From Ford to Friedman: Teaching Microeconomics to Business Students

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ABSTRACT

Teaching microeconomics to MBA students offers a unique set of challenges and opportunities to instructors. That is, the process of teaching business students may differ considerably, but in predictable ways, when compared to the classroom experience commonly found in liberal arts programs. While it is certain that all students are consumers, most MBA students possess, or are in the midst of obtaining, a mindset characteristic of firms and producers. As a result, some topics can be reframed within this producer-focused mindset in order to be particularly effective. For instance, elasticity discussions can be reframed by stressing the goal of revenue generation for producers, and elasticity’s role in supporting this task. Additional differences experienced when teaching MBA students include a larger variation in the skills, background and motivation of students. This note delves into some issues to be tackled by an instructor with experience teaching economics in a liberal arts setting who is then tasked with teaching MBA students, and presents some suggested solutions and teaching applications to help aid in this endeavor.

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Introduction

As an increasing number of economists, particularly in the United States, make the transition from teaching in liberal arts programs to working at business schools - and hence teaching MBA students (Lafontaine, 2006) - conventional methods of teaching MBA-level microeconomics courses are coming under new scrutiny. For the instructors themselves, the novelty and potential difficulty of the task of teaching microeconomics to business students is not to be underestimated. Business students typically possess backgrounds and motivations substantially different, and particularly more diverse, than those of undergraduates or most students engaged in other graduate programs of study (Lafontaine, 2006). For this reason, it has become increasingly important to understand the ways in which a business background and outlook influence MBA students in their approach to, and their understanding of, a business economics course. In fact, one might even say that the naïve intuitions of MBA students are often the inverse of the typical liberal arts students, being much more comfortable thinking as a firm or producer instead of being limited to the perspective of a consumer. Specifically, the average college undergraduate has, primarily, her own previous experience as a consumer to guide her initial outlook on microeconomics topics. As a result, she may struggle at first to understand topics that focus on the perspective of producers that are already second nature to MBA students, such as market segmentation and price discrimination.

A business student generally considers profit maximization and the health and well-being of their business to be the primary objective. Therefore, when presented with examples of concepts, the message will often be refracted through the lens of whether it will be helpful in this endeavor, or other similar managerial concerns. This mindset makes the job of teaching economics to business students easier in some regards, but much more challenging in others. On the one hand, there is a readily available stock of concrete examples involving producers which are related to the concept of profit maximization. Using these illustrations reduces the instructor's need for abstract or esoteric explanations, but, on the other hand, because business students think like producers, they are also more prone to making certain characteristic managerial mistakes.

An important caveat is warranted here. Of course, MBA students are not simply a homogenous group, but as a general rule, a great deal of self-selection has already occurred before an MBA student takes his seat in the classroom. The points made here are based on the literature, and observations that may prove useful to help ease an instructor's transition between what may seem to be very different worlds. In addition to differences in outlook, differences in experiences and training will affect the mindset and optimal teaching method in an MBA classroom. As an example, an MBA student is more likely to understand implicit costs, such as the opportunity cost of an entrepreneur's time, since it is very possible that she has already calculated this for herself. These students are also likely to have already considered the use of their time and their ultimate career path in terms of alternative strategies before choosing to take on an MBA course of study. Similarly, business students are much more likely than their liberal arts counterparts to have experience with actual boardroom techniques, and may prefer them to those used in the classroom. Lastly, MBA students may have weaker math skills compared with other graduate student, and may also be more likely to feel that math should be employed only to solve realistic examples (Gregorowicz and Hegji, 1998; Kolluri and Singamsett, 2007).

