Business Economics
GBAT9122

Course Overview
Semester 2 2014
Important Notice

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## Semester 2 2014 course schedule

### w/c Monday

<table>
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<th>Week</th>
<th>Date</th>
<th>Unit</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>28 July</td>
<td>1</td>
<td>Introduction to economics in a technological setting</td>
</tr>
<tr>
<td>2</td>
<td>4 August</td>
<td>2</td>
<td>The demand and supply model</td>
</tr>
<tr>
<td>3</td>
<td>11 August</td>
<td>3</td>
<td>Short- and long-run competitive decision making</td>
</tr>
<tr>
<td>4</td>
<td>18 August</td>
<td>4</td>
<td>Market structures 1 – perfect competition and monopoly</td>
</tr>
<tr>
<td>5</td>
<td>25 August</td>
<td>5</td>
<td>Market structures 2 – monopolistic competition and oligopoly</td>
</tr>
<tr>
<td>6</td>
<td>1 September</td>
<td>6</td>
<td>Asymmetric information and market failure</td>
</tr>
<tr>
<td>7</td>
<td>8 September</td>
<td>7</td>
<td>Introduction to macroeconomics</td>
</tr>
<tr>
<td>8</td>
<td>15 September</td>
<td>8</td>
<td>Aggregate demand and supply</td>
</tr>
<tr>
<td>9</td>
<td>22 September</td>
<td>9</td>
<td>Money, interest rates and credit innovation</td>
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</tbody>
</table>

**Mid-term recess: Friday 26 September – Tuesday 7 October**

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Unit</th>
<th>Topic</th>
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</thead>
<tbody>
<tr>
<td>10</td>
<td>7 October*</td>
<td>10</td>
<td>Fiscal and monetary policies</td>
</tr>
<tr>
<td>11</td>
<td>13 October</td>
<td>11</td>
<td>International economics</td>
</tr>
<tr>
<td>12</td>
<td>20 October</td>
<td>12</td>
<td>Economic growth, sustainable development and the role of technology</td>
</tr>
<tr>
<td>13</td>
<td>27 October</td>
<td></td>
<td>Examination week 1</td>
</tr>
<tr>
<td>14</td>
<td>3 November</td>
<td></td>
<td>Examination week 2</td>
</tr>
</tbody>
</table>

*Monday 6 October is a public holiday in NSW*
Course staff

Course Coordinator

Each course has a Course Coordinator who is responsible for the academic leadership and overall academic integrity of the course. The Course Coordinator selects content and sets assessment tasks and takes responsibility for specific academic and administrative issues related to the course when it is being offered. Course Coordinators oversee Class Facilitators and ensure that the ongoing standard of facilitation in the course is consistent with the quality requirements of the program.

The Course Coordinator is:

George Kadmos
BCom(Honours), EMBA (UNSW)
email: g.kadmos@unsw.edu.au

George brings a wealth of experience to the MBT program, having worked in a range of industries including financial services, aviation, natural resources, government and property and construction. His skills are predominantly in financial evaluation and strategy and operations. Prior to his university studies, George served eight years in the Royal Australian Navy. Notwithstanding his strong financial-analysis experience, George has a great deal of experience liaising with a diverse range of stakeholders across industry, government and community groups.

George holds a bachelor’s degree in economics and finance with first class honours; he also holds an Executive MBA from the University of NSW. George’s teaching experiences include lecturing in economics and finance at an undergraduate level at the University of Western Australia, Curtin University and Edith Cowan University. George has also been teaching economics and statistics at AGSM’s Executive MBA Program. George’s work has been published in academic journals and books.
Class Facilitator

The role of your Class Facilitator is to support the learning process by encouraging interaction amongst participants, providing direction in understanding the course content, assessing participant progress through the course and providing feedback on work submitted. MBT Class Facilitators comprise academics and industry practitioners with relevant backgrounds.

You will be notified of your Class Facilitator’s name and contact details in your class confirmation email sent by MBT Student Services. Details will also be available in the gallery section of your online class for both face-to-face and distance classes.

Course author

The Course Coordinator, George Kadmos, has recently revised and rewritten the entire course.
Course information

Aims

The purpose of this course is to introduce the analytical framework used by economists in examining economic issues while bringing a technological flavour to this analysis. Economics can be defined as the study of how society uses its limited resources to produce, trade and consume goods and services. It seeks to provide a basic understanding of the economic principles that influence the performance of business. Technology and innovation play a significant role in this allocation of resources. On completion, students should have an understanding of economic concepts, be able to construct economic arguments in terms of these concepts and theoretical frameworks, understand the role of technology and innovation in economic decision making and be able to apply these to the analysis of relevant economic issues.

