This unit presents a critical set of principles and tools to assist managers to make informed decisions in an environment of economic risk and uncertainty. The unit introduces the basic elements of microeconomics and macroeconomics in terms of understanding the economic basis of business and strategic decision making through the application of economic principles to the role of the modern manager. Built around contemporary business experience and informal case studies, topics include supply and demand; market structures; contemporary market issues; the macroeconomic environment; money and financial markets; interest rates; inflation and unemployment; exchange rates; and a range of topical economic issues.
Contents

UNIT DESCRIPTION

Introduction
Unit Content
The Goal of the Unit
Learning Outcomes
Prerequisites
Key Dates

TEACHING AND LEARNING RESPONSIBILITIES

Teaching and Learning Strategies
Charter of Student Rights
Use of Student Feedback

ASSESSMENT MECHANISM

Purpose of Assessment
Assessment Details Summary
Standard of Assessment
Assessment Components
Submission of Assignments
Ethical Scholarship, Academic Literacy and Academic Misconduct
Acknowledgements and Plagiarism
Referencing
Taping of Lectures
Appeals Against Academic Assessment

TEXTBOOK(S) AND RESOURCES

Unit Website
Recommended/Required Text(s)
Additional/Suggested/Alternate Text(s)
Software Requirements
Additional Resources and Reading Material
Reference List
Closed Reserve
Databases

UNIT STRUCTURE

Seminar Schedule
Attendance
Contact details

<table>
<thead>
<tr>
<th>Unit Web Site URL</th>
<th><a href="http://www.trainingexcellenceaustralia.com">www.trainingexcellenceaustralia.com</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ken Robertson</td>
<td>web.biz.uwa.edu.au/staff/ken</td>
</tr>
<tr>
<td>Email:</td>
<td><a href="mailto:kenr@trainingexcellenceaustralia.com">kenr@trainingexcellenceaustralia.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:kainter@iinet.net.au">kainter@iinet.net.au</a></td>
</tr>
<tr>
<td>Phone:</td>
<td>+61 417 956 360</td>
</tr>
<tr>
<td>Consultation Hours:</td>
<td>By arrangement</td>
</tr>
<tr>
<td>Lecture Times:</td>
<td>As per schedule</td>
</tr>
<tr>
<td>Lecture Venue:</td>
<td>As advised</td>
</tr>
</tbody>
</table>

Your lecturer

Ken Robertson

Ken has a private consultancy company that has worked for major organisations in Perth, and is presently part of several joint venture projects in Hong Kong and China. Ken’s company is also agent for the Economic Commission of the Shanghai Municipal People’s Government in Perth and several large Chinese corporations, negotiating supply and equity agreements in resource projects.

He is an Associate Fellow of the Australian Institute of Management, State Chapter Member of the Institute of Management Consultants, and a corporate member of the Western Australian Chinese Chamber of Commerce and the Local Chambers of Commerce and Industry in Perth.

He was previously the Associate Dean of the UWA Business School with responsibility for commercial and business development, mainly internationally. Prior to working at the Business School, Ken worked in Hong Kong and the US, as well as government and private industry throughout Australia.

Ken teaches this unit because he enjoys teaching and contact with motivated and articulate students.
UNIT DESCRIPTION

Introduction
This unit is entitled Economic Management and Strategy 8503. Its aim is to provide an understanding of Economics to managers so that they have the knowledge they need to interpret the economy around them, and the place of their organisation within it. It also provides a strategic look at business that will complement the manager's other skills and knowledge in decision the area of decision-making.

The theory and the concepts are simple, and the focus will be on using these to provide a framework within which to interpret the economic information and misinformation that abounds in most economies of the world. The modern manager needs to understand the economic environment in which decisions are made and how it might affect these decisions, without necessarily being able to undertake formal economic analysis on any particular aspect of the economy.

It is not intended that this unit transform experienced managers into economists by teaching economic theory, and then practicing it in a theoretical context. Answers provided by economics are rarely definitive, and must have practical knowledge applied to them if they are to suit business situations.

You are expected to read the text and related material, and gain an understanding of the theory, both from your own background knowledge and with the assistance of the unit coordinator. Once you have this understanding, you will be expected to apply it to the process of management decision-making. These latter expectations are what will be undertaken in class. The most valuable knowledge you will receive, and the techniques you derive, will be those you develop yourself during this unit.

The goal of the unit
This unit introduces the concepts and methods of Economics as they contribute to managers' skills and abilities, to assist in informed decision-making.

If there are some goals of the unit, they could be described as being to assist managers to:

- Develop a pattern of thought that allows them to use simple concepts, frameworks and theories of Economics to complement their existing skills and abilities, and to assist in the decision-making process.

- Understand the background to what is being reported in the financial media.

- Have sufficient knowledge to ask an economist or economic analyst the questions that will provide suitable data to include in decision-making.

- Understand what their economist or economic analyst is actually saying on any particular matter.

Economic Management and Strategy provides more than just an introduction to Economics as a discipline and set of management tools. It also looks at many of the foundations of the other units you will study. Economics is about the foundations of decision making, while other units look at the context, Economics looks at the basis.
Learning outcomes

On completion of this unit, you should be able to:

- Observe what is happening in a business context, and be able to identify the elements of that situation where Economics can assist in the analysis.
- Use simple economic frameworks to provide guidance for the decisions that must be made.
- Integrate Economics with other management skills in a “tool box” approach to using all available methods to solve business problems.

Prerequisites

There are no prerequisites for this unit.

Key dates

11 April          Group Project Outline due.
5 May             Class Examination.
23 May            Group Project due.

TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning strategies

This unit is designed to give you the tools you need to enhance your overall decision making abilities. It is about developing your way of thinking so that it incorporates the contributions that Economics can make.

The teaching strategy within this unit is to present simple models of human behaviour presented by Economics, and to discuss them in the context of individual, group and business behaviour, using examples as appropriate.

The models are presented mainly through the medium of the handouts that are provided are the beginning of the unit. These outline the models and some of the context within which they are useful. This will be supplemented by the discussion in class that builds on these, adding practical examples from the experience of both the lecturer and the students.

The class examination, project and final examination will test the thought patterns that have been developed to use the Economic principles presented in class. Except for the final examination, these are guided learning exercises designed to develop as much as assess.

The textbook is a supplementary resource. It should be used to find the context within which you will learn the thought patterns that you will use to interpret Economics and the environment in which you do business. It should be read not for learning, but to find out how the principles involved relate to your experience. While reading, you should be asking questions such as:

1. Where have I experienced this?
2. Where have I observed this?
3. Where have I read about this?

In this way you will be developing the context on which you will build during the class.
Charter of student rights

This Charter of Student Rights upholds the fundamental rights of students who undertake their education at the University of Western Australia.

It recognises that excellence in teaching and learning requires students to be active participants in their educational experience. It upholds the ethos that in addition to the University’s role of awarding formal academic qualifications to students, the University must strive to instil in all students independent scholarly learning, critical judgement, academic integrity and ethical sensitivity. The charter outlines the rights and responsibilities for both students and staff of the university and you are encouraged to refer to the charter at:

Use of student feedback

This unit is evaluated formally at the end of the trimester, but may also undergo evaluation at any time. This evaluation is designed to improve the content and direction of the unit so that it becomes more valuable as a learning experience.

If at any time you have a problem with the unit, the material, or any aspect of the unit, please feel free to contact the lecturer to discuss your concerns. They are listened to and acted upon.

The handouts, and the form of the final examination, have changed in response to feedback.

ASSESSMENT MECHANISM

The purpose of assessment

There are three major purposes in the structure and weighting of the assessment:

- To integrate Economics into a management decision-making structure.
- To encourage students to think about how they think about decision-making, especially from the perspective of the Economics taught in this unit.
- To practice thinking about Economics and using it as a management tool.

