

Ec. 162: General

Ec. 162A

Review, 10/21/82

1. Quotient rule (from other sheet).

2. Skills: - give you power; - help focus goals.

- practice in thinking, Learn how to learn.
- do not become obsolete.
- help integrate, overcome compartmentment-mindedness

3. Mgtl eco.

Links ec. thg to decision sciences

Is normative -- bus. goal-oriented

In B.A., is both tool & integrating course.

4. Goals of Firms

L.R. max. - ~~the~~ not s.r. can flow.

Manager objectives may conflict

L.R. max. a. Tells what shd. do

b. " " life will force to do.

Social resp.

Use what you need & leave the rest

Use prop. to make jobs, give service, pay taxes

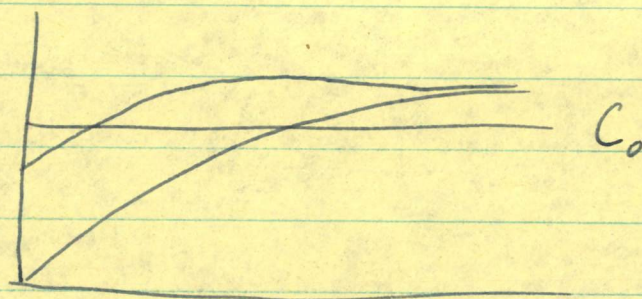
4 areas needing public regu
P.U.

Order supply over buyers
" " labor

Pollu.

~~the~~ Compensating public for use of natural
res. (& other public assets.)

5. Visualizing rule of Mac PV



4 ways to deal w. fnl. relationships

4 kinds of optg problems (actually, are more)
+, -, x, ÷.

6. Total, ave. & marg.

E of prodn = MP/AP

7. Diff. calc.

Ec. 162

Intimidation is half of respect. People are always trying to win by intimidating you.

They want you to feel stupid & shut up.

Your only defense is to know something.

a ton of steel used to produce A shd. produce
as many \$ worth of A as a ton used for B

$$MP_A \times \text{price of A} = MP_B \times \text{price of B}$$

$$\frac{MP_A}{MP_B} = \frac{\cancel{P_B}}{P_A}$$

"MP inversely prop. to price". About the most
difficult of all ways to say it.

$$\begin{aligned} \text{Let } A &= \text{qt} \\ B &= \text{pt.} \end{aligned}$$

$$\frac{1 \text{ qt}}{2 \text{ pt.}} = \frac{1}{2}$$

Ec. 162

Wed. 9/30/81

Refer mid term by 2 weeks.
Scope + Method

Mgtl. Ecs. is applying ec. thry + method to decisions
of instns: business, govt., households, non-profits.

Examples

1. = mgtl. allocn.

Last \$ spent on A brings same returns as
last \$ spent on B. ^{piling up difficulties so they may remove them later.}

Theorists delight in making it even more varified
+ elusive, so it crumbles in your grasp: the ratio
of the $\frac{\text{m.u. of A}}{\text{price of A}} = \frac{\text{m.u. of B}}{\text{price of B}}$ (over)

This is bcs. A + B come in units of different sizes. To make
it even harder they say, "inversely prop. to their prices" (~~last~~)

"Heavy!"

If you think it thru, it's same as saying the last \$
on A shd. bring same as last \$ on B --

or, last \$10 on A shd. bring twice as much as
last \$5 on B, if unit of A costs twice as much.

Or $\frac{10}{7}$ as much as last \$7 on C.

Basically, it says a qt. of paint shd. cover
2x as much as a pt.

≠ Mgtl. in contrast tries to make it operational, i.e. make
it work.

$$\text{Or, } MP_A \times \text{Price of } \alpha = MP_B \times \text{Price of } \beta$$

$$\frac{MP_A}{MP_B} = \frac{\text{Price of } \beta}{\text{Price of } \alpha}$$

Now you can say, MP shd. be inversely prop to prices of products. Heavy!

This says if a unit of linseed oil will produce 2 pts. of paint or one quart. then the qt. shd. cost twice as much as the pt.

2
+ shallow things
deep.

The art of making easy things hard, is "pedantry".
It's the curse of academe.

Found in econ. thg. — if pursued too far.
(Depending on who teaches it.) Beware of people who
dazzle you w. changing apples & oranges — they're ~~probably~~ (over)
Mgt. gets down to cases.

