Faculty of Commerce and Economics
School of Economics

ECON 2103
BUSINESS AND GOVERNMENT

COURSE OUTLINE
SESSION 2, 2005
1. **COURSE STAFF**

Contact details

**Lecturers**

Robert Conlon - weeks 1 - 7  
Lecturer-in-charge Rm G212 Goodsell Building, ext. 53565

John Lodewijks - weeks 8 - 14  
Rm. 218 Goodsell Building, ext. 53386

Consultation times will be announced in class.

1.1 **Communication with Staff**

In addition to the consultation times, lecturers may be contacted via phone or email:

R.Conlon@unsw.edu.au

J.Lodewijks@unsw.edu.au

2. **INFORMATION ABOUT THE COURSE**

2.1 **Teaching times and Locations**

**Lectures/ tutorials**

<table>
<thead>
<tr>
<th>Lectures:</th>
<th>Thursday</th>
<th>4.00 - 6.00 (Q 1027)</th>
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</thead>
<tbody>
<tr>
<td>Tutorials:</td>
<td>will begin in week 3. Students will be given a tutorial allocation form in the first lecture and these should be completed and returned to the lecturer-in-charge as soon as possible. Tutorial lists will be posted on the economics notice board, second floor John Goodsell Building by 4.00 pm Thursday, 4 August. Currently we have 2 tutorial times scheduled:</td>
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<table>
<thead>
<tr>
<th>Tutorial 1</th>
<th>Thursday</th>
<th>11:00-12:00</th>
<th>JG 139</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutorial 2</td>
<td>Thursday</td>
<td>15:00-16:00</td>
<td>Quad 1048</td>
</tr>
</tbody>
</table>

2.2 **Units of Credit**

Faculty of Commerce & Economics  
School: School of Economics  
Contact: Robert Conlon  
Campus: Kensington Campus  
Career: Undergraduate  
Units of Credit: 6  
Contact Hours per Week: 3  
Enrolment Requirements:  
Prerequisite: ECON1101  
Offered: Semester 2 2005  
Fee Band: 2
2.3 Relationship of this course to other course offerings

This is a second year option, particularly suitable for students interested in public policy and governance issues. It is a prerequisite for third year economics options such as ECON3109, 3110, and 3116. Outside this Faculty, the course is an option in Environmental Science, Aviation Management, and Software Engineering.

2.4 Approach to learning and teaching

*Learning outcomes:*

In addition to acquiring a deeper and more meaningful understanding of how government affects the business environment at the microeconomic level this course assists in providing an environment that fosters in our students the following graduate attributes:

1. the skills involved in scholarly enquiry;
2. an in-depth engagement with the relevant disciplinary knowledge in its interdisciplinary context;
3. the capacity for analytical and critical thinking and for creative problem solving;
4. the ability to engage in independent and reflective learning;
5. Information Literacy – the skills to locate, evaluate and use relevant information;
6. the capacity for enterprise, initiative and creativity;
7. a respect for ethical practice and social responsibility;
8. the skills of effective communication.

Students will be supported in developing the above attributes through:

(i) the course design
(ii) assessment strategies
(iii) learning and teaching strategies used in this course.

The learning and teaching philosophy underpinning this course reflects the UNSW Guidelines on Learning and Teaching, available at:

[www.guidelinesonlearning.unsw.edu.au](http://www.guidelinesonlearning.unsw.edu.au)

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

This course examines how government affects the business environment at the microeconomic level. The effects on business of government instrumentalities such as the Productivity Commission and the Australian Consumer and Competition Commission are examined. Issues relating to microeconomic reform, economic rationalism, market failure and government business enterprises are explored.
3.2 Student Learning Outcomes and Teaching Strategies

By the end of this course, you should be able to apply basic economic concepts and reasoning to a wide variety of public policy issues. You should be aware of various government instrumentalities and their impact on the corporate sector and community generally. See Approaches to Teaching and Learning above.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Workload

It is expected that you will spend at least ten hours per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Attendance

Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

4.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.4 Keeping informed

You should take note of all announcements made in lectures, tutorials or on the course website. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

5. LEARNING ASSESSMENT

5.1 Formal Requirements

In order to pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all assessment tasks (see below).