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work then give you an indication of how much you have achieved is key to this. Providing feedback on your work also serves as part of the learning process.

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work then gives you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

Assessment details

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Project Outline</td>
<td>10 per cent</td>
<td>11 April</td>
</tr>
<tr>
<td>Class Examination</td>
<td>10 per cent</td>
<td>5 May</td>
</tr>
<tr>
<td>Group Project</td>
<td>30 per cent</td>
<td>23 May</td>
</tr>
<tr>
<td>Final Examination</td>
<td>50 per cent</td>
<td>As advised</td>
</tr>
</tbody>
</table>
The standard of assessment

The Graduate School must ensure that the processes of assessment are fair and are designed to maintain the standards of the School and its students. The School follows the University of Western Australia’s grading system:

- **HD (Higher Distinction)** 80-100%
- **D (Distinction)** 70-79%
- **CR (Credit Pass)** 60-69%
- **P (Pass)** 50-59%
- **N+ (Fail)** 45-49%
- **N (Fail)** 0-44%

The School awards marks leading to these grades by using the following general criteria which are presented here as an indication of the School’s expectations. These general criteria may be supplemented by specific standards provided with regard to a particular assignment.

**HD** The student has a clear understanding of theory, concepts and issues relating to the subject and is able to adopt a critical perspective. The student is able to clearly identify the most critical aspects of the task and is able to offer a logically consistent and well articulated analysis within the analytic framework presented in the course. The student is able to draw widely from the academic literature and elsewhere but maintains relevance.

**D** The student has a clear understanding of theory, concepts and issues relating to the subject. The student is able to develop an analysis of an issue using the analytic framework presented in the course and is able to identify and evaluate the critical issues. The student is able to draw upon relevant academic and other material.

**CR** The student demonstrates an understanding of the analytic framework developed in the course and a partial understanding of concepts and issues. The student is able to identify some key issues and is able to present a logical discussion, but with some conceptual errors or gaps between analysis and conclusions shortcomings. The student is able to draw upon an adequate range of references and other materials.

**P** The student generally takes a descriptive rather than analytic approach to the subject. The student is able to demonstrate some understanding of the issues involved but does not demonstrate the ability to apply the analytical framework which had been developed in the course. Draws primarily upon course materials for referencing.

**N+** The student is unable to demonstrate that he or she understands the core elements of the subject matter. The student is able to provide some insight into issues but misapplies analytic framework developed in course, omitting key factors and, for example, drawing conclusions which are not related to the preceding discussion.

**N** The student is unable to demonstrate any understanding of the subject matter. Material presented for assessment is unrelated to course framework and shows no effort to identify or address critical aspects of the topic.

The scaling of marks to ensure comparability between classes in an acceptable academic practice. The GSM and Board of Examiners has the right to scale marks where it is considered necessary to maintain consistency and fairness.
Assessment 1

Group Project Outline

This is an outline of no more than four A4 pages relating to the group assignment, to be submitted on 11 April, 2005, that provides:

- A list of the group members.
- The objectives of your analysis.
- Issues and questions you might encounter during the analysis.
- The expected range of information and relevant data to be collected.
- The proposed method of analysis.
- Assigned tasks for group members in achieving the objectives.

Description

The outline is not intended to make you read ahead into the theory. Look at the problem from the perspective of the skills you have presently, and identify how you might proceed on that basis, incorporating what you might expect to add from the economic perspective.

Assessment criteria

Assessment is based on the ability of the groups to identify the context within which the analysis of the case will be based. The major elements to be analysed should be identified, as well as any issues and questions the group thinks it may have to address during the analysis.

The important criterion is a structured approach to the project.

Assessment 2

The Class Examination

The class examination will be held on 5 May, 2005.

It is an open book examination of 30 minutes duration and will comprise one short essay question, from a choice of four. For this examination, you will be required to:

- Refer to the theoretical concept(s) relevant to the situation.
- Explain the relevance of the concept(s) used.
- Justify your decision/explanation in terms of the theoretical concept(s).

Assessment criteria

Marks will be awarded equally for:

- The demonstrated understanding of the relevance of the theoretical concept(s), and
- The validity of your justification.

Note: The decision itself is secondary as it is the concept(s) and the connection made between it (them) and the decision that are the critical factors.
Assessment 3

Group Project - The Problem
You have been appointed as a consultant to a company that is looking at the possibility of establishing a cruise operation in The Philippines. It will run seven- to ten-day cruises from Manila to major tourist attractions around the country.

Provide an analysis of this market that will identify:

- The current market structure, in terms of one of the market models, modified to suit the situation.
- The apparent profitability of the market (you do not need to provide actual data).
- The possibility of establishing this new company.

Marks will be awarded for:

- Presenting a structured approach to the market that puts this report in an economic context.
- Identifying and using an appropriate model as a basis for your analysis.
- The flow of reasoning that sets up and supports your final conclusions (and recommendations, should you choose to make any).

Final examination

The three-hour examination will comprise two sections:

- Three short answer questions on aspects of theory and its application, and case studies, from a choice of five.
- Two essays integrating theoretical concepts with their application to practical situations, from a choice of five.

This will be an open book examination that requires only the simplest calculations.

Calculators and other mathematical aids will not be required.

Submission of assignments

Assignments should be submitted in class on the due date a standard cover sheet should be used and a receipt issued.

Late assignments will attract a penalty of 5% per day. This penalty will be waived by the lecturer only in exceptional circumstances. No marks will be awarded to assignments submitted after other students in the class have had their assignments returned.

Papers of excessive length will also attract a penalty. The penalty will be 5% for each 300 words, or part thereof, over the word limit.

Assignments will be returned in class.

It is the intention that the marked assignments will be returned within two weeks of submission.
ETHICAL SCHOLARSHIP, ACADEMIC LITERACY AND ACADEMIC MISCONDUCT

Ethical scholarship is the pursuit of scholarly enquiry marked by honesty and integrity.

Academic Literacy is the capacity to undertake study and research, and to communicate findings and knowledge, in a manner appropriate to the particular disciplinary conventions and scholarly standards expected at university level.

Academic misconduct is any activity or practice engaged in by a student that breaches explicit guidelines relating to the production of work for assessment, in a manner that compromises or defeats the purpose of that assessment. Students must not engage in academic misconduct. Any such activity undermines an ethos of ethical scholarship. Academic misconduct includes, but is not limited to cheating, or attempting to cheat, through:

- Collusion
- Inappropriate collaboration
- Plagiarism (see more details below)
- Misrepresenting or fabricating data or results or other assessable work
- Inappropriate electronic data sourcing/collection
- Breaching rules specified for the conduct of examinations in a way that may compromise or defeat the purposes of assessment.

Penalties for academic misconduct vary according to seriousness of the case, and may include the requirement to do further work or repeat work; deduction of marks; the award of zero marks for the assessment; failure of one or more units; suspension from a course of study; exclusion from the University, non-conferral of a degree, diploma or other award to which the student would otherwise have been entitled. Refer to the Ethical Scholarship, Academic Literacy and Academic Misconduct and individual Faculty policies. For further information on the rules and procedures in respect of appropriate academic conduct you should visit: http://www.teachingandlearning.uwa.edu.au/tl/academic_conduct

Acknowledgements and plagiarism

In the course of your individual and group work assignments, you will encounter ideas from many sources. These will include journal and newspaper articles, commentaries, books, web sites and other electronic sources, original case sources, lecture materials. All MBA assignments that you submit must acknowledge all the different sources you have used. Not to acknowledge your sources is plagiarism, a form of dishonesty. Plagiarism is the misappropriation of the work or ideas of others and presenting them as your own. This is reprehensible from both an ethical and legal viewpoint. Neither the School nor the University accepts ignorance or the fact that a student’s previous acts of plagiarism had been undetected as a defence.