This course approaches the study of economics in a ‘building block’ fashion. We start at the level of the individual and then move on to the larger and broader pictures: organisations, markets and countries. The first six units cover how individuals and organisations make decisions and how equilibrium between demand and supply is reached. In particular, we consider in detail how the cost structure of an organisation influences its pricing and output decisions. The specific markets in which organisations operate, as well as their internal structures, have great consequences for the performance of business enterprises and these are also examined.

These topics come under the heading of microeconomics, as they are concerned with the analysis of the organisation or the market in which it operates. At the outset, the economic principles underpinning decisions by individuals and firms to exploit and maximise existing technologies and innovations and the move to develop, adopt and use new technologies and innovations are examined. We then study in some detail the conditions under which markets fail to allocate resources efficiently, as well as common imperfections, such as the existence of asymmetric information between economic agents and the role of government in markets.

Units 7–11 provide an understanding of the overall economic environment in which businesses operate – macroeconomics. We learn how the main macroeconomic indicators of output levels and inflation are derived. These will be used to explain major economic policy problems and the fiscal and monetary policies that governments use to alleviate those problems. We will also assess the role of technology and innovation in credit creation and examine the impact this had leading up to, during and after the global financial crisis. In addition, we will review how economies operate in an open economy and the impact that exchange rates have on economic decision making.
We conclude the course with Unit 12, which introduces students to a range of social issues and how technology and innovation have shaped government and business decision making.

Sets of problems and multiple-choice questions to self-assess your understanding will be available in your online class. You should try to answer them as exhaustively as you can. Upon submission of your answer, the suggested answer is automatically provided.

A well-rounded MBT education includes being able to analyse situations from different viewpoints. The skills and knowledge gained in this class will be helpful to you in the future, regardless of your intended professional field, by providing alternative viewpoints.

Structure

Unit 1: Introduction to economics in a technological setting. The first Unit helps to clarify what economics actually is, what economists study and what questions they typically ask. We discuss the difference between macro- and micro-economics and clarify the different issues addressed by each. We understand the notion of scarcity and allocation of resources and explain its implications for decision making. We look at the notion of comparative and absolute advantages and how these drive decision making. We will also develop a useful diagrammatic tool – the production possibilities frontier. Finally, we will consider the impact technology has had on economic development and growth and understand the role played by government to enhance technological innovation.

Unit 2: The demand and supply model. The laws of demand and supply are central to understanding how an open market economy functions. The demand and supply models by themselves provide basic information only, but when combined they are the key to determining and calculating the distribution mechanism in an open market economy – price. We also introduce the concept of elasticity and understand how elasticity affects business decision making. Finally we consider the concept of consumer and producer surplus and how market intervention can be used to allocation surpluses more effectively and equitably.

Unit 3: Short- and long-run competitive decision making. In this Unit, we study how a firm manages its allocation of scarce resources and bundles its factor inputs to produce goods and services. We understand that in making these decisions, there are a number of limiting factors that determine what the firm produces, the quantity it produces and the flexibility that is available to make changes to its production profile. Finally, we review how technology and innovation have a large role to play in both the short and the long run. Technological constraints dictate the firm’s production decision making in the short run, while flexibility may be available in the long run.
Unit 4: Market structures 1 – perfect competition and monopoly. In this Unit we consider the first two market structures, perfect competition and monopoly. We understand that both markets are at the extreme ends of the market power paradigm. At the end of the Unit we will discuss and evaluate the role market structures play in the use of technology and innovation. Specifically we are interested in answering the question of which market structure maximises technology and innovation.

Unit 5: Market structures 2 – monopolistic competition and oligopoly. In this Unit we learn that perfect competition and monopoly are the exceptions, not the rule, in most modern economies. We introduce the two market structures that fall between the extremes of monopolistic competition and oligopoly and are most commonly seen in Australia. We understand that in monopolistic competition firms are able to make abnormal profits in the short run by differentiating themselves from their competitors. Oligopoly, in contrast, involves a greater dose of market power and much less competition. Abnormal profits are made both in the short and long run. Lastly, we continue our discussion from the previous week on the role of technology and innovation on market structures.

Unit 6: Asymmetric information and market failure. In this Unit, we provide an overview of incentive conflicts and contracting within firms. We begin by defining the firm as a focal point for a set of contracts. We then discuss the many incentive conflicts that exist between the parties that make up the firm. We examine the role of contracts in reducing these conflicts.

Unit 7: Introduction to macroeconomics. The purpose of this Unit is to provide a general introduction to the main concepts in macroeconomics. We commence by discussing key macroeconomic issues, such as economic growth, inflation, unemployment and business cycles. An analysis of recent global and Australian performance will be included. We also review the main differences in economic thought that have shaped economic policy over the past five decades. In conclusion, we review the Solow growth model and the impact technology and innovations play in determining how fast economies grow.