How do corps. allocate capt? Hurdle rate
of return, screens out all making less.

City of Riverside -- a novel idea. Capt. is
allocated "politically".

What is the rate of return? After mid term.
It is gain, reduced to a standard measure on a
yrly. basis. (This is what finance is all about.)
(Not max B/C, not ~~max~~ fastest payback, not max. sales, but
max. rate of return.)

2. But the word "last" almost got lost in
the shuffle. It's not just that all stud. yield
the same, overall, but at the margin.

E.g., can't use Hoover Dam to justify
Ark-Frying Pan Project, or Albuquerque wtr. supply
boondoggle.

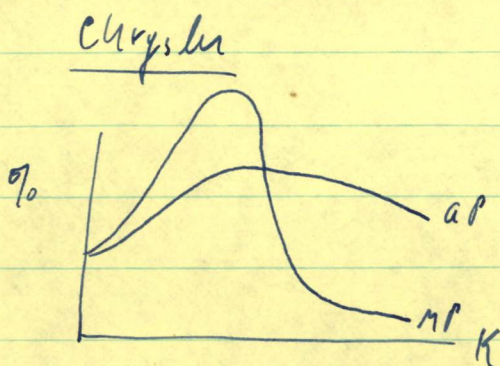
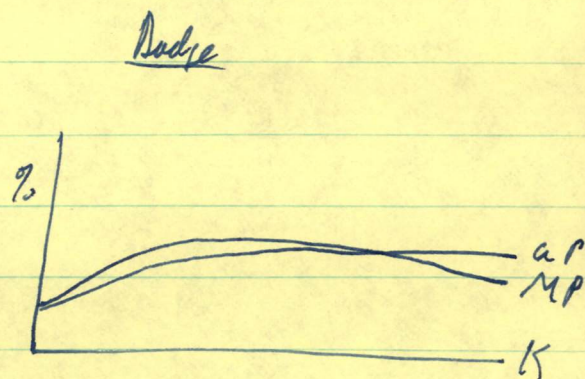
making much ado about nothing, but that's
all they have. Get right down to standard
units. The 2 most standard ones we
have are the \$, & i.

Doesn't mean people don't try

I was Testifying -- Cong. Comm. --
dumb Senator from Idaho, Lem Jordan --
Hoover Dam.

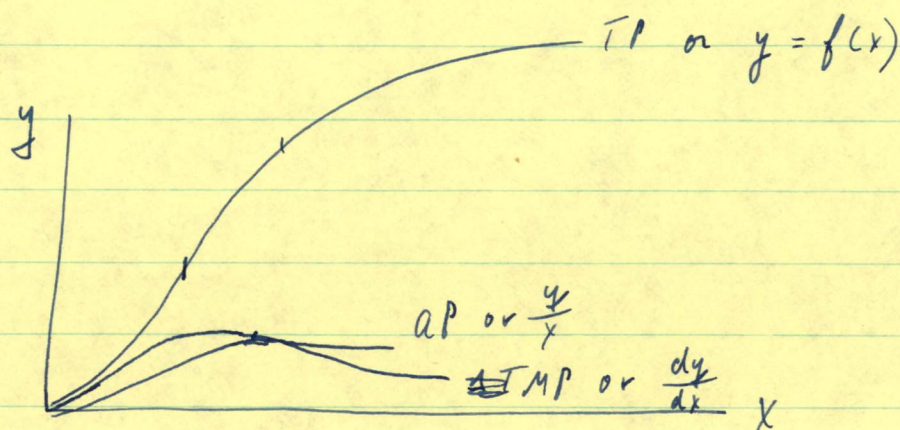
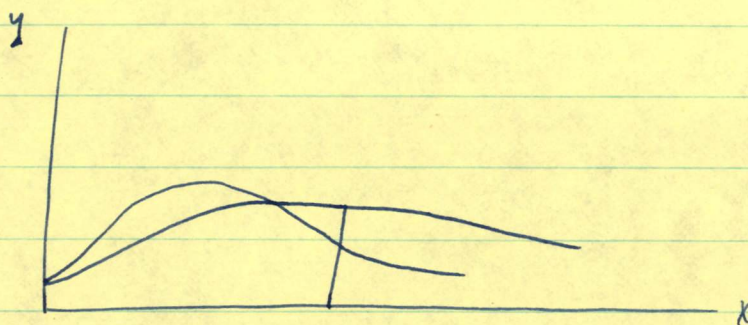
Or say you're heading the Dodge Truck Div.
Head of Chrysler Div. makes his pitch for more
money. He makes 29% ; you only 20%.

