

Managerial Economics
Problem Set 1: Chapter 1 (Introduction and Goals of the Firm)

Chapter 1 Exercises:

2, 5, 6 and 8.

Conroy Problems:

1. Discuss the principal-agent problem that exists in a classroom setting (hint: consider your professor the “principal”) . . . and ways this problem is “solved.”

2. Go to <http://www.berkshirehathaway.com> and skim through the latest annual (shareholder) report for Berkshire Hathaway. It will be around 80 pages, so you won't want to print it out! Just read online and get a sense for Berkshire's business model. Describe in a brief paragraph, your impression of CEO Warren Buffett (currently the second-wealthiest person in the U.S. after Bill Gates) and his company's approach to doing business. (Hint: what is the company's “objective function”?) [Note: Robert Hagstrom's, *The Warren Buffett Way: Investment Strategies of the World's Greatest Investor* (1995) is an excellent book for business students of all ages and interests!]