Unit 8: Aggregate demand and supply. In this Unit, we study the aggregate demand and aggregate supply (AD/AS) model, which is a useful macroeconomic framework that shows the relationship between real gross domestic product (GDP) and price level. We understand that the model provides a simple explanation of how the economy handles short-term fluctuations and adjusts back to long-run, full employment equilibrium. Lastly, we examine how the model is used across all the main economic schools of thought: classical, Keynesian, monetarism and Austrian.

Unit 9: Money, interest rates and credit innovation. In this Unit, we will explain the foundations of money as a medium of exchange, discussing why societies decided to create money and how money is transacted in an economy. We will also discuss how interest rates are determined and the impact that interest rates have on bond prices. Finally, we will consider the role that innovation and technology have played in the finance sector,
specifically looking at how commercial banks have circumvented regulatory control and created their own forms of money, through securitisation and other means, to expand the level of credit in the economy.

Unit 10: Fiscal and monetary policies. In this Unit, we will explain fiscal and monetary policies as the set of two interventions that the government and the central bank, respectively, use to manage the economy in their pursuit of stable economic growth. We will consider how the government influences the level of spending and taxation. We will discuss the differences in opinion between Neoclassical and Keynesian economists. Finally, we will review the actions taken by the United States Government and Treasury during the recent global financial crisis (GFC). We will briefly review the Australian Government’s response.

Unit 11: International economics. This Unit is concerned with how economies operate in a global, open environment. We will examine the basic macroeconomic concepts with respect to trade and exchange rates. In addition, we will examine the effectiveness of fiscal and monetary policy when operating within an open economy. We will examine the impact that globalisation has had on Australia and briefly examine the currency crisis that plagued Asia in 1997 and the more recent crisis in Greece. Lastly, we will review an interesting theory called the Financial Instability Hypothesis that postulates that contrary to being aberrations, financial crises are common occurrences in a modern financial market.

Unit 12: Economic growth, sustainable development and the role of technology. In this final Unit, we introduce students to a number of public policies and other economic and social issues that potentially impact on traditional economic thinking. This Unit is not meant to be an exhaustive list of all current issues. It is designed to introduce a number of contemporary social issues (such as economic development, participation of the disabled and the environment) and to understand the role that technology and innovation play in achieving a more sustainable and egalitarian society. The overall aim of Unit 12 is to provide students with an opportunity to think outside the orthodox economic tool box and to assess some of the social issues that firms, governments and individuals face today.
Learning outcomes

When you have completed this course you should be able to:

• identify the role of economics in society
• explain basic economic concepts and methodologies
• demonstrate how markets work with reference to demand and supply
• illustrate the principles of profit maximisation
• analyse features of competitive markets and how these impact on organisational strategy
• critique the role that technology and innovation play in economic decision making
• critique the key concerns of macroeconomics
• examine the role that credit creation played in the recent GFC
• discuss economic issues raised in general business media.

Skills and experience you will need

There are no prerequisites for this course. Although some technicalities are used throughout the course, you should remember that the aim of the course is to show the insights that basic mathematical and statistical tools allow us to obtain while facing business decisions in a dynamic, complex and uncertain environment. You are expected to focus on the goal of these units (how to make decisions when there is uncertainty, or some other form of imperfection) and share your progress with the class as we proceed.

Resources

For students wanting to supplement their course notes, the Course Coordinator has recommended the following optional textbook.


Please see the publisher’s website for details of the e-book version or to access a range of online resources for each chapter including flash cards, online learning activities and a glossary of key terms.

Journals

- *The Economist*
- *The Australia Financial Review*
- *The Financial Times*
- *The Journal of Economic Perspectives* (provides a non-technical treatment; surveys of current economic debates and major findings)

Units and additional textbook structure

The notes provided throughout the entire 12 Units are designed to be completely self-sufficient without the need to read additional textbook chapters. However, the Course Coordinator has included an optional textbook, Layton A, Robinson T and Tucker I B, 2012, *Economics for Today*, Cengage Learning, Australia, 4th Asia Pacific edn, should students wish to supplement the notes provided. The following table summarises the sections of the textbook that you may wish to read.

