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.
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Contact details

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<th>Unit Web Site URL</th>
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<tbody>
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<td>Ken Robertson</td>
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<td><a href="mailto:Ken.Robertson@uwa.edu.au">Ken.Robertson@uwa.edu.au</a></td>
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<td>Room:</td>
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Your lecturer

Ken Robertson
Ken is the Associate Dean of the UWA Business School, responsible for business development both domestic and international. Before working at the University, he worked in government and business as an economist, and has also worked in Hong Kong and the US.

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

Introduction
This unit is entitled Economic Management and Strategy 503. 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-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 the classes. 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 economist 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.

Broad 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 data 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.

Software requirements
There are no software requirements for this unit.

Textbook(s)
Required text

Key dates
15 February  Group Project Outline due.
22 March  Class Examination.
19 April  Group Project due.
## Seminar topics

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<th>Session</th>
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| 1       | 1 February | **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       | 8 February | **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  |
| 3       | 15 February | **Topic Four. The Business Cycle and Economic Forecasting**  
Optimisation and economics theory  
Demand analysis and optimisation  
Leading, concurrent and lagging indicators  
**Topic Five. Theory of the Firm**  
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 |
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<td>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.</td>
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<td>Types of demand for money - Keynes vs Monetarism. Monetary transmission mechanism - Keynes vs Monetarism. The impact of modern financial instruments and technology.</td>
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| 11 | 19 April | **Topic Fourteen. Inflation and Unemployment**  
| 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? |
| 12 | 26 April | **Topic Fifteen. International Macroeconomics**  
| The nature of the global economy - system or jungle?  
| **Trade**  
| 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  
| **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 |

**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 a students shall attend prescribed classes, lectures, seminar and tutorials’. Students whose attendance at MBA units has been unsatisfactory will not be granted a pass grade. More than two missed classes without prior permission from the lecturer is classified as unsatisfactory. Students should not expect to obtain approval to miss more than two classes per unit, unless there are exceptional circumstances.
SESSION ONE: Tuesday, 1 February 2005

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.

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 project groups of up to five. 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
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.
SESSION TWO: Tuesday, 8 February 2005

Topic Two. Demand and Supply Analysis (continued)

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.

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

Topic Three. Elasticity

References: McTaggart, Findlay and Parkin, Chapter 5

- 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.
SESSION THREE: Tuesday, 15 February 2005

Project outline due before this afternoon’s class.

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: McTaggart, Findlay and Parkin, Chapter 33

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
SESSION FOUR: Tuesday, 22 February 2005

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:

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

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?

References: McTaggart, Findlay and Parkin, Chapter 12

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?

1. What is:
   a. Monopoly profit, and
   b. Deadweight loss caused by monopoly?

3. Explain and illustrate price discrimination.
SESSION FIVE: Tuesday, 1 March 2005

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 models of imperfectly competitive markets in appropriate situations.
2. Distinguish between the four main types of market structure when looking at market activities both in Australia and internationally.

References: McTaggart, Findlay and Parkin, Chapter 13

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.

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?
SESSION SIX: Tuesday, 8 March 2005

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.

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.

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<td>What are the practical applications of the model?</td>
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</tbody>
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2. List ten products for each market model.
SESSION SEVEN: Tuesday, 15 March 2005

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.

Theme: People are Economics

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

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

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?
SESSION EIGHT: Tuesday, 22 March 2005

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: 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.

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.

(cont)
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.”

**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

**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?
SESSION NINE: Tuesday, 5 April 2005

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, 27, 29
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

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 articles “Financial System Soundness” and “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 TEN: Tuesday, 12 April 2005

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 26

Topic Thirteen. Money and the Central Bank

Readings: “Asset Prices, Monetary Policy and the Business Cycle”
           “Financial System Soundness”
           “Maintaining Price Stability”
           “Managing Risks to the International Banking System”
           “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 Monetary Authority of Singapore
The process of change in Australian 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:

(cont)
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.
SESSION ELEVEN: Tuesday, 19 April 2005

The Group Project is to be handed in no later than the start of today’s class.

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 22, 31

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 in Australia?

