Governors State University  
College of Business and Public Administration  
Economics 420: Managerial  
Winter 2001

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TR: 1:30 to 3:30 p.m.                           Secretaries:  
Or by appointment                           Econ: Ms. Kennedy, Ext. 4930  
Telephone: 708.534.4058                            Location: Room C-3310

## Summary of Syllabus Contract

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**RATIONALE:**

The undergraduate student must be competitive in skills and tools. Major components of the business student's toolkit are analytical and problem solving techniques. The analytical part takes into consideration the use of mathematics, statistics, and economic theory to develop and frame problems for making business decisions. Managerial Economics provide the quantitative tools necessary to develop and frame problems and, more importantly, to forecast their outcomes.

The course also provides a quantitative edge, which is increasingly important in the private sector. Forecasting and problem-solving capabilities are skills in demand by the private sector. Mastering the tools and methods presented in this course ensures success and job mobility in the future.
COURSE BACKGROUND

Economics 420, Managerial Economics, is a one-trimester, three credit hour, undergraduate graduate course that applies economic theory, calculus, and statistical methods to business administration. The course combines mathematical economic theory and forecasting with managerial practice; that is, the use of econometric analysis in the formulation of business policies. The course covers topics on supply and demand, demand estimation and forecasting, costs of production, linear programming, output and product markets, break-even analysis, capital budgeting, risk and uncertainty, and international considerations.

The course is divided into three parts with six major topic areas. **Topic Area One** provides an overview of managerial economics and the quantitative tools required for the course. Under this topic we will review the concepts of differentiation, partial differentiation, and introduce the tools of matrix algebra. Each of the quantitative tools is used extensively in the following subsequent areas. **Topic Area Two** introduces Consumer and Demand Theory, which concentrates on methods and models used to estimate and forecast demand using the standard linear regression model and its extensions. **Topic Area Three** focuses on production and cost theory, technological change, industrial innovation, and ends with an examination of Linear Programming. **Topic Area Four** examines market and product structures, strategic behavior and pricing. In **Topic Area Five** I introduce Risk Analysis and Capital Budgeting Techniques used for short- and long-term investment and planning decisions. Finally, in **Topic Area Six**, we examine the role of the Government-Business relationship in a closed and open (global) context.

**PREREQUISITES:** Economics 301 and 302, Math 355 (Applied Calculus), and Statistics 362 (Statistics for Management II). All prerequisites must be completed unless you have permission of the instructor.

**REQUIRED TEXTS**

Eviews Software, Version 3.1 by Quantitative Micro Software, Telephone: (949) 856-3368

**SUBSIDIARY READINGS**


**INTENDED AUDIENCE:**

This course is offered to upper level undergraduate students, especially those that have fulfilled their calculus and statistics requirements. Students that have not successfully completed all prerequisites may find that a passing grade is not in their realm of achievement.

Classroom: A-1121
SUPPLEMENTAL READINGS AND QUANTITATIVE REQUIREMENTS

Additional readings will be assigned to supplement the material in the required texts. When supplemental readings are assigned, they are considered required reading.

It may be helpful on occasion to refer to a basic economics, calculus or statistics texts to supplement, clarify, and further explain theories and other conceptual material found in the readings and presented in class. The course assumes students have completed all necessary prerequisites including the qualifying examinations in mathematics.

EXPECTED STUDENT OUTCOMES

Upon completion of this course, the student should be able to (1) describe the neoclassical theory of the firm, (2) use regression analysis to estimated demand, cost, and production functions, (3) model and develop econometric models using time series data and econometric software programs, (4) use break-even, capital budgeting techniques and risk analysis for assessing the firm's development and competitive strategies, and (4) incorporate all of these tools as practical management techniques in the decision-making process. More importantly, the student should have substantially increased problem solving, analytic and analysis techniques.

INSTITUTIONAL MODALITIES/ACTIVITIES:

The Course will consist mainly of lectures and class discussion with homework exercises. All homework assignments are due one week from the assigned date. All homework is expected on the due date. Late homework will not be accepted. (See Fax number above for difficulties.) Students are expected to attend each class, read material prior to class, and to entertain the instructor with their knowledge of the course material.

