

## A Quick Tour of How to Use the Thinking Managerial Economist’s Grid for the Presentation of a WSJ article.

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I created this tool called the [\*Thinking Managerial Economist’s Grid\*](#) in order to help students implement a Demand and Supply analysis within a structure that is both powerful and somewhat easy to follow. The Grid is a tool used to analyze economic articles that center mostly on news about “markets” (for example: housing, automobiles, traveling services, collectors items, etc...). The Grid is designed to analyze the reason(s) why supply and/or demand are shifting on a particular market or series of related markets, and the effects of these shifts on the final price and quantity traded on that market. I will now walk you through an example of how to use the Grid.

The following is based on a WSJ article from September 27, 1999 entitled “EPA plans stricter rules for big truck emissions”. The article talked about a tightening of the pollution standards against heavy-duty trucks. The goal of using the GRID is to see what the impact of these new regulations would be on the trucking service industry.

Please refer to the PowerPoint slides presentation named “[practice2.ppt](#)”. You’ll notice that after the title page, the first page explains and summarizes the nature of the article as well as the implications of the article.

The next page of the PowerPoint presentation is the grid that looks like this:

### **The Thinking Managerial Economist’s Grid**

Markets/ Causes						Effects					
Market Defined and Structure	Relationship with market 1)	Supply Shift	Demand Shift	Market Disequilibrium	Price Change (substitute/complement/input)	Policy Change	Quantity Demanded	Quantity Supplied	Price of product	Global Effect on Factor A	Global Effect on Factor B
1. FOCUS Trucking Services Market  Competitive	N/A	<i>UP</i>	none	none	Prices of Trucks Increase (+)	Cleaner Gas	Lower  But not much	Lower	Increase	Possibility of more substitution toward freight trains	Pollution reduction Nitrogens
2. Large Truck Market  Perfectly Competitive	Input with 1)	<i>UP</i>	none	none	none	New Emission Standard For Heavy Trucks In 2007	Lower	Lower	Increase	N/A	N/A
3.											

Let us describe what each element in the GRID represents.

## TOP HEADINGS

1. The top left heading (in dark gray) says “Market/Causes”: represents the portion of the GRID that defines the market we are focusing on. What is happening to the Demand and Supply (shifts) on that market and other related markets that may bear an influence? This portion also is trying to isolate the causes of these shifts.
  2. The top right heading (in light gray) says “Effects”. It represents the portion of the GRID that has to do with analyzing the final impact that Demand and Supply *shifts* will have on the market that we focus on. Mostly it looks at the price impact and the effect on quantity of goods/services traded.
- **Lesson #1: The GRID works from left to right!**

## MARKET/CAUSES COLUMNS

1. The leftmost column “Market defined and Structure”: is about defining what the **focus market** is and what the other auxiliary markets relevant to the analysis are. Here you see that the focus market is the “Trucking Services Industry” **in the first row**, whereas the other auxiliary relevant market is the “Large Truck Market” **in the second row**. The key insight is that YOU choose what the focus market is. It should be as a result of asking the question: “What do I think the most important and interesting market is in this story?” For example, I picked the Trucking services industry as the focus market, since from the article, I thought it might be interesting to look at how environmental regulations have an impact on trucking services in a way that we may not realize at first. Further, the other(s) relevant market(s) MUST be the one(s) that influence(s) the focus market and not the other way around.<sup>1</sup> That is, here the large truck market has an impact on the trucking services market, BUT the converse is not true BASED on the storyline. (You may want to think about it). That means that the analysis should start with the Large Truck market and end with the Trucking Services market. For defining what the market structure is use: Perfectly Competitive (myriads of firms), Competitive (many firms), Oligopolistic (few firms), Monopolistic (one dominant firm).
- **Lesson #2: The GRID works from bottom to top (see PowerPoint presentation).**
2. The second column “Relationship with market 1”): tells you about the relationship with the focus market of the OTHER relevant markets (here the Large Truck market in row 2)). Because we already know what the focus market relationship is to *itself*, the only cell that should be filled up is the second row second column cell. Here it says “Inputs” which means that Large Trucks are inputs (on the supply side) to trucking services, in the same sense that metal is an input to manufacturing cars.
  3. The third column labeled “Supply shift” tells you about what happened to the overall supply for a particular market. Did the supply move UP, DOWN, RIGHT or LEFT? Recall that Supply moving UP or DOWN is related to *cost* increases (UP) or reduction

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<sup>1</sup> There could be more than one other relevant market. The GRID can handle up to 3 markets total.