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?
SESSION TWELVE: Tuesday, 26 April 2005

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 Australia’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, Chapter 35

Readings: “Foreign Exchange Markets: Structure and Systematic Risks”
“International Borrowing, Lending and Interest Rates”
“International Capital Markets Update”
“Managing Risks to the International Banking System”

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 Perth could strengthen its role as a regional capital market? What are the implications for Perth? ....Western Australia? ....Other regional centres?:

   ---ooo0000000oo---
Optional Quizzes and Exercises

These quizzes and exercises may be completed at any time for comment. They are not part of the assessment, but might prove useful as a learning and revision tool. Their aim is less to assess than to give you a structure for thinking about material that has been discussed in class, and anticipate material that will be discussed in class.

The questions are, in the main, not difficult as the answers are in the textbook, notes and class material. Some summarising or paraphrasing will be required, but answers should rarely exceed the one line that is given in the quiz for an answer.
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. What are the two branches of Economics that you will study in this unit?

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

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.
Quiz Two

This quiz is designed to help you to consolidate the material you have covered in Sessions One and Two, and thus to lay the foundation for your learning in Sessions Three and Four.

1. What are the major points covered in the discussion of theory in a short answer question?

2. In determining opportunity cost, what is more important: quantitative or qualitative aspects?

3. The explanation of the move along the PPF is an example of positive or normative economics?

4. How does the PPF model demonstrate economic growth?

5. Define “Income Effect”.

6. Define “Substitution Effect”.

7. Give an example of an unsuccessful floor price scheme.

8. What is the softer way to resolve a persistent stockpile?

9. What is “tax incidence”?

10. Define Deadweight Loss.

11. If demand is relatively elastic, tax incidence is on….?

12. Tax increases on tobacco and alcohol products tend to have their incidence on the consumer because….?

13. Is elasticity constant along a linear demand curve?
14. A price elasticity of demand of -1.47 means…? 

15. Point A: P = 4, Q = 600; Point B: P = 3.50, Q = 800. \( \varepsilon_{PD} \sim ? \) 

16. How accurate is the value for \( \varepsilon_{PD} \) in question 15? 

17. The three types of economic indicators are….? 

18. Does an indicator for the economy necessarily mean the same for a firm? 

19. What are the factors of production represented in the Production Function? 

Discuss one of the two problems below, illustrating your answer using a real world example.

1. Power generation in most regions or countries is a natural monopoly because…..

2. A firm producing fashion with a well-known designer label shares many characteristics with a “high street” clothing store. It also experiences some differences because…..
1. Draw up a version of the following table of the various models of market behaviour.

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2. List ten products for each market model.

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455.503 Economic Management and Strategy 503  
Trimester A, 2005  

Quiz Three

This quiz is help you to consolidate the material you covered in Sessions One and Two, and thus to lay the foundation for your learning in Sessions Seven and Eight.

1. Define the Fallacy of Composition.

2. What are the leakages and injections associated with the Government Sector in the Circular Flow?

3. What is the Consumption Schedule?

4. What are the two necessary and sufficient conditions for a four-sector equilibrium?

5. S>I; T<G; M>X……why?

6. S<I; T<G; M>X has occurred in which country?

7. Specify the Expenditure Approach to national income accounting.

8. Define "Gross Operating Surpluses".

9. How good is GDP in demonstrating living standards in an economy?


11. How does GDP_{FC} differ from GDP_{MP}?

12. Why is Real GDP per Capita a useful measure of living standards?
13. A GDP Deflator Index of 133.7 means….?

14. Why not use CPI to measure the price level in an economy?

15. Define Aggregate Demand.


17. What does the Long Run Aggregate Supply curve demonstrate?

18. The three reasons for the AD curve to slope downwards are….?

19. The Foreign Purchases Effect is….?

20. If the Aggregate Supply curve moves right, this reflects….?
Answer one of the two questions below:

1. You are the Shire president of Southern Cross (a regional centre). The major transport contractor has just informed you that he is planning to move his business (and a turnover in excess of $1.5 million) to Esperance (another regional centre about 400 kilometres away).

   What is your reaction, and why?

2. Your firm imports and sells manufacturing equipment to Australian industry. There is a general expectation of a recession within the next 12 months:

   What is likely to happen, and why?

   How do you respond?
This quiz is designed to help you to consolidate the material you have covered in Sessions One and Two, and thus to lay the foundation for your learning in Sessions Three and Four.

