Overview of Today’s Class

• 15.010 Introduction

• 15.010 Class Specifics and Requirements

• Markets
  – Market Definition
  – How Markets are Modeled

• Review Reminder

15.010: Economic Analysis for Business Decisions

• Economics is relevant for many questions facing business
  – What Business Are You In?
  – Pricing? Product Design?
  – Relevant Costs of Producing?
  – New Capacity Investment? Now or Later or Never?
  – Enter a New Market?
  – How Do You Compete?
  – Internal Firm Organization?
15.010: Economic Analysis for Business Decisions

• Economic practice involves principles and modeling for specific answers
  – Mathematical models of economic behavior and interactions, for analysis and prediction
  – You are not here to become a professional economist

• Important specializations of economics
  – Finance, Marketing, Strategy (market strategy and internal organization)

15.010: Economic Analysis for Business Decisions

• Economic Reasoning provides Systematic Approach to Business Decisions
  – Foundation
    • Approach business questions assuming that all relevant participants are going to do the best they can.
    • Interactions governed by economic principles.
  – 1984, 2004, 2024(?)

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15.010 Course Specifics - I

• The big picture: a unified course
  – 15.010 (6 Sloan MBA/MS sections)
  – 15.011 (1 out-of-course section)

• Lectures
  – Style
  – Class Participation

• Recitations

15.010 Course Specifics - II

• Tutorial hours
  – Purpose
  – Schedule (start next week; details in first recitation)
  – Consult any TA

• Exam review sessions
• Faculty office hours
• Handouts in class
  – All on the server (soon after class)
Course Requirements - I

- Syllabus & Readings
- Homework:
  - Full credit when turned in
  - Corrected to give you feedback
  - Suggested approach
    - TRY EACH YOURSELF, ALONE. See where problems arise
    - Discuss/clarify
    - WRITE-UP YOUR OWN SOLUTION
  - No late homework accepted!
  - Good advice
    - Don’t wait!
    - Don’t try for Nobel Prize in literature and graphics

Course Requirements - II

- Exams: Midterm, Final
- Grades (6000 points total)
  - Homework (600 total, 100 each)
  - Exams (1500 midterm, 3000 final)
  - Class participation (900)

- Diverse class & intensive course
  - Value of experience
  - Use resources provided
- Language issues
Market

- But what is a market, really?
  A Place? A Product or Service?
  Which Sellers? Which Buyers?
Market Definition

• Key Concept: Demand Substitutability
  – Products or services in same market if similar in eyes of BUYERS
  – Existing and Potential Buyers Relevant

• Other Primary Concern: Existing and Potential Sellers

• Business Question Drives Specifics
  – Relevant Price Range
  – Relevant Time Frame
Determinants of Demand Substitutability

- Product Differentiation -- Function, Quality, Image

Homogeneous  Differentiated

- Usage Interrelationships
  - Network Externalities

- Information

- Institutional Environment
  - “Rules of the Game”
  - How Transactions Occur

Defining a Market: Some Examples

- Bicycles
- Drinks in the refresher course
Take Away Points

• Economics Provides a Foundation for Business Decisions, in any World

• Market Definition is Key to Pricing and Strategy

• Demand Substitutability (Buyer's View) drives Market Definition
Review Reminders

• You are expected to know:
  – Demand and Supply
  – Market Equilibrium
  – Elasticities
  – Consumer and Producer Surplus
  – Welfare and Efficiency Applications (Quotas, etc.)
  – Basic Perfect Competition
  – Basic Monopoly

For Next Time

• U.K. Credit Card Industry Case:
  – Study the case
  – Prepare answers to the questions distributed