But

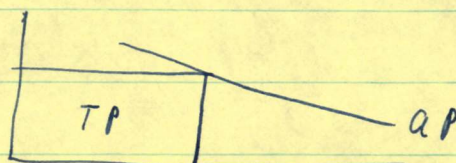
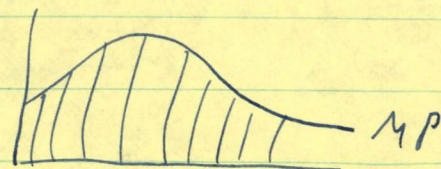


Methods

Most basic idea in ec. thg, constantly coming up, is relation between an curve + a rect.



TP also shown 2 other ways.

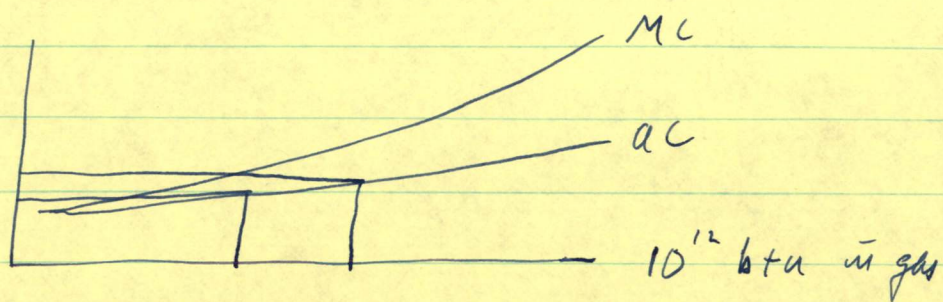


MP shown 2 ways

a. Slope of TP, rise over run.

b. Difference of rectangles.

Case of rising costs, gas pricing, + diff. of rectangles



S + Z, Chaps 1-3. Big points

1. Rational. Goals. Logical processes.
Seem obvious, but you can't assume them.
E.g. a. Intuitive decisions are common. ‡
b. Swept along in mass, mob psychs. -- buyj s.e.
in 1980.
c. Believj people bcs. they say right codewords,
are big shots, support Israel, hate Jane Fonda, etc.

2. Framework
 - a. Context, Problem, + goals.
 - b. Alternative actions. Info. sources
 - c. Predicting consequences.
 - d. Valuing " (as basis for traded/s)
 - e. Conclusion.

✓ ‡ Power grabbers resist all systematic frameworks, bcs. they
limit power, give yardsticks for mstrj performance.
Power grabbers put down models, saying "No one can predict." So stick w. status quo,
or current fad.

2
Current fad is often called conventional, e.g., nuclear.

3. Models

a) Focus on essentials, discard incidentals.

b) Types of models, some e.g.s. T-Formation; chalk-talk.

Flow charts

Decision Trees

Percentage, ("Long division")

Feedback

The common.

Compound interest

c) Models w. human names.

Great for snow-jobs. "The familiar Dushkin-Kossovitsky model, as modified by a ^{Long} Friedman-Mitford & Ventrella."

d) Descriptive & Prescriptive Models.

Gravity is Descriptive. Same as "positive"

Interest is descriptive; max. i is prescriptive.

Prescriptive can be preaching. Can also be interesting, e.g. shd. goal be to max PV or IRR?

e) Deterministic v. Probabilistic Models

(Chalk-Talk plays one given as deterministic, turn out to be probabilistic)

Ec. 162A, F-82, 10/5/82

1

1. Exams. grades. Blue books.

1st	Mid.	Th.	10/23	1/4
2nd	Mid.	Th.	11/11	1/4
Final		Th.	12/16	1/2

Plus extra credits
for good partic. in class
(+ rarely, neg. credits
for wasting class time;
also for absences.)

Also Quizzes, 5 min.

" Problems, self-grading.