5.2 Assessment Details
Allocation of marks for this subject.

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Term examination*</td>
<td>30%</td>
</tr>
<tr>
<td>Group Oral Presentation*</td>
<td>10%</td>
</tr>
<tr>
<td>Final examination</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

* Short answer exam will be conducted during the lecture time (4 - 6 pm) Thursday 8 September (week 7). Details of the examination will be provided later. The Group Presentations start in the second-half of session.

The final exam is of 2 hours duration, closed book, and will involve a number of essay-type questions. There is one compulsory question from the first half of the course (Conlon). There are four questions from the second half of the course (Lodewijks) of which you select three to complete.

The rationale for the assessment and the relationship with specific student learning outcomes: both assessment tasks test all of the learning outcomes listed above, with particular focus on objectives 3, 4 and 8.

5.3 Special Consideration and Supplementary examinations

Examinations: requests for consideration.

No supplementary examinations will be offered for the term examination. Those who have a fully documented and acceptable case for their absence (eg, medical certificate - copies of which should be submitted to the registrar and the lecturer-in-charge) will have their remaining marks reapportioned to determine their final grade.

Only students who maintain an acceptable grade during the session will be considered for a supplementary for the final exam. A fully documented case for consideration will be required. Failure to pass the final examination is certainly not grounds for being granted a supplementary.

Employment obligations are not acceptable reasons for absence from exams, nor for failing to hand in assignments on time.

The time of the final examination is determined by the university administration. **If, for any reason you believe you may not be present for the entire examination period in November, withdraw from this subject now. No final examination other than that scheduled by the University administration will be offered.**

To pass this subject, an acceptable performance in the final examination is required.
6. Academic Honesty and Plagiarism

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see:

www.my.unsw.edu.au/student/atoz/Plagiarism

Plagiarism is the presentation of the thoughts or work of another as one’s own.* Examples include:
• direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person’s assignment without appropriate acknowledgement;
• paraphrasing another person’s work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
• piecing together sections of the work of others into a new whole;
• presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
• claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does not amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:
• correct referencing practices;
• paraphrasing, summarising, essay writing, and time management;
• appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle.
† Adapted with kind permission from the University of Melbourne.

7. Student Resources
7.1 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- Learning and study support;
- Counselling support;
- Library training and support services;
- Disability support services;

Students should also note that assistance is available from the Library (http://info.library.unsw.edu.au/web/services/teaching.html). Please ensure that Occupational Health and Safety requirements are met. See: (http://www.riskman.unsw.edu.au/ohs/ohs.shtml)

The Equity Officer (Disability) can be contacted at the Equity & Diversity Unit on 9385 4734. The Equity & Diversity Unit website is: http://www.equity.unsw.edu.au/.

In addition, it is important that all students are familiar with University and Faculty policies and procedures in relation to such issues as:

- Examination procedures and advice concerning illness or misadventure;
- Supplementary Examinations;
- Occupational Health and Safety policies and expectations;

8. Continual Course Improvement

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW’s Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

9. Course Schedule
**Course Description – first half**

The first part of the course (Conlon) will examine various aspects of government policy towards business and public sector involvement in markets. Topics will include competition policy, health policy, public sector investment and utility pricing.

**LECTURE OUTLINE: CONLON**

**Main References - copies are in open reserve**


**Note:** in the lecture outline below

*(K)* refers to references which may be found in the study kit;

*(R)* refers to references which may be found in open reserve

**Week 1  (Thursday 28 July)**

**Government Policies Towards Business: Some Basic Concepts**

*Reasons for intervention; concepts of economic welfare; consumer/producer surplus; policy and general vs partial equilibrium.*

Forsyth 1,3 *(R)* G&S 2,3 *(R)*; Jones 1, 2; P&R 9 *(R)*

**Health Policy and the Private Sector**

*Insurance, asymmetric information – adverse selection, moral hazard, subsidies*
Week 2 (Thursday 4 Aug.)

Environmental Policy for Government and Business

*Taxes, subsidies, regulation, transferable permits, market solutions*

G&S 8 (R); P&R 18 (R)

Week 3 (Thursday 11 Aug.)

Competition policy

*Hilmer Report; development of Australian Restrictive Trade Practices law; the*
*"structural" criteria; critique of policy. (Case study: Trans-Tasman shipping, time*
*permitting.)*

Forsyth 6 (R): Jones 3, 5 (R); Conlon (K); Hilmer (K); Trade Practices Commission (K)

Week 4 (Thursday 18 Aug.)