In order to avoid engaging in plagiarism it is your responsibility to acknowledge all of your sources in any work submitted for assessment and it is essential that you reference the work of others correctly. Where you quote directly from a source, you must ensure that any direct quotations are placed in quotation marks and are fully referenced. Even when you do not quote directly and are just referring to or expanding on the work of others, you must still acknowledge the sources of your information and ideas. Close paraphrasing in which you change a few phrases around, leave a clause out of a long sentence or put the original sentences in a different order is still plagiarism. To mark words as a quotation the entire text that has been coped should be enclosed within quotation marks. If the copied text is four or more lines in length, it may be more appropriate to set it as a separate and indented paragraph. Each time that text is copied, the source must be acknowledged with a reference citation, including the page number.
Advice on proper referencing is given below. If you have any doubts concerning appropriate referencing formats or how to acknowledge the work of others correctly, you should seek the advice of your lecturer.

Referencing

It is important that the referencing of any sources used in your written work is done properly, if only to substantiate the points you are making in your assignment or project. The Harvard style is the preferred and there are some notes for guidance which have been prepared by the library staff: ‘Citing your sources Harvard Style’

Endnote is a really good system for building up a database of references. Not everyone will want to invest the time in using this system but you should consider it if you intend to build up resource materials or plan to undertake extensive research in a particular area. The library staff have also developed a tutoring package: ‘A quick Guide to Using EndNote’ which provides the basics for using EndNote with an essay

This is linked to from the how to Use End Note page www.library.uwa.edu.au/guides/endnote/ which provides more comprehensive information.

Appeals against academic assessment

In the first instance, students are strongly advised to talk informally to the lecturer about the grade awarded. The University provides the opportunity for students to lodge an appeal against any mark which he or she feels is unfair. Any student making an appeal is under an obligation to establish a prima facie case by providing particular and substantial reasons for the appeal.

There is a 12 day time limit for making any such appeal. An appeal against academic assessment may result, as appropriate, in an increase or decrease in the mark originally awarded. The University regulations relating to appeals and the form on which the appeal should be lodged can be found in the GSM website or at http://www.publishing.uwa.edu.au/handbooks/interfaculty/PFAAAA.html

Prerequisites

There are no prerequisites for this unit.

Software requirements

There are no software requirements for this unit.

Textbook(s)

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-course Quiz</td>
<td></td>
<td>This quiz is designed to assist preparation for the first half of the unit, and will be collected at the beginning of the first session</td>
</tr>
</tbody>
</table>
| 1         | 6 April | **Topic One. Economics**  
Economics and economic goals  
Goals of allocation and distribution processes  
Production Possibilities Frontier  
The nature of economic theory  
Opportunity costs  
Using economic models to solve economic problems  

**Microeconomics vs Macroeconomics**  
The difference between microeconomics and macroeconomics |
| 2         | 7 April | **Topic Two. Demand and Supply Analysis**  
Demand and supply as concepts  
Determinants of supply and demand  
Changes in demand vs changes in the amount demanded  
Supply, demand and equilibrium  
Government interference and its consequences  

**Topic Three. Elasticity**  
Point and arc elasticity  
Price and income elasticities of demand  
Determinants of supply and demand elasticities  
The total revenue test  

**Topic Four. The Business Cycle and Economic Forecasting**  
Optimisation and economics theory  
Demand analysis and optimisation  
Leading, concurrent and lagging indicators |
<table>
<thead>
<tr>
<th>Topic Five.</th>
<th>8 April</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theory of the Firm</strong>&lt;br&gt;<strong>Production Theory</strong>&lt;br&gt;The production function&lt;br&gt;Production in the long run and the short run&lt;br&gt;Total product, marginal product and average product&lt;br&gt;Law of diminishing marginal returns</td>
<td></td>
</tr>
<tr>
<td><strong>Cost Theory</strong>&lt;br&gt;Total, average, and marginal costs&lt;br&gt;Fixed vs variable costs&lt;br&gt;The relationships between product and cost curves&lt;br&gt;Total and per unit cost curves&lt;br&gt;Profit maximisation</td>
<td></td>
</tr>
<tr>
<td><strong>Profit</strong>&lt;br&gt;Normal and economic profit&lt;br&gt;Explicit (accounting) and implicit costs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic Six.</th>
<th>8 April</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Firm in Action</strong>&lt;br&gt;<strong>Perfect Competition</strong>&lt;br&gt;The short run output decision&lt;br&gt;Total revenue, marginal revenue and marginal revenue&lt;br&gt;Short run profit maximisation&lt;br&gt;Short run supply curve and the marginal cost curve&lt;br&gt;Market supply curve&lt;br&gt;Short run and long run for the firm and the market&lt;br&gt;Equilibrium conditions in the short run and the long run&lt;br&gt;Derivation of firm and market supply curves&lt;br&gt;Efficient production and optimal allocation of society’s resources</td>
<td></td>
</tr>
</tbody>
</table>

<p>| Imperfect Competition&lt;br&gt;<strong>Monopoly</strong>&lt;br&gt;The firm and the market in the short run and the long run&lt;br&gt;Possible short run equilibria&lt;br&gt;Long run equilibrium&lt;br&gt;Natural and artificial barriers to entry&lt;br&gt;Deadweight loss caused by monopoly&lt;br&gt;Regulation of monopoly markets&lt;br&gt;Price discrimination and monopoly profit |
| <strong>Monopolistic Competition</strong>&lt;br&gt;The firm and the market in the short run and the long run&lt;br&gt;Possible equilibrium outcomes in the short run&lt;br&gt;The firm’s adjustment process from the short run to the long run&lt;br&gt;Normal profits in the long run, and the exceptions&lt;br&gt;Advertising elasticity |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>
| 5 | 8 April | **Oligopoly**
|   |   | Market domination and firm behaviour
|   |   | Kinked demand curve model
|   |   | Inflexibility of price and output and the lack of real competition
|   |   | Forms of oligopoly
|   |   | **Topic Seven** **Review of Market Models**
|   |   | Using characteristics to identify structures
|   |   | **Topic Eight.** **The Market Chain Model**
|   |   | Input demand as a derived demand
|   |   | Monopsony, oligopsony and countervailing power
|   |   | Market chains
|   |   | An economic look at the supply chain
| 6 | Week of 26 April | **Tutorial material as per outline**
| 7 | Week of 8 May | **Tutorial material as per outline**
|   |   | **Mid-course Quiz**
|   |   | This quiz is designed to assist preparation for the second half of the unit, and will be collected at the beginning of Session Ten
| 8 | 18 May | **Topic Nine.** **Transition to the Macroeconomy**
|   |   | The difference between microeconomic and macroeconomics
|   |   | The nature of the macroeconomy
|   |   | Problems addressed by macroeconomics
|   |   | The Fallacy of Composition
|   |   | Classical Economics
|   |   | **Circular Flow Model**
|   |   | The participants in the macroeconomy
|   |   | The relationship between markets
|   |   | **National Income Accounting**
|   |   | The revolution in macroeconomics and Keynesian Economics
|   |   | The elements of national income and double counting
|   |   | Measuring national income in real and nominal terms
|   |   | **Topic Ten.** **Aggregate Demand and Aggregate Supply**
|   |   | The determinants of aggregate demand
|   |   | The nature of aggregate supply
<table>
<thead>
<tr>
<th></th>
<th></th>
<th><strong>Topic Eleven. Income Determination</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>The Keynesian view of national income determination</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consumption and saving schedules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marginal and average propensities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Saving and investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Intended and unintended saving and investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The determination of equilibrium national income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expenditure/output approach and leakages/injections approach</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Simple and complex multipliers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inflationary and recessionary gaps</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Paradox of Thrift</td>
</tr>
</tbody>
</table>