GRADING

There will be weekly homework assignments with class discussion (20%), two mid-trimester examinations and final examination (60%), and an industry analysis with in-class presentation (20%).

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<th>Grading Scales is:</th>
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<td>Honors : A+</td>
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<tr>
<td>Above Standard</td>
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\[
\text{FinalGrade} = 0.20 \left( \frac{HW \& CD}{9} \right) + 0.60 \left( \frac{Exams}{3} \right) + 0.20(\text{Paper & Presentation})
\]

Not all homework is graded but is noted when turned in. Also, there is some subjectivity in the grading process based on class attendance, quality of work, and turning assignments in on time.

Classroom: A-1121
WRITING ASSIGNMENTS:

The course requires a significant amount of writing and the expectation is that graduate students be able to demonstrate their writing ability in their work. All assignments, except quantitative exercises, are to be typed using rules of grammar flawlessly and to write well-organized and comprehensive papers. All assignments are to be organized sequentially and presented in a format, which includes

- cover page containing the student's name,
- title of class, section,
- and the number of the homework and assignment.

Each question should be stated with the answer following. Pages are to be numbered and all references and/or documentation should be appended appropriately.¹

Whichever style you choose to use (Chicago Manual of Style, American Psychological Association, Modern Language Association, etc.) is up to you. If you need help please purchase or check-out guidebooks from the GSU Library on report writing. Examples of such aids are Barron's How to Write Themes and Term Papers, Turabian's A Manual for Writers of Term Papers, Theses, and Dissertations, or the Harbrace College Handbook. Students who have little or no experience in writing research papers meet with Dr. Becky Nugent, Writing Center Coordinator in Student Development, Governors State University.

Format and Style For Research Papers

Dr. Becky Nugent, Writing Center Coordinator
In Class APA and Writing Presentation
To Be Announced!

All written assignments will be graded according to the following guidelines:

Above Standard:

A paper in this category will complete all tasks set by the assignment. It will be distinguished by lucid and orderly thinking, and may even introduce an original interpretation of the writing topic. It will be virtually free from errors in mechanics, usage, and sentence structure. There will be evidence of superior control of language. Finally, the paper will clearly show integration of the relevant topic areas covered in the course.

Standard:

¹ See Ethical Behavior, page 3.
Papers falling in this category may slight, but not ignore, one of the tasks of the assignment or deal with it only by implication; however, the writer will demonstrate a clear understanding of the topic. The paper will exhibit minor weaknesses in interpretation of the theory but will be free from errors in grammatical and sentence structure.

**Qualifying:**

Papers in this category show serious difficulty managing the tasks of the assignment and definite weaknesses in analytic thinking. Failing to integrate, in an acceptable fashion, concepts in the topic areas of the course will evidence this. Additionally, the writer's control of language will be uncertain and error prone with respect to grammatical and sentence structure.

**Below Qualifying:**

Papers in this category will fail to come to terms with the assignment by ignoring tasks. Also, there will be clear lack of understanding relevant concepts and their integration into a clear analytic and problem solving framework. There will be serious and frequent errors in sentence structure, usage, and mechanics, given the impression of distinctly inferior writing.

**Non Qualifying:**

This category is reserved for the paper in which a combination of errors, conceptual confusion, and disorganization creates the impression of an inability to hand the material at this level of analysis and/or sentence and grammatical structure is seriously below that expected for graduate students.

**COURSE METHODOLOGY:**

The framework of analysis consists of lectures that provide the fundamental content of theories and concepts in the textbook and readings. The lectures will disseminate the most important elements and concepts; however, students are responsible for all readings and completing all homework assignments. The course focuses on the principle concepts and, more important, the practical application of the concepts using tools derived from the coursework. A critical element of the course is the development of critical analysis and problem solving skills. Much of this will be accomplished using both qualitative and quantitative methods so it is extremely important to develop problem solving capabilities to be successful in this course. Thus, problem solving and interpretative skills are part of the toolkit derived from the successful completion of this course.