(Down). Whereas a Supply moving LEFT or RIGHT has to do more with sudden boosts in *capacity* (RIGHT) or reduction in *capacity* (LEFT). Working from the **second** row, from left to right, in our case, the supply of large trucks is moving UP due to an increase in the cost of **making** large trucks because of technological improvements necessary to create cleaner engines and exhausts.

4. The next column is about “Demand Shifts”. It tells you about what happened to the overall Demand for a particular market. Did the demand move UP, DOWN, RIGHT or LEFT? Recall that Demand moving UP or DOWN is more related to changes in the *price of a substitute or complement* (I let you figure out which way). Whereas a Demand moving LEFT or RIGHT has to do more with boosts in *income or number of buyers or* (RIGHT) or reduction in *those* (LEFT).<sup>2</sup> Working from the **second** row, from left to right, in our case, the **Demand** for Large Trucks is unaffected (Caution: do not be confused here. As we will soon see, on the other hand, the *quantity demanded will be affected!*).
5. The column “Market Disequilibrium” refers to a situation where market forces are not free to act so that demand=supply. For example, in the case of a minimum wage law, there is an *oversupply* of candidates at a wage that is higher than what would otherwise be paid competitively. In the case of this article there is no disequilibrium in that sense.
6. The next column talks about the “Price Change of Substitute/Complement/Input”. In our example, following the second row, there is NO price change for any other products that could be a substitute or complement or input for large trucks, thus there is no effect. BUT, as we will see later the input to the Trucking Services industry is TRUCKS. Thus there will be an effect in that column on that market. Typically price changes of substitutes and complements (other relevant markets) and policy changes will be the **causes** of *shifts* in Demand. Price changes in inputs and policy changes would be the **causes** of *shifts* in supply.
7. “Policy Change”: that column is about events that happen that can influence demand or supply OUTSIDE of other markets. For example here, there is a proposed environmental regulatory change, which is the **cause** of the supply shift in our truck manufacturing example.

➤ **Lesson #3: The causes of Demand and/or Supply shifts in the focus market come from Price changes of related goods in other markets (substitutes, complements, inputs) or policy changes.**

## EFFECTS COLUMNS

1. “Quantity Demanded”. This column looks at the effect on the quantity demanded of whatever Demand or Supply shifts have happened. Here on the Large Truck market, the quantity demanded is lower (slightly) because of the higher costs from supply.
2. “Quantity Supplied”. Unless there is market disequilibrium, the quantity supplied should equate the quantity demanded, and they both should drop in this example, for the Large Truck market.

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<sup>2</sup> Changes in *Tastes and Preferences* or *Future Expectations* can have a vertical or horizontal effect on shifting the Demand.

3. “Price of Product”. The price of Large Trucks should increase maybe slightly. That increase is REPORTED in row one back to the focus market, as an entry in the Price Change Substitute... column.
- **Lesson #4: The GRID works by bringing the conclusions about the price in the related market (market 2), back to the focus market (see arrow in PowerPoint presentation from price of product (Large Trucks) to Price Change of Substitute/Complement/Input in row 1)**

## WORKING BACK TO THE FOCUS MARKET

1. Once the connection is made from Market 2) to the focus market, via the equilibrium price of Large Trucks, we are able to conclude that there is a supply shift for the Trucking Services industry, as the Trucks costs more to buy and to operate (Policy change).
2. With the exception of the cleaner gasoline policy, nothing else happens or changes in the other Markets/Causes columns of the GRID on the focus market of Trucking Services.
3. Finally, the effect on the quantity supplied and demanded will be that they will be both lower, and the price of trucking services might increase slightly.
4. The last two columns are entitled “Global Effect on Factor A”, “Global Effect on Factor B”. These are columns that are **only to be filled for the focus market**. These represent additional conclusions that YOU can imagine will be true or that you can infer logically from the article, and that go beyond the scope of these two markets. For example here, I draw conclusions about the fact that freight trains might be used more as an alternative, or that another effect is pollution reduction and its impact on reducing health related costs.

Finally, the graph at the end of the PowerPoint presentation is there to illustrate the arguments presented in the GRID under a graphical form.

## PRESENTATION HINTS

1. The presentation should last NO MORE than 5 minutes.
2. Each team should get their article and their presentation **APPROVED beforehand** by me. At least a week to 5 days before. So you have a pretty good idea if the article is suitable.
3. Use my [practice1.ppt](#) and [practice2.ppt](#) examples as templates.
4. In teams of two. Please quickly rehearse your presentation beforehand. Also be ready to answer additional questions from the class and me.

If you have any additional questions please contact me, I’ll be happy to help.

CHEERS.  
Dr. Faugère