**Closed Economy and Open Economy**

Keynesian 4-sector model related to the circular flow diagram

The government sector

The government and balanced budget multipliers

The external sector

The open economy multiplier

A potential paradox with rising national income

**Fiscal Policy**

Discretionary fiscal policy

Built-in (automatic) stabilisers

The dilemma of government debt

<table>
<thead>
<tr>
<th></th>
<th></th>
<th><strong>Topic Twelve. Money and Monetary Policy</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Functions and types of money</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit creation and the fractional reserve banking system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interest rates and financial instruments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long term and short term interest rates</td>
</tr>
</tbody>
</table>

**Keynesian Theory of Liquidity**

**Monetarism**

The equation of exchange and the quantity theory of money

An alternative policy framework

**The Application of Monetary Theory**

Types of demand for money - Keynes vs Monetarism

Monetary transmission mechanism - Keynes vs Monetarism

The impact of modern financial instruments and technology
<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>20 May</td>
<td><strong>Topic Thirteen. Money and Banking</strong></td>
<td>The central bank and its role</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Types of monetary aggregates</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The operations of the central bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The process of change in world financial markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The role of expectations vs events</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>The Financial Markets</strong></td>
<td>The Cash Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cheque clearing and inter-bank settlements</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Government financial instruments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Smoothing and market intervention</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Banking Systems</strong></td>
<td>Prudential vs regulatory control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Capital adequacy requirements</td>
</tr>
<tr>
<td>12</td>
<td>20 May</td>
<td><strong>Topic Fourteen. Inflation and Unemployment</strong></td>
<td>Demand-pull inflation and policy options</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cost-push inflation and policy options</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Stagflation and policy options</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Anticipated vs unanticipated inflation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Types of unemployment and labour market efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Inflation and unemployment - a trade-off?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Phillips Curve Model in the short run and the long run</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The natural rate of unemployment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Is there a natural rate of unemployment in Australia?</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Topic Fifteen. International Macroeconomics</strong></td>
<td>The nature of the global economy - system or jungle?</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Trade</strong></td>
<td>Measuring trade flows</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Balance of payments and its components</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The nature of trade flows and their distortion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The structure of trade flows - composition and direction</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Exchange Rates</strong></td>
<td>The determination of exchange rates</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Freely floating exchange rates vs a managed float</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Fixed exchange rates - an expensive option</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bretton Woods vs market determination</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Interest Rates</strong></td>
<td>Comparative interest rates internationally</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>International capital and investment flows</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The relationship between exchange rates and interest rates</td>
</tr>
<tr>
<td>13</td>
<td>Week of 29 May</td>
<td>Tutorial material as per outline</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Week of 5 June</td>
<td>Tutorial material as per outline</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exam Week</td>
<td>As advised</td>
<td></td>
</tr>
</tbody>
</table>
**Attendance**

Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process. For this reason the GSM has decided not to move to on-line teaching. It is, therefore, important that you attend classes (and be on time).

More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminar and tutorials’. Students should not expect to obtain approval to miss more than two classes per unit, unless there are exceptional circumstances.

**Taping of Lectures**

The Graduate School does not provide tape recordings of lectures, however if you do wish to tape record a lecture then as a matter of courtesy, you should obtain the permission of the lecturer first.
Pre-Course Quiz
To be submitted at the beginning of Session One

The questions in this quiz assume no knowledge of Economics. They will, however, guide you through many of the topics for the first half of the unit. All of the answers are available in your textbook, notes or other handouts, and will require no interpretation on your part, although you may need to summarise or paraphrase some of the concepts included.

1. What are the two branches of Economics that you will study in this unit?

2. Why should theory and application be kept separate in using Economics?

3. What is the role of assumptions in Economics?

4. Why should Economics not be relied upon to give definitive answers to business questions?

5. What is the key assumption in the Production Possibilities Frontier model?

6. Is the determination of national income positive or normative Economics?

7. You disagree with an economic policy prescription on moral grounds. Is your disagreement positive or normative in Economic terms?

8. What is the key level at which Microeconomics is used?

9. What is the key level at which Macroeconomics is used?

10. Define Demand.

12. Does a change in Demand change Supply, or simply the Quantity Supplied?

13. Does a change in Supply change Demand, or simply the Quantity Demanded?

14. A direct tax will cause the .................curve to shift, and an indirect tax will cause the .................curve to shift?

15. What is an Equilibrium?

16. What is the effect of a firm setting its product price above the market equilibrium level?

17. Define Price Elasticity of Demand.

18. Define Arc Elasticity.

19. Is Point Elasticity useful to managers in making business decisions?

20. What are the factors of production included in the Production Function?

21. Define the Short Run in economic terms.

22. Define the Long Run in economic terms

23. What are the three types of Total Cost?

24. What are the four types of per-unit costs?
25. What concept underlies Production Theory, Cost Theory and Market Models?

26. What are the four types of market models?

27. Which market model is the most competitive?

28. Which market model is the least competitive?

29. What are the other two market models, and which one is the more competitive?

30. Define barriers to entry.
SESSION ONE: Thursday, 6 April, 2006

Theme: Economics is a body of knowledge that is constantly under review. Even good economic principles can be used to make or justify bad economic decisions.

The pre-course quiz is due at the beginning of this session.

Unit Introduction
The scope and intentions of the unit will be introduced, and the scene set for the succeeding seven sessions.

Allocation of Project Groups
The class will be divided into small project groups. While it may be comfortable to try to work with people you know already, sometimes it is more productive overall to include people you do not know.

Study Skills
Thinking about and understanding Economics requires certain skills and thought patterns that are not usually taught except in dedicated economics units. To prepare adequately for this unit, and to use the knowledge you will accumulate, the following aspects of study skills will be covered:

- Planning and organising essays and short answers.
- Structuring an answer on discrete theoretical and application topics.
- The structure and organisation of economic reports.

Topic One. Economics

References: McTaggart, Findlay and Parkin, Chapter 1 - 3, 6.

Economics and economic goals
Goals of allocation and distribution processes
Production Possibilities Frontier
The nature of economic theory
Opportunity costs
Using economic models to solve economic problems

Microeconomics vs Macroeconomics
The difference between microeconomics and macroeconomics

Topic Two. Demand and Supply Analysis

References: McTaggart, Findlay and Parkin, Chapter 4

Demand and supply as concepts
Determinants of supply and demand
Changes in demand vs changes in the amount demanded
Supply, demand and equilibrium
Government interference and its consequences
SESSION TWO: Friday 7 April, 2006

Theme: Even simple concepts can provide managers with simple but effective methods to assist in decision making

**Topic Three. Elasticity**

**References:** Session material

- Point and arc elasticity
- Price and income elasticities of demand
- Determinants of supply and demand elasticities
- The total revenue test

**Topic Four. The Business Cycle and Economic Forecasting**

**Reference:** Session material

- Demand analysis and optimisation
- Leading, concurrent and lagging indicators
SESSION THREE:  Saturday, 8 April, 2006

Theme:  The firm is people who react to the economic circumstances in which they find themselves. Patterns and models help us to understand the principles by which people operate firms, but cannot be said to hold for all firms in an industry.

Topic Five.  Theory of the Firm

References:  McTaggart, Findlay and Parkin, Chapters 9 - 10

Production Theory
The production function
Production in the long run and the short run
Total product, marginal product and average product
Law of diminishing marginal returns

Cost Theory
Total, average, and marginal costs
Fixed vs variable costs
The relationships between product and cost curves
Total and per unit cost curves
Profit maximisation

Profit
Normal and economic profit
Explicit (accounting) and implicit costs

Theme:  The firm is people who react to the economic circumstances in which they find themselves. Patterns and models help us to understand the principles by which people operate firms, but cannot be said to hold for all firms in an industry.