The cultural environment that prevails in real-world business settings should also be considered when approaching MBA teaching, since many students will expect a similar atmosphere to exist there as well. In business schools, students are much more likely to expect to be told anecdotes and case studies, and be impressed or regaled with the
achievements of entrepreneurs and visionaries. Business students are accustomed to sitting in these lectures and expect to mentally retain a few pieces of information, ideas or stories to take with them into the future. The contrast with a traditional economics course, where information must be written down, studied and reviewed to be remembered, is remarkable. The climate also tends to be more adversarial and competitive, perhaps attributable to the temperaments of the instructors and students. Many MBA students enjoy debating, arguing, and thus tend to have a "thicker skin" than the typical liberal arts student. Blunt comments that a professor may hesitate to articulate in a liberal arts program for fear of offending the sensibilities or ego of the students are often deemed acceptable or even expected by business students. Also, economists accustomed to the halls of academia may be used to a negative correlation between formality of attire and rank, or at the very least, a culture in which it is perfectly acceptable to lecture while attired casually. In business schools, however, the custom of the boardroom is almost always in force, requiring all present to dress in accordance with his or her aspirations. In addition to respect for attire, business students may also show deference to achievements like the financial success of a business venture.

This article takes account of these common characteristics of MBA classrooms in order to provide specific examples and advice for economists who are now beginning to work teaching microeconomics in a business school setting. While some previously published works have begun to discuss the best methods for providing business students with a microeconomics education (Woodward 2008; Miller 2000; Islam & Manaloor 2012; Friesner & Axelsen 2006; Caviglia-Harris 2003), the literature on this topic is far from developed, and the current discussion should be thought of as another addition to this conversation.

Overview of Learning Objectives

Here I highlight differences in (1) student motivation, (2) student skills and experience, and (3) school climate, which may be experienced when teaching MBA students in a business school compared with a similar economics class in an undergraduate liberal arts setting:

Motivation: Because students have practice maximizing profits and are more comfortable thinking like producers, some examples are provided here for instructors when presenting materials specific to the concepts of elasticity, taxes and redistribution, price discrimination, economic crisis, as well as selected topics from behavioral economics.

Skills and Experience: Since business students will, in general, tend to have some similar underlying skills and experiences, these commonalities are discussed, along with suggestions for how they can be used to best present the materials at hand. The specific skills and experience of focus are (a) personal knowledge of the idea of implicit costs in deciding whether or not to attend an MBA program, (b) a familiarity with charts and the presentation style of the boardroom, (c) experience as managers with employees and (d) a reduced interest in, or acuity for, mathematics, with a specific interest in math mostly as a tool for solving particular business problems.

Climate: In addition to having a particular set of experiences stemming from previous life choices, the very fact that MBA students are involved in the program will provide them with particular common experiences and expectations resulting from their participation in the program and its general structure. It is true that they will, on average, expect a more animated and less note-taking style of discussion, feel comfortable with conflict and debate, and expect a heavy dose of case studies. The standards for attire and success in a business as well as in a business school setting will be different than those set in a liberal arts structure. Dressing very formally may
seem unnecessary or even frivolous to many academicians, but failing to do so may, from the outset, negatively bias their student's perception of the instructor's abilities or familiarity with the world outside the ivory tower.

In Section III, each of these various points will be discussed in detail, with particular attention being paid to ways in which economic instructors can make the most of the specific opportunities created by teaching MBA students, as well as advice for navigating common pitfalls.

**Specific Implementation**

**Student Motivation**

A word of caution before proceeding: When presenting information to students using an MBA-friendly producer-focused framework, as opposed to the usual consumer-centric method, distorted or incorrect perceptions of the material may crop up. Often, it is possible to ameliorate the limitations of focusing on producers by moving from the specific examples to a more general presentation of the materials. In the sections that follow, specific examples of topics in which producer-focused ideas will tend to be beneficial in explicating economics to business students and their implementation are presented.

**Elasticity**

Price elasticity is a good example of a fundamental microeconomic concept that may initially lack intuitive clarity when presented to a business student, but can be reframed using producer-focused examples and intuition configured for the producer's mindset. Part of the discussion of elasticity concerns the relationship between own-price elasticity of demand and firm revenue, with revenue increasing (decreasing) from a decrease in price when the own-price elasticity of demand is elastic (inelastic). Refocusing the discussion of elasticity on this particular relationship between revenue generation and elasticity will tend to find a more receptive audience among MBA students.