2. Texts B & P; S & Z

Calcs. (powers, logs)

3. Assmts. to 1st Mid.

B & P S & Z

1. ~~BP~~ Overview & Intro

1 1, 2, 3

2. Optimiz.: Princ. & Tech.

2 4

3. Time & Interest

App. A. 13
~~15, 16~~ 10, (4)

Read remainder (attached)

4. Overview.

A. A course in skills, techniques -- those used to apply theory to practice.

Why skills & techniques? What value?

1. They give you power

a. How not to be intimidated. ~~Strong~~

Life is dominated by people who have techniques for making you shut up -- feel stupid, disoriented.

Many people ask for this. "Ask the Engineer, Lawyer, Dr., the General etc." It takes work to stand up to this. But they'll bankrupt you if you don't. WPPSS e.g.

But w. mgt. skills you can evaluate their work vs. standard ref. norms. E.g. ROR, SONGS case.

b. How to intimidate.

i. An abuse.

Many begin too soon. Mutual snare jobs, mutual contempt, no real comm.

ii. Positively, use to exercise leadership.

Those who look to authority will treat you that way;

Others who want to understand & participate will work with you. Then you can really move.

c. They help you form goals

E.g. shd. we cut back all energy use 10%? Cut down pool heaters? Raise rates? Change rate structure?

Need goals to make sense, maintain leadership. A silly goal will, ~~at~~ presently, be seen as silly.

~~Like~~ Like Holmes & Watson: models in yr. mind help you decide.

2. They give you practise in thinking - about real things. The kind of thinking that life requires

- in business
- in govt.
- in personal lives.
- as a citizen & voter

a. ~~Teach~~ Teach you how to concentrate - bring yr. powers to focus.

Concn. is a habit, not a gift.

Referring back to 1, c, focusing on a goal stiffens yr. attn. + yr. will.

It may be profit; or a social ideal. Either one demands the same qualities of attn. The world is mainly dominated by one or the other -

Exams. are useful for this. Even cramming is good - (but only if you have something to cram.) Cramming is active; reading is often passive. Read actively as tho you were cramming.

Solving problems also good for this. (Formal proofs are one sort of problem, + valuable so you really understand what you are doing + won't go haywire. But useful tools are ~~also~~ what we emphasize here. for solving problems.)

3. Skills are not subject to obsolescence. Last a lifetime. Based on enduring + transcendent principles, indep. of technology.

E.g. ROR; valuation
dim. rets.

Opt. mix

Elast. of demand

~~But~~ But even math. changes -- e.g. new math, defn. of log, binary system. The most enduring thing you learn is how to learn -- the habit of learning.

How to learn includes how to change your mind. If you don't change yr mind about something in this course, you haven't learned how to learn.

4. Ec. skills help you overcome compartment-mindedness, or fundamentalism. Trade-offs. See whole systems.

5. Telly. is predicting -- you will find subject useful.

Ec. 162

Intro. ideas.

~~Q45~~

~~1. Selig's method. Is complete?~~

A course in techniques, ^{skills}. Value of techniques -

~~1. How not to be bamboozled.~~

~~want you to shut up, feel stupid. get intimidated, by smoothies or slogans. They only defend. know something.~~
In negotiations; in argu.

~~2. How to form goals.~~

~~3. Aids to clear thinking. Practise in thinking; applying thinking to practical problems.~~

~~4. Models become mental images, that later control what you see. Like Holmes + Watson. What you observe depends on yr. capability.~~

~~5. How to concentrate. This is a habit, not a gift. Focus on a goal. Strengthen the attn. + the will.~~

~~Profit, or an ideal. Either one is a goal. Either one makes you pull it together; hence the world is mainly dominated by people thus focused.~~

2

6. Exams are to ~~help~~ give you practice in concentrating, focusing.

Passive rdy. is of little value.

7. Solving problem is best way to learn. (Formal proofs are for specialists. Useful tools are our need.)

8. The methods of ~~learning~~ + scholarship + of business are much alike: orgg, filing, coming to decisions.

9. Mgmt. means o'coming compartment-mindedness.

- See how things relate

- See universal guides, apply consistently
E.g. Target r.o.r.

10. Learn principles, not subject to dogmatism.

E.g. r.o.r.

~~dom.~~ rets, opt. mix of inputs

But modify + apply them to modern times,
how to earn a liv; -- as indiv, + as society.

cf. 13.