1. What are the three types of money?

2. Define “commodity money”.

3. What is the effect of a volatile credit creation multiplier?

4. What are the most common benchmarks in setting commercial interest rates, both domestically and internationally?

5. What is the effect of expectation that are not borne out by events?

6. What is the Monetarist monetary transmission mechanism?

7. Define “M3” and “Broad Money”.

8. The Clearing House is….?

9. Who sets short term official interest rates?

10. Who sets long term official interest rates?

11. Domestic smoothing operations are designed to….?

12. What form of policy can be used to resolve demand-pull inflation?
13. What is the effect of expansionary fiscal policy on cost-push inflation?

14. Define “structural unemployment”.

15. Define “natural rate of unemployment”.

16. What is NAIRU?

17. What is the relationship between the Current Account and the Capital Account in the Balance of Payments?

18. How does a fixed exchange rate work?

19. What is a “dirty float”?

20. The three major determinants of exchange rates are…?
Assessment

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
<th>Due date</th>
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<tbody>
<tr>
<td>Group Project Outline</td>
<td>10 per cent</td>
<td>11 February</td>
</tr>
<tr>
<td>Class Examination</td>
<td>10 per cent</td>
<td>17 March</td>
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<tr>
<td>Group Project</td>
<td>30 per cent</td>
<td>7 April</td>
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<tr>
<td>Final Examination</td>
<td>50 per cent</td>
<td>As advised</td>
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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 thin 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. Providing feedback on your work also serves as part of the learning process.
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 prepresented 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. 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

Assessment 1

*Group Project Outline*
An outline of no more than four A4 pages, to be submitted at the start of Session Three on 15 February, 2004, 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 importance criterion is a structured approach to the project.

Assessment 2

*The Class Examination*
The class examination will be held on 22 March, 2004.

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

The Project Report is to be handed in by the start of the class on Wednesday, 7 April 2004.

For this report, 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.

This is a business report rather than an academic essay, and as such citations are required only where:

- The material you are presenting from another source is contentious, and attribution protects your interests.
- The source of the material you are quoting is so important that you feel the reader should consult it in detail.

You may attribute as you wish as this is your report.

Group Project

The Problem

You have been appointed as a consultancy team to assist a company in its bid to enter the West Australian department store market. It is a low-cost, no-frills operation covering all types of retail product from groceries up to large domestic appliances, and competes in the Eastern States in terms of price with its house brand products and lower prices for major brands.

You are required to write a report addressing three major issues for the company:

- What is the economic structure of the WA department store market?
- In the light of this structure, what are the opportunities for the company to enter the market in WA?

Your report should provide the structural basis of a model for the company’s marketing, finance and other experts to develop a business plan for entry. Look on the report as the economic basis for this business plan. You are to concentrate on the Economics, but may mention concepts from other disciplines where appropriate, although these should not form any major part of your report.

Also prepare an executive summary of not more than two pages that you can use as a briefing document for the Managing Director (who trained as an economist and is known to value rigorous economic analysis of business options).

An appendix to the report should discuss a comparison between the outline submitted in Session Three and the Report. You are required to highlight:

- The major differences between how you thought you might proceed, and the process of researching and writing the Report.
- The pre-existing skills that were useful in completing this Report.
- The additional skills and techniques that were necessary to complete the Report successfully.
Final examination

The Final Examination
The three-hour examination will comprise three sections:

- Three short answer questions on aspects of theory and its application, and simple 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 by the due date.

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

Assignments will be returned in class, where possible.

It is the intention that the marked assignments will be returned within two weeks of submission.

Appeals against assessment marks
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 10 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.

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 copied should be enclosed within quotation marks. If the
copied text is four or more lines in length, it may be more appropriate to set is 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 advise of your lecturer.

It is GSM policy that no student will profit from plagiarism. Generally, a mark of ‘Fail’ will be recorded for the assignment in which this has occurred, regardless of its other merits or qualities. Serious cases shall be referred to the University’s Board of Discipline. All students should note that cases of copying are automatically reported to the Sub-Dean and documentary evidence along with associated correspondence is placed on the student’s permanent record.

**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.

**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 EndNote page
www.library.uwa.edu.au/guides/endnote/ which provides more comprehensive information.