Topic Six.  The Firm in Action

References:  McTaggart, Findlay and Parkin, Chapter 11

Perfect Competition
The short run output decision
Total revenue, average revenue and marginal revenue
Short run profit maximisation
Short run supply curve and the marginal cost curve
Market supply curve
Short run and long run for the firm and the market
Equilibrium conditions in the short run and the long run
Derivation of firm and market supply curves
Efficient production and optimal allocation of society’s resources
SESSION FOUR: Saturday, 8 April, 2006

Theme: The firm is people who react to the economic circumstances in which they find themselves. Patterns and models help us to understand the principles by which people operate firms, but cannot be said to hold for all firms in an industry.

References: McTaggart, Findlay and Parkin, Chapter 12 - 13

Imperfect Competition

Monopoly
The firm and the market in the short run and the long run
Possible short run equilibria
Long run equilibrium
Natural and artificial barriers to entry
Deadweight loss caused by monopoly
Regulation of monopoly markets
Price discrimination and monopoly profit

Monopolistic Competition
The firm and the market in the short run and the long run
Possible equilibrium outcomes in the short run
The firm's adjustment process from the short run to the long run
Normal profits in the long run, and the exceptions
The effect of advertising
The concept of advertising elasticity
SESSION FIVE: Saturday, 8 April, 2006

Theme: Models with few variables offer solutions whereas models with many variables offer only an increasing range of options. The more complex the market, the less support that is given by Economics, and the more skill that is required of the manager.

Oligopoly
Market domination and firm behaviour
Kinked demand curve model
Inflexibility of price and output and the lack of real competition
Forms of oligopoly

Topic Seven. Review of Market Models
Using characteristics to identify structures

Topic Eight. The Market Chain Model
Input demand as a derived demand
Monopsony, oligopsony and countervailing power
Market chains
An economic look at the supply chain
SESSION SIX: Week beginning 26 April, 2006

Theme: Economics is a body of knowledge that is constantly under review. Even good economic principles can be used to make or justify bad economic decisions.

Objectives: After completing the material for this session, you should be able to:

1. Explain the basic premises around which the study of economics is built.
2. Explain the methodology of economics.
3. Plan and write successful economics answers and reports.
4. Feel comfortable with the role of economics as one resource available to managers.
5. Discuss supply and demand as economic concepts and as part of the reality of the market.
6. Explain, in simple terms, the effects of economic, political and social changes on the demand for, and supply of, a product or service.
7. Incorporate demand, supply and the concept of elasticity in your decision making processes.

Topic One. Economics

References: McTaggart, Findlay and Parkin, Chapter 1 - 3, 6.

- Economics and economic goals
- Goals of allocation and distribution processes
- Production Possibilities Frontier
- The nature of economic theory
- Opportunity costs
- Using economic models to solve economic problems

- Microeconomics vs Macroeconomics
- The difference between microeconomics and macroeconomics

Exercises:

1. Why is Economics a tool for decision making rather than the answer to the problems of politicians and businesspeople?

2. As a model, what does the Production Possibilities Frontier tell us about the economy? Can it be used to tell us about economic change? What does it tell us about us?

3. Use the PPF model to demonstrate the concept of opportunity costs, and why these are important to you.

4. Explain four choices you have made which involve opportunity costs.

5. Articulate a model of the effect of a price increase on the sales of a product. Be aware of any assumptions you make.

6. Explain the concept of the Fallacy of Composition. Is this important to managers and decision makers?
Topic Two. Demand and Supply Analysis

References: McTaggart, Findlay and Parkin, Chapter 4

- Demand and supply as concepts
- Determinants of supply and demand
- Changes in demand vs changes in the amount demanded
- Supply, demand and equilibrium
- Government interference and its consequences

Exercises:

1. Explain and illustrate income and substitution effects of a price change.

2. What is the difference between a change in demand/supply and a change in the quantity demanded/supplied? What is the importance of each situation on business planning, given that the causes of each are different?

3. In the simplest model of supply and demand, illustrate the effect of the imposition of a tax. Highlight changes in consumer and producer surplus, and the appearance of a deadweight loss.

4. Discuss the value to a business manager of understanding the simple supply/demand model used in this topic.

Topic Three. Elasticity

References: Session material

- Point and arc elasticity
- Price and income elasticities of demand
- Determinants of supply and demand elasticities
- The total revenue test

Exercises:

1. Compare and contrast the concepts of point and arc elasticity. Give examples of where they might be used in business decision making.

2. How would you calculate and use the concept of price and income elasticity of demand in the management of:

   a. A chain of supermarkets or fast food restaurants.
   b. A “cutting edge” computer software company.

   What differences would you expect to find?

3. Define and illustrate normal, luxury and inferior goods.
Theme: The firm is people who react to the economic circumstances in which they find themselves. Patterns and models help us to understand the principles by which people operate firms, but cannot be said to hold for all firms in an industry.

Objectives: After completing the material for this session, you should be able to:

1. Understand and use economic indicators as part of managerial decision making.
2. Analyse the resources and needs of firms in the structured framework of the Production Function.
3. Explain the basis of the different costs faced by businesses.

Topic Four. The Business Cycle and Economic Forecasting

Reference: Session material

Demand analysis and optimisation
Leading, concurrent and lagging indicators

Exercises:

1. Use your understanding of business indicators to produce a diagram of how the three major types of indicator will relate throughout the business cycle.
2. Your leading indicator is rising. Your concurrent indicator is falling slightly. Your lagging indicator is falling noticeably. Where do you think the economy might be on the business cycle?

Topic Five. Theory of the Firm

References: McTaggart, Findlay and Parkin, Chapters 9 - 10

Production Theory
The production function
Production in the long run and the short run
Total product, marginal product and average product
Law of diminishing marginal returns

Exercises:

1. Explain the concept of a Production Function. How would you modify it to suit your experience in business?
2. Explain and illustrate the differences between fixed and variable inputs in the short run and the long run.
Cost Theory

- Total, average, and marginal costs
- Fixed vs variable costs
- The relationships between product and cost curves
- Total and per unit cost curves
- Profit maximisation

Exercises:
1. Identify and illustrate the various types of cost curve involved in cost theory.
2. Which information is more important in making business decisions: marginal cost or average cost? Are they both feasible to calculate in:
   a. A small company with one outlet.
   b. A large company with many outlets and a central office?

Profit

- Normal and economic profit
- Explicit (accounting) and implicit costs

Theme: The firm is people who react to the economic circumstances in which they find themselves. Patterns and models help us to understand the principles by which people operate firms, but cannot be said to hold for all firms in an industry.

Objectives: After completing the material for this part of the session, you should be able to discuss and use the model of a perfectly competitive market in appropriate situations.

Topic Six. The Firm in Action

References: McTaggart, Findlay and Parkin, Chapter 11

Perfect Competition

- The short run output decision
- Total revenue, average revenue and marginal revenue
- Short run profit maximisation
- Short run supply curve and the marginal cost curve
- Market supply curve
- Short run and long run for the firm and the market
- Equilibrium conditions in the short run and the long run
- Derivation of firm and market supply curves
- Efficient production and optimal allocation of society’s resources

Exercises:
1. Demonstrate the short run and long run equilibria for a perfectly competitive firm, and the transition between the two.
2. Derive an industry supply curve for a perfectly competitive market. Does it make sense just to aggregate the supply curves of the individual firms?
3. You deal in gold on a commodities exchange. A friend tells you that Uzbekistan is planning to sell 75 tonnes of gold in the next six months. In terms of the model of perfect competition, what do you expect will happen?
SESSION SEVEN: Week beginning 8 May 2006

Theme: The firm is people who react to the economic circumstances in which they find themselves. Patterns and models help us to understand the principles by which people operate firms, but cannot be said to hold for all firms in an industry.