11. Learn to ask the rt. qns.

12. Goal of edu. is learn to cope w. yr. env. - solve real problems. Is what Mgt. Ecs. ~~is~~ is all about.

13. Most of what you learn is quickly obsolete. Even the ~~best~~ enduring principles must be reapplied, modified for new conditions.

The enduring thing you learn is how to learn.

14. How to learn includes how to change yr. mind. If you haven't changed yr. mind about everything by end of course, you haven't learned how to learn.

15. Much ec. thg. is metaphysics - not ~~not~~ info. but pure thought, highly speculative. Refined & unapplied, w. its own special rules & terms, unapplied to real life.

13. Even math. learning changes.

a. New math

b. Old & new ways of defining, etc.

15. Applied ec. lacks cultural respectability bcs. it can have a practical effect on yr. behavior; claims no magical powers.

16. Telug. is predicting: — that subject will be useful for you to know.

100A is desirable

100A is ceremonial, nationaliz. of system.
162 is applied.

100A ~~I~~ neglects elements of time + ^{Turnover}
space. May not even be good philosophy.

162 prepares you for decisions -- when to
roll the dice. What makes ec. move are
a bunch of people w. little wads of cash
deciding to plunge.

14,

Sci. is mskmt.

Loss values + in kind values.

2 ways to mskc AEF.

Geom. Max. area inside rect, prim. = 400
 $A+B = 200$

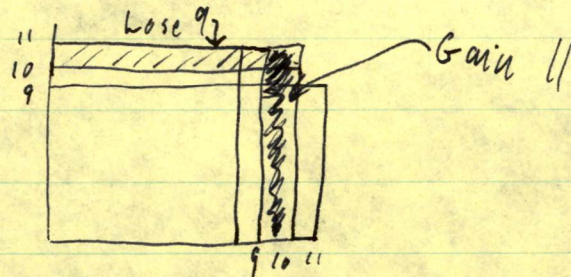
$$\cancel{10 \times 10} = 100$$

$$\cancel{100 \times 100} = 10,000$$

$$1 \times 19 = 19$$

$$10 \times 10 = 100$$

$$9 \times 11 = 99$$



B. Social responsibility of business.

1. Absentee owners show what happens when prop. owners shirk their civic duties.

Others org. + dump on them:

- Taxes
- rent control
- unions
- theft

Udell

En. Ownership.

2. "Business" is not sole cause of polln. Indivs. pollute, too.

- Smoking. (they get help from business)
- Squawk boxes
- P.A. systems
- Power mowers
- Car mufflers
- Loud parties
- Frisbie games
- Speed boats
- Litter
- a TVs.

So, why does "business" get blamed? Bus.
business associates itself w. the mindset & world-view that
trespass, appropriation & aggression are good & manly things;
that freedom & license go together.

E.g. the right of KKK to invade.

Behind most pvt. polluters there is a mfg lobby:

Cigarette indy.

Radio mfg.

Truck's lobby

Bottle & can makers

Etc.

They lead vs. efforts to protect public.

They want to have the fun, & let someone
else clean up their mess. They cherish luxury of
perpetual adolescence.

Like absentee ownership, this will result in
others' taking power. "Business" that lose will
then play the cry-baby for a while, preach vs. Jane
Fonda & Ralph Nader. In long run they had
better shape up & meet the demand for clean
environment, rather than fight it. Meeting demands
is what business is supposed to do.

5-
C. Mgrl. Ecs. + Job Opps.

You study Ad, Sci, bus. you want employability.
Five. But yr. employability depends on 2 things.

a. Indiv. skills. We give you them.

b. Job climate in the world out there.

Will comment on this ~~from~~ now + then.

Yr. generation is going to have to organize politically to fight yr. own job battles, bcs. you're being abandoned by the Gray Panther crowd.

✓ Sabre-Tooth Cunic. on nerve

Mgrl

Lib.

J. of Acctg. + Ecs.

J. of Bus.

J. of Ecs. + Bus.

J. of Indl. Ecs

9/27/83

1. 4 ways to deal w. functional relationships.

a. Algebra

b. Tables of nos.

c. Graphs

d. Calc. or computer.

2. ~~Optimizing~~ vs. max'g.

Can't max. 2 things at once. Tradeoffs.

a. Max. sum

b. Max. diff.

c. Max. product

d. Max. quotient

e. Other, endless possibilities
Max power fn.