The Evaluation of Public Sector Investment

P&R 15 (R); G&S 9 (R); P&R 11 (R); G&S 5 (R); Gramlich (K)

Week 5 (Thursday 25 Aug.)

Government as a Provider of Goods and Services: Public Utility Pricing
Price discrimination; topics, including peak-load pricing and problems of marginal cost pricing.

Jones 12 (R), G&S 5 (R); P&R 11 (R)

Week 6  (Thursday 1 Sept.)

Government and the International Trading Environment

Topics including the gains from trade; protection, the role of the Productivity Commission.

Forsyth 7 (R); Jones 7,10 (R); P&R 9.5 (R); Caves, Frankel & Jones (K)

Week 7  (Thursday 8 Sept.)

Mid-session Examination conducted in normal lecture time

TUTORIAL QUESTIONS: CONLON

Week 3 (Comm. 8 Aug.)

Health Policy

3.1 Explain the concept of asymmetric information and some of its effects. Are there markets, other than the insurance market, where such problems are likely to arise?

3.2 How may insurance companies, deal with the problems of adverse selection and moral hazard?

3.3 Does it make sense to insure against ALL possible losses? Explain.
3.4 In what circumstances may a subsidy lead to (i) an optimal allocation of resources?
(ii) a sub-optimal allocation?

Week 4 (Comm. 15 Aug.)

Market Failure; Environmental Policy

4.1 Briefly explain how a pollution target may be attained by either a tax or a regulation (ie, a pollution "quota"). Which form of control in business more likely to prefer? Why?

4.2 Zoning laws, which restrict how individuals and firms may use their land, are sometimes justified as a means of controlling externalities. How? Explain. Discuss alternative means of dealing with these externalities.

4.3 If we consider goods in terms of a continuum between two extremes: "pure public goods", and "pure private goods", explain where the following goods are likely to lie within the continuum. Note instances where the good is both publicly and privately provided. Note instances (if any) where the good may in some circumstances be (more) a private good and in others, (more) a public good.

(a) Tertiary education   (g) medicine
(b) a local park       (h) police protection
(c) a national park   (i) a highway
(d) a bridge           (j) television
(e) water            (k) basic research
(f) electricity       (l) applied research

4.4 "There are two major sources of market failure which are relevant to the problem of environmental pollution, viz. the lack of a well defined and enforceable system of private property rights in many environmental resources and the public good nature of many environmental services".
Explain why the common property and public goods characteristics of environmental services are likely to lead to environmental pollution.

Week 5 (Comm. 22 Aug.)

**Competition Policy**

5.1. "... structural change brought on by merger activity cannot be viewed simply as part of the process whereby industrial efficiency is increased ... mergers must be viewed as attempts by firms involved to increase or maintain their market power." (George and Shorey, p.193).

Is this true? Comment.

5.2. Newsagencies have been "authorised" to have a monopoly of the sale of newspapers and some magazines in a particular geographic area. If you were employed by the Newspaper Council to defend this monopoly, on what grounds would you argue your case? If you were employed by an organisation of consumers to represent their interests, how would you argue their case?

5.3. In assessing the degree of competition in a market, the Trade Practices Tribunal (now called the Australian Competition Tribunal) listed the following factors which it considered to be important:

(i) the number and size of independent sellers - the degree of market concentration;
(ii) the height of barriers restricting entry of new firms in the market;
(iii) the extent of product differentiation in the market;
(iv) the extent of vertical integration between suppliers and customers;
(v) the nature of any arrangements which restrict firms from operating independently of each other.

Explain why you think (or do not think) these five factors are important influences on competition.

Week 6 (Comm. 29 Aug.)
Public Sector Investment

6.1. Explain the Net Present Value criterion for investment decisions, and why the concept is important.

6.2. The previous Federal Government declined to provide tax incentives for the Very Fast Train (VFT) project, and as a result the project has (for the time being) been scrapped. This project entailed passenger train running between Melbourne and Sydney (some trains would have stopped in Canberra and Goulburn). A direct (non stop) trip would have taken about 3 1/2 hours. The capital cost of the project was to be about $8-10 billion.