Similarly, when considering linear demand curve elasticity, it is often helpful to begin the discussion by simplifying the firm's situation to one in which there are no fixed costs, and marginal costs are essentially zero. One example of this type of firm is the nearly automated online auction, such as eBay. In this case, on the production side, only the purchase of bandwidth truly needs to be considered as a marginal cost, and even this cost may be relatively low. In this scenario, maximization of total revenue is almost equivalent to profit maximization, so that an examination of linear demand and its changing elasticity can be reframed as an attempt to find the point where firms maximize total revenue and, simultaneously, maximize firm profit. While this is a simplified example that relies on the somewhat unrealistic assumption of zero costs, it is very helpful in teaching students about the elasticity of linear demand functions, and, more generally, understanding the purpose and structure of elasticity of demand.

**Taxes and Redistribution**

While many economists (and liberal arts students who have completed their first microeconomics course), consider the concept that there is an unavoidable tradeoff between efficiency and equity as an important, and non-obvious, breakthrough, the idea is quite straightforward from a business perspective. This can be stressed in the classroom by reminding students that, unless they can fully pass costs on to consumers, producers experience disincentives for production, due to the increased costs of taxation. The next step in the discussion would then be to remind students that those same taxes are used to increase equality through redistribution. At the firm
level, they can also be reminded that worker satisfaction will decrease when there is larger variation in pay among individuals engaged in the same sort of activity at a particular firm (Clark and Oswald, 1996; Clark et al., 2007). This line of reasoning works quite well for business students, and, particularly those born and raised in capitalist societies.

Price Discrimination

Successful business owners are aware of the importance of the dictum: "know your customer." This leads naturally to discussions of consumer demand curves, and related efforts to lay claim to the largest possible share of surplus from trade. This lays the groundwork for consideration of techniques that segment the market into populations that are more or less price sensitive. The instructor can then point out to students that the attainment of this knowledge and a differential pricing strategy is an effective strategy to capture the maximum possible amount of consumer surplus. As an illustration, consider the common practice of movie theaters charging lower ticket prices to children and seniors. An individual unfamiliar with the power of price discrimination may at first be baffled. Are not the senior citizens and adults receiving the same movie experience? Why then the difference in price? However, to someone accustomed to thinking about the behavior of different customer populations, the answers come much more intuitively. To close out the argument, the instructor can say that understanding the consumer's preferences and demand curves is a necessary part of achieving effective price discrimination. Indeed, this discussion can motivate the initial discussion of consumer demand curves, as well as an understanding of consumer surplus, since these topics may not initially appear to be particularly interesting or relevant to an MBA student. This will be the reverse of a consumer-focused method, in which consumer surplus is an obvious starting point.

Economic Crisis

As a discussion topic, the financial crisis of 2008 is very likely to be raised, either by the instructor or the students. The details of any explanation that attempts to make sense of the causes and repercussions of these events may confuse students who are often still entrenched in the atmosphere which created these problems in the first place. Similarly, the task of explaining why profit maximization is almost always preferred to increasing market share is often a daunting one, since firms commonly believe that once competition has been eliminated, profits will automatically follow. It is difficult to convince these students that rent-seeking may diminish profits to the point of eliminating monopoly gains, and that without sufficient barriers to entry, it will not be possible to sustain high prices. For these reasons, supplementing the typical business mindset may be necessary. This is one of the cases where employing a more aggressive approach and explaining the details of the financial crisis in a decontextualized way can be helpful, since contextualizing the situation will often cause students to reference information which was detrimental to our economy in the first place.

Behavioral Economics

Behavioral economics can be presented to students as a tool for understanding the psychology of their customers, and ultimately exploiting it for the firm's financial gain. A focus on firm profits can thus be leveraged to the instructor's advantage by reminding students about certain ideas from marketing and advertising. To present a few specific examples: (1) “Framing effects,” employed by advertising firms and explained by behavioral economics, can be discussed as a way to enhance the relative desirability of a firm's product (Heath et al, 1995). For example, comparing a product to a more expensive competitor allows individuals to create a more positive frame of reference towards the product in question. (2) "Mental
accounting" can be manipulated in a way so that consumer choices are segmented into chunks (Thaler, 1985), whereby individuals will spend a larger total amount on the product in question. For example, by presenting a sports drink as a "health-enhancing" product, spending on sports drinks can be put into the "health spending" category, for which higher prices can be rationalized, rather than into the lower-level of spending accorded to soft drinks. (3) "Anchoring" can be introduced as a method used by producers to set higher prices than would normally occur in the market. Specifically, students can be told that first presenting the pre-valuation price for a piece of art will substantially affect the ultimate price at auction, even given the same objective quality assessment (Beggs and Graddy, 2009). Taken together, it is clear that refocusing materials in order to focus on firm success is a reasonable method of teaching behavioral economics in a managerial context.