Objectives: After completing the material for this session, you should be able to:

1. Discuss and use the model of a monopolistic market in appropriate situations.
2. Distinguish between a firm that is a price taker, because of the market characteristics, from one that is a price maker.
3. Discuss and use the models of imperfectly competitive markets in appropriate situations.

References: McTaggart, Findlay and Parkin, Chapter 12 - 13

Imperfect Competition

Monopoly
The firm and the market in the short run and the long run
Possible short run equilibria
Long run equilibrium
Natural and artificial barriers to entry
Deadweight loss caused by monopoly
Regulation of monopoly markets
Price discrimination and monopoly profit

Exercises:
1. Is it true that monopolists can charge whatever they want, regardless of the wants and needs of consumers?
2. What is:
   a. Monopoly profit, and
   b. Deadweight loss caused by monopoly?
3. Explain and illustrate price discrimination.

Monopolistic Competition
The firm and the market in the short run and the long run
Possible equilibrium outcomes in the short run
The firm’s adjustment process from the short run to the long run
Normal profits in the long run, and the exceptions
The effect of advertising
The concept of advertising elasticity

Exercises:
1. What is the nature of monopolistic competition, and what are the possible short run equilibrium outcomes?
2. How does the model of monopolistic competition suggest that a firm makes the transition from the short run to the long run? And what are the possible long run outcomes?
3. Explain the role and implications of advertising, within the model of monopolistic competition.
Theme: Models with few variables offer solutions whereas models with many variables offer only an increasing range of options. The more complex the market, the less support that is given by Economics, and the more skill that is required of the manager.

Objectives: After completing the material for this session, you should be able to:

1. Distinguish between the four main types of market structure when looking at market activities both in Australia and internationally.

2. Use the market models to analyse a business situation involving several markets, and the implications of changes along that market chain.

Oligopoly
- Market domination and firm behaviour
- Kinked demand curve model
- Inflexibility of price and output and the lack of real competition
- Forms of oligopoly

Exercises:
1. What types of oligopoly are there, and how do these affect a firm’s behaviour?

2. Explain and illustrate strategic behaviour of an oligopolistic firm in the short run and the long run.

3. If the kinked-demand-curve model of oligopoly is totally unrealistic, what is the point of understanding it?

4. You are the Managing Director of a boutique brewery that finds it has a unique and very saleable product. What options are open to you, and how do they fit with a descriptive model of oligopoly?

Topic Seven. Review of Market Models
- Using characteristics to identify structures

Topic Eight. The Market Chain Model
- Input demand as a derived demand
- Monopsony, oligopsony and countervailing power
- Market chains
- An economic look at the supply chain

Exercise:
Identify the market chain for the company in which you work now, or in the last industry in which you were employed, highlighting any opportunities and threats that are revealed.
**Revision Project:**

1. Draw up a version of the following table of the various models of market behaviour.

<table>
<thead>
<tr>
<th>Points for Comparison</th>
<th>Perfect Competition</th>
<th>Monopoly</th>
<th>Monopolistic Competition</th>
<th>Oligopoly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumptions/characteristics of the model</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short run equilibrium</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short run price, output and profit outcomes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long run equilibrium</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long run price, output and profit outcomes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the practical applications of the model?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. List ten products for each market model.
Mid-Course Quiz
To be submitted at the beginning of Session Ten

The questions in this quiz assume no knowledge of Macroeconomics. They will, however, guide you through many of the topics for the second half of the unit. All of the answers are available in your textbook, notes or other handouts, and will require no interpretation on your part, although you may need to summarise or paraphrase some of the concepts included.

1. What are the sectors in the Three Sector Model?

2. What are the sectors in the four Sector (open Economy) Model?

3. Net factor flows are……?

4. GDP at factor cost differs from GDP at market prices in that……?

5. What are the leakages and injections included in the Leakages/Injections Approach?

6. What is the underlying assumption of both the Recessionary Gap and Inflationary Gap models?

7. The Open Economy Multiplier is……?

8. The paradox of thrift is…?

9. The three types of money are?

10. What type of money is created in the Fractional Reserve Banking System, and why?

11. How does the Credit Creation Multiplier affect Money Supply?

12. What are the most common international interest benchmarks?
13. What is the Margin for Risk?

14. What is a discount security?

15. What is a coupon security?

16. What are the two main financial markets in an economy?

17. What is an Exchange Settlement Account?

18. What is Real Time Gross Settlement?

19. Who sets official short term interest rates in most economies?

20. Who sets official long term interest rates in most economies?

21. What is a Normal Yield Curve?

22. What are the two types of inflation?

23. Which type of inflation can be tackled using Keynesian policies?

24. What is the Philips Curve Model?

25. What are the three types of unemployment?

26. What is the Current Account?
27. What is the Capital Account?

28. Which market model is the least competitive?

29. A managed exchange rate float is…..?

30. Who determines the exchange rate in a fixed rate regime?
SESSION EIGHT: Thursday, 18 May, 2006

The Class Examination

This is an open book examination of 30 minutes duration and will comprise one short essay question, from a choice of four. For this examination, you will be required to:

- Refer to the theoretical concept(s) relevant to the situation.
- Explain the relevance of the concept(s) used.
- Justify your decision/explanation in terms of the theoretical concept(s).

Marks will be awarded equally for:

- The demonstrated understanding of the relevance of the theoretical concept(s), and
- The validity of your justification.

Theme: People are Economics

Reading: Economic Rationalism?

Topic Nine. Transition to the Macroeconomy

References: McTaggart, Findlay and Parkin, Chapter 20 - 21

- The difference between microeconomic and macroeconomics
- The nature of the macroeconomy
- Problems addressed by macroeconomics

The Fallacy of Composition

Circular Flow Model
- The participants in the macroeconomy
- The relationship between markets

National Income Accounting
- The revolution in macroeconomics and Keynesian Economics
- The elements of national income and double counting
- Measuring national income in real and nominal terms

Topic Ten. Aggregate Demand and Aggregate Supply

References: McTaggart, Findlay and Parkin, Chapters 23, 24, 30, 31

- The determinants of aggregate demand
- The nature of aggregate supply
SESSION NINE  Friday, 19 May, 2006

Theme: The greater the aggregation of economic data, the easier appear the answers.
Beware the individual decisions that feedback into the economy and continually affect the outcomes of economic planning and policy.

Topic Eleven. Income Determination

Reading: “Japan’s Economic Threat to the Asian Region.”

Reference: McTaggart, Findlay and Parkin, Chapters 23 - 24

The Keynesian view of national income determination
Consumption and saving schedules
Marginal and average propensities
Saving and investment
Intended and unintended saving and investment
The determination of equilibrium national income
Expenditure/output approach and leakages/injections approach
Simple and complex multipliers
Inflationary and recessionary gaps
The Paradox of Thrift

Closed Economy and Open Economy
Keynesian 4-sector model related to the circular flow diagram
The government sector
The government and balanced budget multipliers
The external sector
The open economy multiplier
A potential paradox with rising national income

Reference: McTaggart, Findlay and Parkin, Chapters 25, 29

Fiscal Policy
Discretionary fiscal policy
Built-in (automatic) stabilisers
The dilemma of government debt
SESSION TEN: Saturday, 20 May, 2006

Theme: The greater the aggregation of economic data, the easier appear the answers. Beware the individual decisions that feedback into the economy and continually affect the outcomes of economic planning and policy.

Topic Twelve. Money and Monetary Policy

References: McTaggart, Findlay and Parkin, Chapters 26 - 28
Carew, Chapters 3, 7, 11
McGrath, Chapter 1

Readings: “Asset Prices, Monetary Policy and the Business Cycle”
“Maintaining Price Stability”

Functions and types of money
Credit creation and the fractional reserve banking system
Interest rates and financial instruments
Long term and short term interest rates

Keynesian Theory of Liquidity Preference

Monetarism
The equation of exchange and the quantity theory of money

The Application of Monetary Theory
Types of demand for money - Keynes vs Monetarism
Monetary transmission mechanism - Keynes vs Monetarism
The impact of modern financial instruments and technology
SESSION ELEVEN: Saturday, 20 May, 2006

Theme: All economies are part of a global financial market. Some policy outcomes are realisable domestically, but most are influenced by events elsewhere.