**THE PARTICIPANTS ROLE IN THE COURSE**

To achieve the highest standard in the course, A, the student will average 93 on homework and examinations. Students averaging higher than 96 are recommended to the Dean of their college for honors consideration. *To master course work require a minimum of three (3) hours of study for every hour of classroom time; that is, students should expect to spend 9 to 12 hours per week outside of class to prepare for each week's class sessions. It is expected that you will plan your study, work, family, and leisure time accordingly.*

The instructor provides over 11 hours of office hours on a weekly basis. It is recommended that students first meet with the instructor if there are any questions regarding course materials.
Students may also receive assistance by calling and leaving questions on the instructor's voice mail (708.534.4058) at any time of the day or night, and your questions will be answered at the instructor's earliest convenience. Students requiring additional assistance may consult the Student Center in Room B-1201 or call 708.534.4090. The Student Development Center provides tutorial assistance in economics, English, and mathematics.

You will demonstrate your mastery and understanding of the course material through class participation and discussion, the homework assignments, the mid-trimester and final examination, and the industry analysis report. If it becomes apparent through class discussion that students are not current with assigned readings and/or are not coming to class adequately prepared, one or more one-hour essay exams on the assigned readings will be given.

- Attendance and Participation

You are expected to attend class, thus there are no excused absences. Because of the nature and quantitative it is imperative that you not miss any classes. As a student studying for a professional degree you are expected to act in a responsible manner to ensure your attendance in, preparation for, and participation in class. If you are ill, encounter a family emergency, or have a job assignment that requires you to be absent, due allowance will be given. However, you are responsible for notifying the instructor and the Divisional Chair (708.534.4960) of any impending absence and arranging the timely completion and submittal of any assignments. Attendance will be taken if necessary. Your record of attendance and class participation determines approximately five percent of the homework and discussion allocation.

- Homework Assignments

All homework assignments, as indicated above, are due the day requested. Late homework will not be accepted. You may fax, e-mail, or have hand delivered by the due date (or prior to) if you are to be out of town and/or away on business. All homework should contain a typed cover-page that includes the student's name, SSN, CARS ID number, assignment number, and due date. If the homework is considered quantitative it does not require typing (but the cover page does require typing); however, all other written assignments are expected to be typed.

- Ethical Behavior

Each student is expected to follow the University's requirements as published in the University Catalog, 1997-1999 for Academic Honesty (page 34) and the University Policy on Academic Honesty, which appears in the Student Handbook. Students are expected to fulfill academic requirements in an ethical and honest manner. This expectation pertains to the following elements: use and acknowledgment of the ideas and work of others, submission of work to fulfill course requirements, sharing of work with other students, and appropriate behavior during examinations.

About the Instructor:

Anthony Paul Andrews is Professor of Economics and Liberal Studies, holding a joint appointment in the Colleges of Business and Public Administration and Arts and Sciences. Additionally, he is Research Director in the International Business and Global Grade Research Classroom: A-1121
Anthony Paul Andrews, Ph.D.
CBPA/CAS

Institute at GSU, responsible for econometric policy modeling. He received his B.A. in economics from Hampton Institute, and the M.A. and Ph.D. from the University of Pennsylvania, specializing in Econometrics/Statistics, Location Theory, and Economic Planning Theory.

Dr. Andrews has held economist positions with the Bureau of Economic Analysis in the Department of Commerce and the President's Council of Wages and Prices, both in Washington, D.C. He was Director of Development Planning for the State of Ohio and continues to consult for local, state and national governments through his consulting firm, Develop-Metrics (Pty) Ltd. Recent consultancies include stints with the Central Bank and Ministry of Finance and Development Planning for the Government of Botswana, the United Nations Development Programme (UNDP), International Labour Organization (ILO), Deloitte-Touche, and short-term consultancies in Guinea, Kenya, Sierra Leone, Zambia, Zimbabwe, the Food and Agricultural Organization in Rome, Italy, and the Oxford Food Research Institute, Oxford University.