Student Skills and Experience

The MBA Choice

The majority of economics textbooks gloss over the input of the entrepreneur's time and efforts. This input is most often relegated to an area described as "unmeasured capital." While it is true that this implicit cost is often ignored, or not sufficiently discussed, it is within the instructor's means to refocus attention on this particular input in order to make the material more palatable to business students. This will help motivate discussion because individuals who have chosen to get their MBA are often the same ones who have explicitly considered the value of their time and efforts, as well as the cost of the MBA program.

Some students may be sponsored by their companies rather than paying out of pocket, however, even this is usually accompanied by a contract for their time after completion of the MBA program. For this reason, MBA students will be more likely to understand the idea of entrepreneurial opportunity costs in making business and education decisions. This refocusing of the material on the entrepreneur will, therefore, help business students enjoy a greater general understanding of the concept of opportunity and implicit costs.

Presentation Structure and Charts

Most graphs currently employed in a business economics course are relatively simple and straightforward, and do not fully explicate the story at hand. For this reason, moving from a standard economic conception in the style of a simple Marshallian cross to a more involved graphical and explanatory visual representation may be very useful in presenting to business students. This is especially true since visual presentation of materials should reflect student expectations and align with their understanding. The students may have more experience with a business-focused setting, where information tends to be simple and visually striking. As an example, a color-coded chart with multiple circles and lines showing flows and changes is likely to look ridiculous to an economist trained in the liberal arts. For an MBA student, however, this may be essential for a contextual and clear understanding of the material under consideration. To take two examples, economists often use this structure in discussing (1) causation versus correlation, as well as (2) the regression discontinuity design.

First, a typical social scientist may explain in detail how the so-called "Mozart effect" (Mehr et. al, 2013) conflates causation and correlation because individuals likely to play classical music to their children will often be the same ones who are higher income, and it is this higher income, rather than listening to classical music in utero, that causes students to excel at their schooling. Similarly, a labor economist tasked with the job of explaining why some individuals with high education have higher levels of income may note that higher levels of education often result in higher income
because of high parental income leading individuals to both gain more education and also, in an intergenerational fashion, retain higher income of their parents (Black et al, 2003). While this verbal explanation may be all that is expected in a liberal arts atmosphere, when an illustrative chart is inserted into the discussion showing flows between each of the relevant domains, then the level of comprehension in the business student classroom is nearly certain to increase.

Second, when demonstrating regression discontinuities and impact studies (Imbens and Lemieux, 2007; Urquiola and Verhoogen, 2009), the techniques commonly employed by economists are often similar to those used in the boardroom to show changes and breaks in trends in variables of interest, including firms sales or company stock values. The concept of regression discontinuity or the use of an impact study may, therefore, be particularly intuitive to business students and can be employed in the MBA-level microeconomics course classroom.

Managerial Experience

As a result of the managerial experience often present in a MBA student's portfolio, examples coming from the areas of statistical discrimination will often find resonance. When individuals have been engaged in employee hiring procedures, they will often understand that, as employers, it is necessary to make quick judgments regarding potential employees. The instructor can then explain that, while these initial judgments are, necessarily, based on very little information and many biases, subsequent new information which is obtained after an employee has been hired can be used to update the employer's priors regarding the employee's characteristics and ability. Therefore, statistical discrimination is being used (Aigner and Cain, 1977; Altonji and Pierret, 2001). While this is not a topic which is typically taught in an MBA core microeconomics class, including it can be very beneficial, since it relates closely to particular student experiences, and will also remind them of the importance of this type of economic reasoning in a hiring and firing environment.