References: McTaggart, Findlay and Parkin, Chapter 27

Topic Thirteen. Money and the Central Bank

Readings: “Asset Prices, Monetary Policy and the Business Cycle”
“Maintaining Price Stability”
“A Proposal for Implementing Real Time Gross Settlement in Australia”

The central bank and its role
Types of monetary aggregates
The operations of the typical central bank, such as the Central Bank of the Philippines
The role of expectations vs events

References: Session material

The Official Market
The Cash Market
Cheque clearing and inter-bank settlements
Government financial instruments
Smoothing and market intervention

References: Session material

The Banking System
Prudential vs regulatory control
Capital adequacy requirements
SESSION TWELVE: Saturday, 20 May, 2006

Theme: Inflation and unemployment are often seen as “shocks” to the macroeconomy, but the groundwork is always laid beforehand.

Objectives: After completing the material for this session, you should be able to:

1. Explain both models of inflation, and the policy options available to government in each case.
2. Explain the composition of the labour market as it affects employment and unemployment.
3. Discuss the forms and causes of unemployment in Australia.

References: McTaggart, Findlay and Parkin, Chapters 31, 34

Topic Fourteen. Inflation and Unemployment

Readings: “Asset Prices, Monetary Policy and the Business Cycle”
“Disinflation: an Unsung Benefit of Globalisation?”
“Maintaining Price Stability”

Demand-pull inflation and policy options
Cost-push inflation and policy options
Stagflation and policy options
Anticipated vs unanticipated inflation
Types of unemployment and labour market efficiency
Inflation and unemployment - a trade-off?
The Phillips Curve Model in the short run and the long run
The natural rate of unemployment
Is there a natural rate of unemployment in Australia?
Theme: The international market is a bigger game, with the same rules as the domestic market. The number of decision makers is larger, so that the increased number of decision feedbacks complicates the outcome further.

Topic Fifteen. International Macroeconomics

References: McTaggart, Findlay and Parkin, Chapters 32, 35

Readings: “International Borrowing, Lending and Interest Rates”
          “Riding the Tiger”
          “What ails China?”

The nature of the global economy - system or jungle?

Trade
Opportunity costs and comparative advantage
Measuring trade flows
Balance of payments and its components
The nature of trade flows and their distortion
The structure of trade flows - composition and direction
Some alternative explanations of trade

References: Session material

Exchange Rates
The determination of exchange rates
Freely-floating exchange rates vs a managed float
Fixed exchange rates - an expensive option
Bretton Woods vs market determination

Interest Rates
Comparative interest rates internationally
International capital and investment flows
The relationship between exchange rates and interest rates

---ooo000O000ooo---
SESSION THIRTEEN: Week Beginning 29 May, 2005

Theme: People are Economics

Objectives: After completing the material for this session, you should be able to:

1. Discuss the structure of the macroeconomy in terms of the circular flow model.
2. Explain the basis and methodology of national income accounting.
3. Discuss the features of aggregate demand and supply as distinct from that of an individual product or service.
4. Discuss and illustrate the way in which national income is determined, and the factors, which may affect it both directly and indirectly from within the domestic economy.

Topic Nine. Transition to the Macroeconomy

References: McTaggart, Findlay and Parkin, Chapter 20 – 21

Reading: “Economic Rationalism?”

The difference between microeconomic and macroeconomics
The nature of the macroeconomy
Problems addressed by macroeconomics

The Fallacy of Composition

Circular Flow Model
The participants in the macroeconomy
The relationship between markets

National Income Accounting
The revolution in macroeconomics and Keynesian Economics
The elements of national income and double counting
Measuring national income in real and nominal terms

Exercises:
1. Explain how GDP is calculated using:
   a. the expenditure approach
   b. the income approach

2. Distinguish between GDP, GNP and NNP at market prices. How does NNP at market prices differ from NNP at factor cost?

3. Explain the difference between national income in real terms and in nominal terms.

4. Explain why and how GDP may be a biased quantitative measure of society's wellbeing.

Topic Ten. Aggregate Demand and Aggregate Supply

References: McTaggart, Findlay and Parkin, Chapters 23, 24, 30, 31

The determinants of aggregate demand
The nature of aggregate supply
Exercises:
1. What do you understand by the terms “aggregate demand” and “aggregate supply”?

2. Explain, with respect to the aggregate demand curve:
   a. the interest rate effect.
   b. the real balances effect.
   c. the foreign purchases effect.

3. Why is it appropriate to use only a short run aggregate supply curve when looking at the macroeconomy?

Topic Eleven. Income Determination

Reference: McTaggart, Findlay and Parkin, Chapters 23 - 24

- The Keynesian view of national income determination
- Consumption and saving schedules
- Marginal and average propensities
- Saving and investment
- Intended and unintended saving and investment
- The determination of equilibrium national income
- Expenditure/output approach and leakages/injections approach
- Simple and complex multipliers
- Inflationary and recessionary gaps
- The Paradox of Thrift

Exercises:
1. Explain and demonstrate the consumption and saving schedules, using figures and diagrams to assist your explanation, if required.

2. Distinguish between planned and actual investment.

3. It is said that a single individual may save more by consuming less, but if everybody tries to save more in the same way, the whole economy may end up saving no more than before, and may even save less. Explain this statement.

4. Explain and illustrate:
   a. an inflationary gap.
   b. a recessionary gap.

5. What is a multiplier, and how does it affect economic decisions?

6. Using both the expenditure-output approach and the leakages-injections approach, show the transition from the Keynesian 3-sector model to the 4-sector model when the external sector is introduced.

7. Under what circumstances does the inclusion of the external sector increase (decrease/leave unchanged) the equilibrium level of income in a previously closed economy?

8. Explain the statement, “an injection into the income stream by increased spending that is exactly equal to a withdrawal from that stream through taxation must be neutral in its effect on the equilibrium level of income.”
Theme: The greater the aggregation of economic data, the easier appear the answers. Beware the individual decisions that feedback into the economy and continually affect the outcomes of economic planning and policy.

Objectives: After completing the material for this session, you should be able to:

1. Explain, in general terms, the role and functioning of fiscal policy.
2. Discuss the processes of fiscal policy in Australia in terms of government economic performance and its real effects.

Closed Economy and Open Economy
- Keynesian 4-sector model related to the circular flow diagram
- The government sector
- The government and balanced budget multipliers
- The external sector
- The open economy multiplier
- A potential paradox with rising national income

Reference: McTaggart, Findlay and Parkin, Chapters 25, 29

Fiscal Policy
- Discretionary fiscal policy
- Built-in (automatic) stabilisers
- The dilemma of government debt

Exercises:
1. Discuss the merits (or otherwise) of taxation and spending as tools of fiscal policy.
2. What is meant by built-in (or automatic) stabilisers? How do they arise, and how do they affect discretionary fiscal policy?

Theme: Money does not make the world go round, it simply oils the machinery that supports transactions of all types.

Objectives: After completing the remaining material for this session, you should be able to:

1. Explain the role of money in a typical economy.
2. Show how money may be “created” and “destroyed” within a modern economy.
3. Place the workings of the financial markets within a monetary theory framework.