<table>
<thead>
<tr>
<th>Study Guide</th>
<th>Learning Theme</th>
<th>Textbook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit 1</td>
<td>Introduction to economics in a technological setting</td>
<td>Chapters 1–2</td>
</tr>
<tr>
<td>Unit 2</td>
<td>The demand and supply model</td>
<td>Chapter 3</td>
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<tr>
<td></td>
<td></td>
<td>Chapter 5</td>
</tr>
<tr>
<td>Unit 3</td>
<td>Short- and long-run competitive decision making</td>
<td>Chapter 6</td>
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<tr>
<td>Unit 4</td>
<td>Market structures 1 – perfect competition and monopoly</td>
<td>Chapter 7</td>
</tr>
<tr>
<td></td>
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<td>Chapter 8</td>
</tr>
<tr>
<td>Unit 5</td>
<td>Market structures 2 – monopolistic competition and oligopoly</td>
<td>Chapter 9</td>
</tr>
<tr>
<td>Unit 6</td>
<td>Asymmetric information and market failure</td>
<td>Nil</td>
</tr>
<tr>
<td>Unit 7</td>
<td>Introduction to macroeconomics</td>
<td>Chapters 11–13</td>
</tr>
<tr>
<td>Unit 8</td>
<td>Aggregate demand and supply</td>
<td>Chapter 14</td>
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<tr>
<td>Unit 9</td>
<td>Money, interest rates and credit innovation</td>
<td>Chapters 15</td>
</tr>
<tr>
<td>Unit 10</td>
<td>Fiscal and monetary policies</td>
<td>Chapters 16–17</td>
</tr>
<tr>
<td>Unit 11</td>
<td>International economics</td>
<td>Chapter 18</td>
</tr>
<tr>
<td>Unit 12</td>
<td>Economic growth, sustainable development and the role of technology</td>
<td>Nil</td>
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As discussed above, the optional textbook is intended only to support your Unit notes. It is highly recommended those students who wish to read the textbook choose sections that support the structure and flow of the course study guide.
Relationship to other courses in the MBT program

This course provides an introduction to economic analysis, with particular application to decision making in business. Basic economic concepts are explored and the organisation is analysed from an economic perspective. If you are interested in understanding accounting information and reports, you should complete GBAT9120 *Accounting: A User Perspective.*

If you are comfortable with basic economic and accounting concepts, you may also be interested in undertaking GBAT9123 *Fundamentals of Corporate Finance.* Some economics issues are also addressed in GBAT9101 *Project Management* (the effect of the economic situation on project selection) and GBAT9103 *Business Management for a Sustainable Environment* (environmental or green economics).

If you are someone who lacks a basic understanding of economics and how it impacts on business, you are advised to complete this course to ensure you have a fundamental grasp of the economic drivers involved in an organisation’s strategic management.

This course is suitable to be undertaken early in your MBT program.
Assessment

There are two assignments and an examination for GBAT9122 *Business Economics*. Note that assignments must be received by 9.30am Sydney time on the due dates.

<table>
<thead>
<tr>
<th>Participation</th>
<th>Throughout the semester</th>
<th>15%</th>
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<tbody>
<tr>
<td>Assignment 1</td>
<td><strong>Monday 8 September 2014</strong> (Week 7)</td>
<td>20%</td>
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<tr>
<td>Assignment 2</td>
<td><strong>Monday 20 October 2014</strong> (Week 12)</td>
<td>25%</td>
</tr>
<tr>
<td>Examination*</td>
<td><strong>Thursday 6 November 2014</strong> (2pm if sitting on campus)</td>
<td>40%</td>
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*Examination is 2 hours; open book*
Continual course improvement

MBT courses are revised each time they run, with updated course overviews and assessment tasks. All courses are reviewed and revised every two years and significant course updates are carried out in line with industry developments and also when new editions of prescribed textbooks are published.

The MBT surveys students via the UNSW CATEI system each time a course is offered. The data collected provide anonymous feedback from students on the quality of course content and materials, class facilitation, student-support services and the MBT Program in general. This student feedback is taken into account in all course revisions.

The Australian School of Business (ASB) also monitors the quality of students’ learning experiences in all its programs. A random selection of completed assessment tasks may be used for quality-assurance purposes. This information will be aggregated and used:

- to determine the extent to which program learning goals are being achieved for accreditation purposes
- to improve the quality of ASB programs.

All material used will be treated as confidential and these processes will have no bearing on course grades.

Student evaluations from the last presentation of the course

Although the overall evaluation of the course was positive, students commented on three areas for improvement:

- update the course notes with recent economic statistics
- a wish for more current examples in the exercises and class discussions
- additional commentary with regard to weekly economic news.

Coordinator’s response

To address students’ expectations regarding relevance, there will be greater communication about what to expect from the units and their content. In addition, the entire notes have been revised with statistics and graphs being updated to reflect the most recent release of economic data. A number of unit questions have been revised with fewer mathematical and more discussion questions throughout the course notes.
The course continues to make use of visual aids such as short clips and occasional articles from sources such as *The Economist* magazine, which clearly show the topical nature (and wide applicability) of the subject.

Over the past couple of years we introduced an innovation in course delivery – uploading short videos introducing the topic of each unit and its main points. These videos have been revised and updated.

Work to develop new activities catering for this desire is ongoing. Students have appreciated fewer, but deeper, discussions on economic topics. This will continue in the present iteration of the course.

Lastly, the Course Coordinator will include a new weekly discussion on the most recent economic news.