Research interests: (1) cointegration analysis of time series, (2) forecasting and expectations indices, (3) labor market and firm location theory, (4) economic development planning, and (5) applied microeconometrics.

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Readings Schedule

**Part I: Review of Demand, Markets, and Calculus**

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Classroom: A-1121
Anthony Paul Andrews, Ph.D.
CBPA/CAS

8 JANUARY
Monday

1.1 Course and Student Requirements
1.2 A History of the Theory of the Firm
1.3 The Scope and Method of Managerial Economics
1.4 The Efficiency of Markets
  1.4.1 Competitive Exchange
  1.4.2 The Neoclassical Model of the Firm
    1.4.2.1 Profit Maximization
    1.4.2.2 Maximizing Wealth of Stockholders
    1.4.2.3 Non-economic Objectives
1.5 The Principal-Agent Problem

Homework Assignment 1: Business History from the Microeconomic Perspective

Dr. Martin Luther King's Birthday: No Class

22 January
Monday

Lecture 2: Demand Theory and Theory of the Firm

2.1 The Market and Industry Demand Curve
  2.1.2 Types of Elasticity: Arc, Cross, and Income
  2.1.3 Elasticity and Total Revenue
  2.1.4 Applications

29 January
Monday

2.2 Theory of the Consumer and Rational Choice Theory
  2.2.1 Utility Function
  2.2.2 Budget Constraint
  2.2.3 Optimal Consumption Bundle

2.3 Theory of the Firm and Production Behavior
  2.3.1 Production Function
  2.3.2 Cost Function
  2.3.3 Optimal Input Combination

Lecture Topic Chapter/Source

5 February
Monday

2.4 The Analysis of Costs
  2.4.1 Short Run Analysis
  2.4.2 Long Run Analysis
  2.4.3 Break-Even and Shut Down Analysis

Classroom: A-1121
2.4.4 Productivity: Single- and Multi-Factor

Homework Assignment 2: Elasticity and Total Revenue

12 February Monday

Lecture 3: Market Structure, Power and Concentration

3.1 Market Structure Review
3.1.1 Perfect Competition
3.1.2 Imperfect Competition
3.1.2.1 Monopolistic Competition
3.1.2.2 Oligopoly
3.1.2.3 Monopoly

3.2 Market Power and Concentration
3.2.1 Monopoly Power
3.2.2 Market Concentration

3.3 Firm Integration
3.3.1 Horizontal Integration
3.3.2 Vertical Integration

Homework Assignment 3: Concentration in an Industry Context

Part II: Mathematical Economic Theory and Applications

19 February Monday

Lecture 4: The Mathematics for Economics of the Firm: Part I

4.1 Tools: Graphs, Charts, Data and Models
4.2 Mathematical Models in Economics
4.2.1 Review of Mathematical Functions
4.2.1.1 Variances Functions and Slopes
4.2.1.2 Functional Forms
4.2.1.3 Mathematical Systems
4.2.2 Summation and Factorial Notation
4.2.3 Differentiation
4.2.3.1 Definition of the Derivative
4.2.3.2 Rules for Differentiation of One Independent Variable
4.2.3.3 Functions of Several Variables
4.2.4 Optimization
4.2.4.1 Unconstrained Optimization
4.2.4.2 Constrained Optimization
4.2.4.3 Comparative Statics

Homework Assignment 4: Mathematical Exercises Number 1

Mid-Trimester Examination I: Lectures 1 - 3
Thursday 26 February 2001

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Classroom: A-1121
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6.4.2 Developing a Cost Function Model
6.4.3 Developing a Production Function Model

Homework Exercise 6: Interpretation of Statistica Results

19 March Monday

7 Times Series Analysis and Forecasting

7.1 Introduction
7.1.1 Business and Economic Forecasting
7.1.2 Leading Indicators and Econometric Models
7.1.3 Decomposition of Time Series
7.1.4 Stationarity: Auto- and Partial Correlation Functions