Topic Twelve. Money and Monetary Policy

References: McTaggart, Findlay and Parkin, Chapters 26 - 28
- Carew, Chapters 3, 7, 11
- McGrath, Chapter 1
Readings:  “Asset Prices, Monetary Policy and the Business Cycle”
“Financial System Soundness”
“Maintaining Price Stability”

Functions and types of money
Credit creation and the fractional reserve banking system
Interest rates and financial instruments
Long term and short term interest rates

**Keynesian Theory of Liquidity Preference**

Exercises:
1. Explain the relationship between interest rates and bond prices, and derive the Keynesian liquidity preference schedule to show the effects of a rise (fall) in the expected interest rate on bond prices.

**Monetarism**
The equation of exchange and the quantity theory of money
An alternative policy framework

Exercises:
1. What is the Quantity Theory of Money, and why is it such a powerful ideological concept?

**The Application of Monetary Theory**
Types of demand for money - Keynes vs Monetarism
Monetary transmission mechanism - Keynes vs Monetarism
The impact of modern financial instruments and technology

Exercises:
1. Read the article “Asset Prices, Monetary Theory, and the Business Cycle” from *Finance and Development*, June 1995. Are there lessons to be learned from this in terms of the monetary policies implemented in Australia in the past two to three years?

2. Read the article “Maintaining Price Stability” from *Finance and Development*, December 1996. Discuss the implications of Fischer’s views on monetary policy in terms of their relevance for the application of Keynesian and Monetarist policy prescriptions.
SESSION FOURTEEN: Week beginning 5 June, 2006

The Group Project is to be handed in to administration before the start of this evening’s class.

Theme: All economies are part of a global financial market. Some policy outcomes are realisable domestically, but most are influenced by events elsewhere.

Objectives: After completing the material for this session, you should be able to:

1. Explain the role and operations of a typical central bank.
2. Discuss the efficiency and functioning of Australian and regional money markets in terms of economic fundamentals.
3. Compare alternative theories of money, and relate each to the functioning of the financial markets.
4. Discuss and illustrate positive and negative aspects of financial markets globally.

References: McTaggart, Findlay and Parkin, Chapter 27

Topic Thirteen. Money and the Central Bank

Readings:
“Asset Prices, Monetary Policy and the Business Cycle”
“Maintaining Price Stability”
“A Proposal for Implementing Real Time Gross Settlement in Australia”

The central bank and its role
Types of monetary aggregates
The operations of a central bank, such as the Monetary Authority of Singapore
The process of change in financial markets
The role of expectations vs events

References: Session material

The Official Market
The Cash Market
Cheque clearing and inter-bank settlements
Government financial instruments
Smoothing and market intervention

References: Session material

The Banking System
Prudential vs regulatory control
Capital adequacy requirements

Exercises:
1. Read the Reserve Bank article entitled, "A Proposal for Implementing Real Time Gross Settlement in Australia", then discuss the role and functioning of the Cash Market
2. Explain the role of expectations in the operations of the central bank, and how these can affect the financial markets.
3. A larger proportion of bank lending for housing is counted towards capital adequacy than does lending for business. Explain the impact you expect this could have on:
   a. bank lending policies.
   b. home prices.
   c. investment in productive capital within the financial markets.

4. Discuss the implications, both positive and negative, of a bank having a large percentage of its portfolio in real estate and commercial property.

5. Read the listed articles and discuss the evolving role of the central bank in a Southeast Asian financial market undergoing rapid - and sometimes negative - change.

Theme: Inflation and unemployment are often seen as “shocks” to the macroeconomy, but the groundwork is always laid beforehand.

Objectives: After completing the material for this session, you should be able to:

1. Explain both models of inflation, and the policy options available to government in each case.
2. Explain the composition of the labour market as it affects employment and unemployment.
3. Discuss the forms and causes of unemployment in Australia.

References: McTaggart, Findlay and Parkin, Chapters 31, 34

Reading: “Disinflation: An Unsung Benefit of Globalisation?”

Topic Fourteen. Inflation and Unemployment

Readings: “Asset Prices, Monetary Policy and the Business Cycle”
“Maintaining Price Stability”

Demand-pull inflation and policy options
Cost-push inflation and policy options
Stagflation and policy options
Anticipated vs unanticipated inflation
Types of unemployment and labour market efficiency
Inflation and unemployment - a trade-off?
The Phillips Curve Model in the short run and the long run
The natural rate of unemployment
Is there a natural rate of unemployment?

Exercises:
1. Explain cost-push and demand-pull inflation, and the policies that might be implemented to combat them. What are the implications of such policies for business and industry?

2. Review the article “Asset Prices, Monetary Policy and the Business Cycle” from Finance and Development, June 1995. Discuss the implications of current monetary policy in terms of your expectations of inflation in the next decade.

3. From a business perspective, what can and should be done to encourage economic growth and development without fuelling inflation? Is there advantage to wages being fixed centrally compared with individual contracts or enterprise agreements?
Theme: The international market is a bigger game, with the same rules as the domestic market. The number of decision makers is larger, so that the increased number of decision feedbacks complicates the outcome further.

Objectives: After completing the material for this part of the session, you should be able to:

1. Discuss the nature of Singapore’s external sector.
2. Explain the relationship and feedbacks within the international markets for products, capital and currency.
3. Show you possess an economic framework to assist in planning projects and operations, which have international aspects.

Topic Fifteen. International Macroeconomics

References: McTaggart, Findlay and Parkin, Chapters 32, 35

Readings: “International Borrowing, Lending and Interest Rates”
“Riding the Tiger”
“What Ails China?”

The nature of the global economy - system or jungle?

Trade
- Opportunity costs and comparative advantage
- Measuring trade flows
- Balance of payments and its components
- The nature of trade flows and their distortion
- The structure of trade flows - composition and direction
- Some alternative explanations of trade

Exercises:

1. Can a high wage nation compete with a low wage nation?
2. If the current account and the capital account are of the same size, but with opposite signs, what are the implications of a nation “living beyond its means”?

References: Session material

Exchange Rates
- The determination of exchange rates
- Freely-floating exchange rates vs a managed float
- Fixed exchange rates - an expensive option
- Bretton Woods vs market determination

Interest Rates
- Comparative interest rates internationally
- International capital and investment flows
- The relationship between exchange rates and interest rates
Exercises:

1. How are exchange rates set in the international market? What implications does this have for businesses that borrow or lend money internationally?

2. Why is “hedging” such a good idea in international dealings?

3. Read the article “International Borrowing, Lending and Interest Rates” by Tony Makin. Discuss the Australian economy in terms of its external balance, exchange rates and interest rate as a consequence of being an open economy.

4. Discuss the implications for capital flows, interest rates and exchange rates of the current weakness of the Japanese economy, and the relative strength of the US economy.

5. Read the articles and discuss the following:
   
a. Is the theory of exchange rate determination appropriate to the actual operation of international currency markets?

b. Is there a basis in international economic theories to which you have been exposed on which a city such as Manila could strengthen its role as a regional capital market? What are the implications for the Philippines, regional centres? ....ASEAN?:
1. READINGS:

Asset Prices, Monetary Policy and the Business Cycle¹ ..................... Garry J. Schinasi
Disinflation: An Unsung Benefit of Globalization² .......................... Kenneth S Rogoff
Economic Rationalism? ....................................................... Calvin and Hobbes
International Borrowing, Lending and Interest Rates² .......................... Tony Makin
Japan’s Economic Threat to the Asian Region .............................. Ken Robertson
Maintaining Price Stability¹ .................................................. Stanley Fischer

A Proposal for Implementing Real Time Gross Settlement in Australia³ ................................ Reserve Bank of Australia

Riding the Tiger² ......................................................................... Canales-Krilenko et al
What Ails China² ....................................................................... Loren Brandt & Zhu Xiaodong

Notes:

1. Reprinted with the permission of Finance and Development, published by the International Monetary Fund and the World Bank
2. Reprinted with the permission of the Economic Society of Australia
3. Reprinted with the permission of the Reserve Bank of Australia