

MANAGERIAL ECONOMICS

Corrado Pasquali



16. NEW DIRECTIONS

New directions

- New managerial economics is currently developing by moving away from an older focus on questions linked to rational decision making. . .
- . . . and toward ever wider applications of economics to business questions, frequently based on applications of modern organizational economics.
- New managerial economics incorporates insights from the analysis of problems connected with **agency relationships** and **strategic interaction**, and the results of **experimental inquiry**.

Themes

To name a few:

- globalization
- the economics of organization
- information economics
- strategic behavior
- the learning organization
- risk management
- business ethics
- behavioral economics

Handbooks

Brickley, J., J. Zimmerman, and C. W. Smith. 2008. *Managerial Economics and Organizational Architecture* Columbus, OH: McGraw-Hill/Irwin.

Boyes, W. 2008. *The New Managerial Economics* Mason, OH: Cengage.

Lazear, E. P., and P. Oyer. 2009. "Personnel Economics" In *Handbook of Organizational Economics*, edited by Robert Gibbons and D. John Roberts, 479-519. Princeton: Princeton University Press.

Focus on personnel economics

- These handbooks particularly focus on human resources topics, including:
 - information interactions
 - team coordination
 - morale
 - seniority systems

Game Theory

- Game theory has made a tremendous impact on microeconomics generally, and it is unsurprising that this has spilled over into many field studies, including managerial economics.
- Game theory has significant managerial implications since there is a natural desire in business to understand strategic interaction.
- There is no doubt that game theory has brought insights, at least in the understanding of fairly well-contained market situations, such as dominance and pricing, that would be hard to obtain otherwise.
- ...a caveat: feet and ground belong together in managerial economics ...

Case studies

- Other areas where case studies can be relevant include benchmarking, antitrust cases more generally defined, the characteristics of entrepreneurship, and the development of particular organizational forms.
- Caveat: It is now becoming well-known that people filling out questionnaires tend to report themselves as richer, better looking and more interesting than the average person, which is of course impossible in the aggregate.
- Biases are often ignored by questionnaire designers: the value of questionnaires is questionable! (snowball sampling)

Case studies

On case studies and questionnaire, have a look at:

- Masten, S. 1996. *Case Studies in Contracting and Organization*, Oxford: Oxford University Press.
- Ricketts, M. 2008. *The Economics of Modern Business Enterprise* Cheltenham: Edward Elgar.
- Levy, D., and F. Smets. 2010. “Price Setting and Price Adjustment in Some European Union Countries: Introduction to the Special Issue”, in **Managerial and Decision Economics** 31: 63?66.
- Kwapil, C., J. Scharler, and J. Baumgartner. 2010. “How Are Prices Adjusted in Response to Shocks? Survey Evidence from Austrian Firms” in **Managerial and Decision Economics** 31: 151?60.

Business ethics

One text with an explicit focus on ethics and corporate social responsibility is:

Brickley, J., J. Zimmerman, and C. W. Smith. 2008. *Managerial Economics and Organizational Architecture* Columbus, OH: McGraw-Hill/Irwin.

which also links these topics to organizational questions.

Business ethics: CSR

Notable contribution:

Heal, G. 2005. "Corporate Social Responsibility: an Economic and Financial Framework" in **The Geneva Papers on Risk and Insurance** , 30: 387-409.

Heal is an environmental economist now working at Columbia in the field of corporate social performance and public policy, examining the purpose of corporate philanthropy, and particularly focusing on externality and distributional questions.

Behavioral Economics

An argument has grown in favor of recognition that the behavioral foundations of economics lack realism, and that increases in realism can in fact improve theoretical insights and, ultimately, predictions in managerial and other settings.

In practice, the recognition has grown from the results of experimental economics and a certain interaction between economics and psychology.

Ariely, D., G. Loewenstein, and D. Prelec. 2003 “Coherent Arbitrariness: Stable Demand Curves Without Stable Preferences” in **The Quarterly Journal of Economics**, 118 (1): 73-105.

Behavioral Economics

Many of the insights of behavioral economics have arisen in considering problems of rational decision making under uncertainty.

- ▶ The framing of decision making alters decisions,
- ▶ notions of fairness influence behavior,
- ▶ individuals experience loss aversion giving asymmetrically high valuation of losses compared with gains relative to a concave utility function,
- ▶ individuals experience endowment effects over the value of items traded,
- ▶ heuristics are frequently involved in making decisions

Behavioral Economics

Some critics point out that much of the evidence in behavioral economics as applied to strategic decision making stems from experimental studies. However, many works in behavioral economics have now been extended beyond the laboratory. E.G. :

Della Vigna, Stefano. 2009. "Psychology and Economics: Evidence from the Field" **Journal of Economic Literature** 47 (2): 315-72.

Barberis, Nicholas, and Richard H. Thaler. 2003. "A Survey of Behavioral Finance" In *Handbook of the Economics of Finance*, edited by G. M. Constantinides, M. Harris, and R. M. Stulz, 1053-1128. Amsterdam: Elsevier Science B.V.

Camerer, Colin F., George Loewenstein, and Drazen Prelec. 2005. "Neuroeconomics: How Neuroscience Can Inform Economics" in **Journal of Economic Literature**, 43 (1): 9-64.

THAT'S ALL, FOLKS!
Hope you have enjoyed this
class at least as much as I
enjoyed teaching it!