On a similar note, business students are quick to relate to examples from health economics regarding the expiration of patents, and the resulting differential between generic and brand name prices. Specifically, drugs under patent will tend to have higher prices, while the expiration of the patent will introduce potential competition and tend to drive down the price of the drug in question. Students will also tend to understand the motivation for protecting intellectual property in the first place as a method to encourage research and development. These types of examples are also very useful in explicating long-run versus short-run pricing strategies used by firms and how they relate to market structure.

Math Background and Interest

Deserved or not, the reputation that MBA students dislike mathematics should not be casually dismissed. It is also true that most MBA courses already require less math than does a typical economics class. This means that the instructor's expectations in this regard should be adjusted accordingly, or else students may be surprised by the level and type of math being learned, and they may struggle to integrate the math-based information from the course into the mindset and tools being developed in other courses. In this circumstance, appeals to common sense, in addition to encouraging the use of more traditional tactics such as making lists of formulas for students, may yield pedagogical rewards.

Introducing math topics as tools for solving concrete business problems and issues will usually be a more fruitful technique than simply presenting math ideas divorced from their motivation (Lafontaine, 2006) - which is often the case in typical economics lectures. While business students are less likely to search for the inherent
mathematical "beauty" of the formulas, they will be very interested in learning how these formulas relate to the success of their current and future businesses (Lafontaine, 2006).

As one example, derivatives are often employed in a discussion of point-elasticity. If the derivative is presented by first discussing the intuitive motivation behind it, and then the instructor goes through an example where the point elasticity is substantially different from the (easier to calculate) "change" elasticity, students may be encouraged to actually pursue an understanding of the derivative, so that they can have more precise and correct measures in establishing prices for their business. For this reason, a very clear, production-oriented, and common-sense driven focus will help motivate the more complex mathematical concepts which are typically taught in an MBA-level economics class.

**Discussion and Learning Style**

**Taking Notes**

Since they are unaccustomed to doing so in any of their other classes, business students are unlikely to write anything down which the professor says unless explicitly told to do so. The instructor can combat this problem by reminding students to write various points down, telling students to write down the points which are on the board, or telling them that certain slides are missing from the notes which they have been given to study, and that these will be pointed out for them to copy in detail. While in-class quizzes are also an option, these may not be especially effective, and could also serve to change the class atmosphere to one that students perceive to be less professional. Note-taking is an important issue and one which, while applicable to some degree with all students, will be present to a larger extent with business students. For this reason, developing an effective coping strategy for the instructor may be key to succeeding as an instructor teaching MBA-level economics.

**Competition in the Classroom**

Instructors in liberal arts colleges are likely to be acclimated to classroom environments in which any debate between students is muted or, at most, close to respectful disagreement. However, business schools foster discussions that can get heated at times, which may or may not be pleasing to the instructor. If the tone of the debate exceeds the tolerance of the professor, there are several possibilities for responding, even to outright student aggression. While it is possible to either directly engage in a similarly aggressive fashion, or, alternatively, to ignore the aggression completely, it is often beneficial to redirect student emotion as a form of competition. In this fashion, each student will have an incentive to perfect his or her arguments, and find the flaws in their neighbor's, with an eye towards the reward of respect from instructor and fellow-student alike. Thus, the competitive nature of business students can be harnessed as a powerful learning tool.

One method to achieve this goal is to either pit students against one another formally in debates, or to create a slightly more adversarial atmosphere in which competition is acceptable and encouraged (Vo and Morris 2006). This can be as simple as using a Socratic method and calling on individuals to respond to instructor questions. When the first student does not have a correct response, (and assuming that the level of difficulty of the question is not too high) the rest of the students will compete for the correct response in order to move into the "winning" position. While this technique is rarely effective at the undergraduate level, it may be quite worthwhile when implemented with MBA students.
The increased competitiveness of business students and interest in competitive strategy (Maxfield, 2011) also means that students will, at times, feel more comfortable challenging the instructor with difficult and perhaps even antagonistic questions. Business students are used to being given license to speak freely to their instructor, and how he or she handles these questions helps determine the level of respect the instructor receives from students in the future (Lafontaine, 2006). When an instructor responds to all topically relevant student questions, it shows a respect and value for student opinions. Answering questions also has the added benefit of encouraging continued student engagement within the classroom. That said, because dominance is such an important issue in the boardroom, displaying an appropriate level of aggression in response to purely antagonistic questions may, in fact, often be warranted, and there is evidence that this can even increase student success (Snyder et al, 2013).