Make a list of the benefits and costs (direct and indirect) of the project, explaining why you have included them and where appropriate, drawing attention any difficulties there may be in measuring them.

6.3. Some house owners are being compensated for aircraft noise resulting from the operation of the new third runway at Mascot airport (eg, some houses are being provided noise insulation at a cost of up to $60,000 per house). Reportedly, the value of the total compensation package exceeds the building cost of the new runway. Can this be justified on economic rounds? On equity grounds? Discuss.

Public Utility Pricing,

6.4 What difficulties may be encountered by a regulator imposing marginal cost pricing on a utility which is a natural monopoly? Explain.

6.5 Describe the possible shape of the marginal cost curve entailed in providing space for one more passenger on the City Rail service. (Hint: think (among other things) about the space there is on the carriage/train and the time the passenger wishes to travel.) Given the curve you have drawn and the nature of the demand curve(s) for city rail travel, what implications are there for the fares which should be charged?

Week 7 (Comm. 5 Sept.)
International Environment and any questions about mid-term examination

7.1. In what sense may tariffs protecting local industries be considered as taxes on exports? Explain.

7.2 For discussion.

In all countries seek to become exporters of high technology products, can they all be successful?

Course Description –second half

The second part of the course (Lodewijks) will build on our understanding of how government affects the business environment by discussing further public policy and governance issues. Industries covered include telecommunications and airlines. Taxation policy and higher education policy are also discussed.

LECTURE OUTLINE: LODEWIJKS

Main Reference - copies are in open reserve

John Quiggin, Great Expectations: Microeconomic Reform and Australia, Allen & Unwin, 1996

Week 8 (Thursday 15 Sept.)

Understanding Government Policy

Aspects of market failure, equity and efficiency, public and private interest, public choice, impossibility theorems, contestability and strategic interaction.

Quiggin, chapters 4-6 (R)
Week 9  (Thursday 22 Sept.)

Telstra and Telecommunications

_Natural monopoly, price leadership, first mover advantage, Optus and Foxtel, intellectual property rights, structural separation._

Quiggin, chapter 9 (R)

Week 10  (Thursday 29 Sept.)

Qantas and the Airline Industry

_Regulated Duopoly, introducing Virgin Blue & Jet Star, Predatory Pricing, international cartels, price wars, breaking even and strategic alliances._

Quiggin, chapter 8 (R)

Week 11  (Thursday 6 Oct.)

The ACCC – Specific case Studies

Fred Brenchley, _Allan Fels: A Portrait of Power (the inside story)_ , John Wiley and Sons, 2003 (R). Chapters 9 and 10 outline some of the industries that the ACCC investigated.

Articles on ‘Reviewing the TPA’, ‘The Role of the ACCC’ and ‘The Business View’ in the _Australian Economic Review_, Vol.35 No.4 Dec. 2002

Week 12 (Thursday 13 Oct.)

Aspects of Taxation Policy

_Income Tax, Tax incentives for R&D, and particularly negative gearing and capital gains provisions as they apply to Housing._
Productivity Commission, *First Home Ownership*, June 2004, Chapters 5, 10. Available at ACCC website.

**Week 13 (Thursday 20 Oct.)**

**Higher Education Policy**

*Topics including positive externalities, costs, funding, and performance issues relating to education systems.*


**Week 14 (Thursday 27 Oct.)**

**The Benefits and Costs of Microeconomic Reform**

Estimating the costs and benefits of reform. The productivity growth consequences.

Quiggin, Chapters 15-16 (R)

**TUTORIAL PRESENTATIONS: LODEWIJKS**

**Week 8 (Comm. 12 Sept.)**
During this week we play oligopoly games emphasizing the notion of strategic interaction. The other purpose of this tutorial is to arrange the student presentations (worth 10%). All students will be required to participate in a group presentation and be allocated to a particular week. The presentations start in week 9 and they deal with the lecture topic for that week. Your group will be asked to locate an article from a newspaper, like the *Australian Financial Review*, or from the web, and to present that article to the class. You should critically appraise the article selected. For example, if you are scheduled to present in week 9 your article should be related to Telstra, week 10 on Qantas, week 11 on any particular ACCC investigation, week 12 on any aspect of current tax policy, week 13 on higher education policy and finally, in week 14, on any aspect related to microeconomic reform.