7.2 Estimation of the Demand Function
7.2.1 Single Equations Estimation
7.2.2 Demand Systems
7.2.3 Estimating Elasticities

7.3 Estimation of Firm Production Functions
7.3.1 Single Equation Production Function
7.3.2 Estimation of Cost Curves and Cost Function

7.4 Technical Change and Productivity

Homework Exercise 7: Estimating Demand, Production, and Cost Functions

26 March Monday

Lecture 8: Pricing Techniques

8.1 Cost-Plus Pricing
8.2 Single Product Firms
8.3 Multi-Product Firms
8.4 Price Discrimination
8.5 Transfer Pricing

Mid-Trimester II Take-Home Examination: Lectures 4 - 7
Due: 26 March 2001


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Classroom: A-1121
9.2.2 Standard Deviation
9.2.3 The Coefficient of Variation
9.3.4 Risk Adjusted Discount Rates (RADR)
9.3.5 Certainty Equivalents

Homework Exercise 8: Industry Analysis Due

9 April Monday

Lecture 10: Capital Budgeting Techniques Chapter 15

10.1 The Investment Selection Process
10.1.1 Project Evaluation
10.1.2 Cash Flow and Cost of Capital
10.1.3 Present and Future Value
10.1.4 Estimating Cash Flow

10.2 Sources of Funds
10.2.1 Debt
10.2.2 Equity

10.3 Capital Asset Pricing Model (CAPM)

10.4 Cost of External Equity

10.5 Weighted Cost of Capital

10.6 Capital Budgeting Under Risk

Homework Exercise 9: Capital Budgeting

16 April Monday

Review Session

23 April Monday

Final In-Class Examination – Comprehensive

April 2nd Industry Analysis Due
26 April Grades Due to Registrar by 12:00 noon.

Third World Conference

A course for students interested in international issues, The World Conference Program is an elective, which satisfies the international elective for CBPA and CAL. The course brings over 150 students from universities across the state and 150 faculty, business, and government leaders for presentation and discussion of topics important to Third World Economies of Africa, Asia, the Caribbean, Eastern Europe, and Central and Southern America Global Political Economy, 3 Credit Hours.

Development: Critical Issues for the 21st Century
March 21-24, 2001
Swisshotel
Chicago, Illinois USA

Classroom: A-1121
For 26 years, the Annual Third World Conferences have been dedicated to discussion and study of global development, particularly in the Third World. Driven by the strong belief that development in Third World and their Diasporas is indispensable to global prosperity, thousands of scholars, activists, governmental and nongovernmental representatives, students and other interested participants have come from countries around the globe to the annual conferences to debate key issues and seek solutions.

The 25th Annual Conference, with an inspiring keynote speech by 1998 Nobel Prize winner in economics Professor Amartya Sen, represented a landmark in our quest for development in the 20th century. At the 26th, Northwestern Emeritus Professor Jan R. Carew's keynote speech provided a penetrating analysis covering truths at the end of one century and the beginning of another. The Conference will continue to comprehensively examine the complexity of global, regional and local development. As we enter the 21st century we believe that the basic development issues still not fully addressed in Third World and Diaspora areas remain the most significant problem facing human kind. Furthermore, the technological revolution in information and communication has allowed us to comprehend, better than ever, the real meaning of global interdependence, and though comprehensive development was not achieved in the 20th century, the "Global Village" is today seemingly a possible destination rather than an improbable dream. As we become one global community, development, especially those aspects that relate to unanswered needs should move to the forefront of the social agenda for the 21st century. With this aim, the 27th Annual Third World Conference seeks to provide a forum for presenters and participants interested in formulating such an agenda. That is, we invite participants from different perspectives and backgrounds to explore critical issues and challenges of new development, foresee development alternatives and present creative blueprints for the new century's global communities. The deadline for submitting three copies of the abstract, 300 words or less is January 30, 2001.

For more information see: [www.twcsinternational.org/callsforpapers.html](http://www.twcsinternational.org/callsforpapers.html)