a vertical line
   B. Firms must sell at or below market price
   C. Marginal revenue is equal to price
   D. both b and c

9. In the short-run for a purely competitive market, a manufacturer will stop production when:
   A. the total revenue is less than total costs
   B. the contribution to fixed costs is zero or less
   C. the price is greater than AVC
   D. operating at a loss

10. A firm in pure competition would shut down when:
   A. price is less than average total cost
   B. price is less than average fixed cost
   C. price is less than marginal cost
   D. price is less than average variable cost

11. Unique Creations has a monopoly position in magnometers. If the marginal cost for a magnometer is \$50 and the price elasticity for magnometers is -4, what is the optimal monopoly price?
    Hint: $P(1 + 1/E) = MC$.
   A. \$37.50
   B. \$41.25
   C. \$66.67
   D. \$75.00

12. A monopolist seller of Irish ceramics faces the following demand function for its product: $P = 62 - 3Q$. The fixed cost is \$10 and the variable cost per unit is \$2. What is the maximizing QUANTITY for this monopoly? Hint: MR is twice as steep as the inverse demand curve: $MR = 62 – 6Q$. (Pick closest answer)
   A. $Q = 10$
   B. $Q = 15$
   C. $Q = 22$
   D. $Q = 37$

13. A monopolist faces the following demand curve: $P = 12 - .3Q$ with marginal costs of \$3. What is the monopolistic PRICE?
   A. $P = \$5.50$
   B. $P = \$6.50$
   C. $P = \$7.50$
   D. $P = \$8.50$

14. Which of the following is a source of market power for a monopolist?
   A. a firm may have a patent or copyright
   B. a firm may control critical resources
   C. a firm may enjoy economies of scale
   D. all of the above

15. If a cartel seeks to maximize profits, the market share (or quota) for each firm should be set at a level such that the _____ of all firms is identical.
    A. average total cost
    B. average profit
    C. marginal profit
    D. marginal cost

16. Factors that affect the ability of oligopolistic firms to successfully engage in cooperation include _____.
    A. number and size distribution of sellers
    B. size and frequency of orders
    C. product heterogeneity
    D. a, b, and c

17. Suppose that in a perfectly competitive industry the equilibrium industry quantity is 10,000 units. Suppose that the monopoly output is 5,000. For a 2-firm Cournot Oligopoly (N =2) known as a duopoly, what is a likely Cournot QUANTITY for the industry?
    A. 3,000 units
    B. 5,000 units
    C. 6,667 units
    D. 10,000 units

18. In a kinked demand market, whenever one firm decides to lower its price:
    A. other firms will automatically follow
    B. none of the other firms will follow
    C. one half of the firms follow and one half of the firms don't follow the price cut
    D. other firms all decide to exit the industry

19. Barometric price leadership exists when:
    A. one firm in the industry initiates a price change and the others follow it as a signal of changes in cost or demand in the industry.
    B. one firm imposes its best price on the rest of the industry
    C. all firms agree to change prices simultaneously
    D. one company forms a price umbrella for all others

20. When airlines post prices on an electronic bulletin board at 8:00 a.m. each morning, the decision-makers are engaged in

A. a single play game
B. a sequential game
C. an entry decision
D. a simultaneous game

ANSWERS

1. D	11. C
2. A	12. A
3. C	13. C
4. C	14. D
5. B	15. D
6. B	16. D
7. C	17. C
8. D	18. A
9. B	19. A
10. D	19. D

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