**Case Studies**

The use of case studies in a business school class is a natural outgrowth and a specific instance of the desire for real world examples in economics classes of all forms (Parry and Reynoldson, 2005). The unique element of case studies is that they show business students the way in which their education relates to the actual business climate and structure. Business students are comfortable with this concept, and come to expect a certain degree of linkage between the material they are learning and the real-world business applications of these concepts (Maxfield, 2011). This helps justify to them the use of this material and the reasons for them to learn it. Business students are also accustomed to having their other professors, not to mention executives, speak to them about the business world, providing copious examples of successes or failures in that domain. It is possible to use slight variations on the typical economics presentation to show students the clear link between the material they are learning and its use in a business environment.

In particular, business students may be intrigued by discussions of corporate greed, misaligned incentives (Polutnik, 2010) and market share in monopoly litigation hearings. As an example, going through a specific antitrust litigation lawsuit, discussing the relevant arguments by economists, and using this to highlight the tools being learned in the MBA economics class is often an effective method of increasing student engagement and interest in the economic topics under discussion.

**Markers of Success**

Physical signifiers of rank and success are now de rigueur in corporate settings. For instance, the sight of a venerated and tenured full professor paradoxically wearing a t-shirt and khaki pants to work would be unthinkable in the case of a C-level executive. Because of issues of dominance, gaining the respect of one's students is a crucial aspect of being a successful educator in a business school. The ivory-tower-denizen-turned-business-educator is thus forced into a dilemma, specifically, that of gaining respect of business professionals when his or her chief experiences and achievements relate more specifically to the realm of academia.

**Attire**

It is often found in the halls of liberal arts colleges that professors attempt to send signals about underlying quality by intentionally appearing as if they have neither the time nor inclination to dress formally. Besides the administrative positions of Dean, Provost, President, and the like, suits and/or ties are a rarity among the faculty in the liberal arts college. Business academics, while having moved to a more casual standard than in earlier years, are still notable for having formal standards of attire.
This distinction reflects the patterns of dress in the business world at large and the related perceptions of success.

It is for these reasons that when an economist trained in the liberal arts teaches in a business school setting, a more formal standard of attire will generally be required. This change is necessary since both students as well as fellow faculty judge instructors based on attire, sizing up teachers and colleagues. In this instance, failing to meet these standards may serve to incur derision rather than the respect that would have been acquired in a liberal arts setting.

**Awards and Recognition**

While business students will sometimes respect academic titles such as "Dr." or "Esquire", these accolades are usually not as impressive as the ownership of a successful business. In contrast to liberal arts academics, who typically pride themselves on high-quality journal publications and being considered an "expert" by those involved in the field, these traits do not typically garner the same type of respect in the business world. Instead, speaking at conferences in exotic locales, or authoring "high-readership," and hence high profit, works are a few examples of success to a business student.

While business students are, likewise, not likely to be impressed with the award of a grant, or the intrinsic importance of a research topic, they might be impressed if a piece of research was politically relevant, cited or discussed in the news, coauthored with highly notable individuals, or funded by a large sum of money. In a similar fashion, for those of us who have testified as expert witnesses, discussing the cases in which we testified along with the relevant details is often a way to both impress upon the business student the importance of one's work, and perhaps also to explicate some relevant economic concepts. It is in this fashion that the ivory-tower academic can reframe his or her work and credentials in order to highlight the aspects which are prized in the business world.

**Conclusion**

The growth in business school enrolment makes employment there a possibility for a large number of economists currently working in other areas of academia. There are, however, some fundamental differences between the experiences and mindset of students, as well as the climate in a business school versus a liberal arts setting. In order to address these differences, in the current article I have provided various examples and explanations of these differences in order to help economists engaged in teaching a microeconomics course in a business school. Teaching business students, like teaching in general, is a constantly evolving and changing endeavor. For this reason the current teaching note provides a timely discussion of the current state of affairs and advice for academics engaged in teaching microeconomics at the MBA-level.

**References**


