

## Overview of Today's Class

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- 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

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- 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

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- 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

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- 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(?)

## 15.010 Course Specifics - I

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- 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

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- 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

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- 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

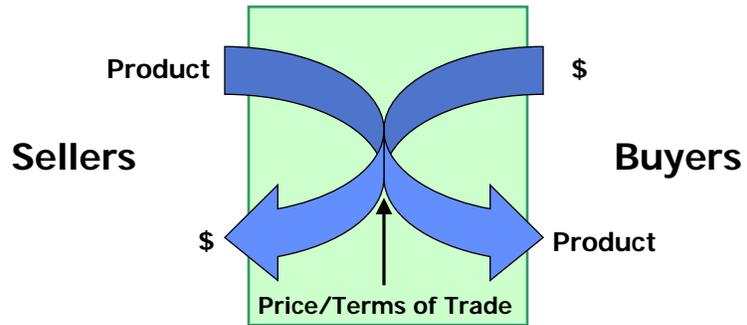
## Course Requirements - II

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- 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

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

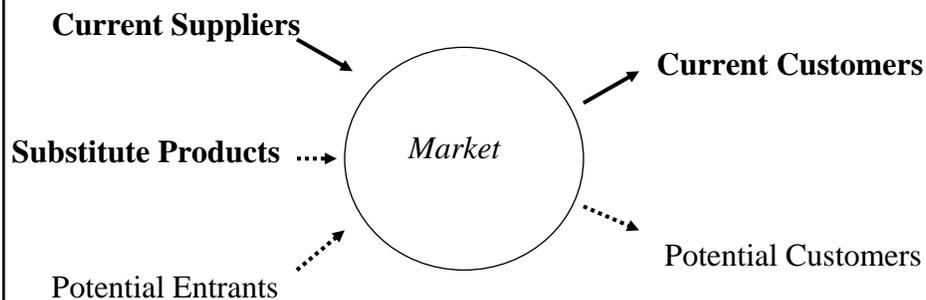
## Market Definition

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- **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

## Market Definition

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## Determinants of Demand Substitutability

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- Product Differentiation -- Function, Quality, Image

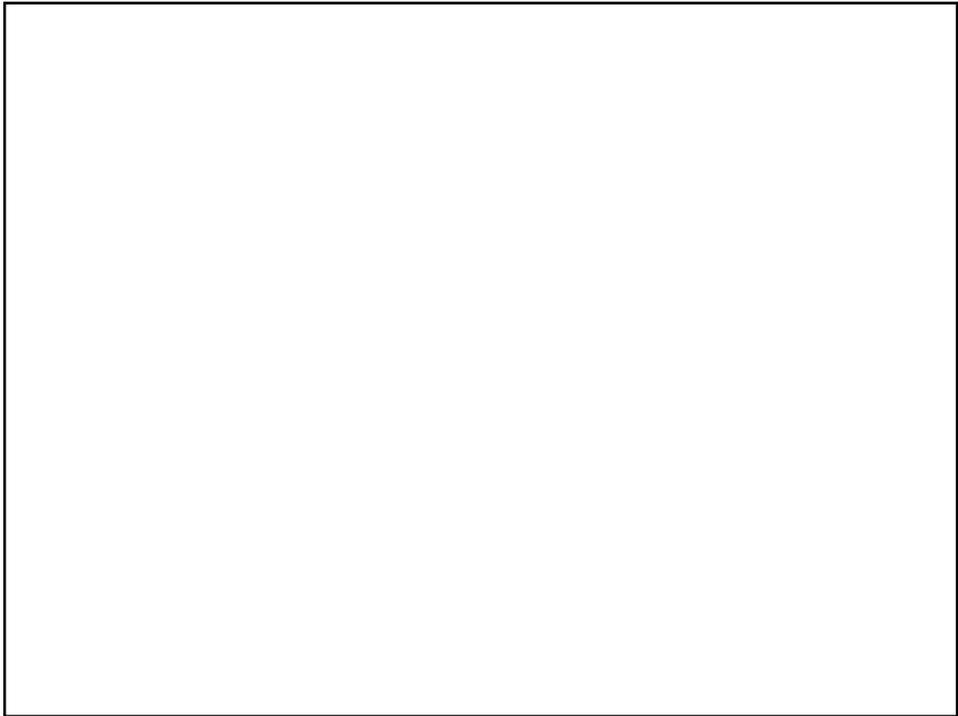


- Usage Interrelationships
  - Network Externalities
- Information
- Institutional Environment
  - “Rules of the Game”
  - How Transactions Occur

## Defining a Market: Some Examples

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- Bicycles
- Drinks in the refresher course
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## Take Away Points

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- 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

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- 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

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