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7.1 Other Resources, Support and Information

8. CONTINUAL COURSE IMPROVEMENT

9. COURSE SCHEDULE
1. COURSE STAFF

Contact details

Lecturers

Robert Conlon - weeks 8-14
  Lecturer-in-charge Rm. 212 Goodsell Building, ext. 53565

John Lodewijks - weeks 1-7
  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

Lectures:

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>19:00-21:00</td>
<td>CLB 8</td>
</tr>
</tbody>
</table>

Tutorials: will begin in week 2. 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 Web-CT.

Currently we have 2 tutorial times scheduled:

<table>
<thead>
<tr>
<th>Tutorial 1</th>
<th>Monday</th>
<th>17:00-18:00</th>
<th>Quad 1045</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutorial 2</td>
<td>Monday</td>
<td>18:00-19:00</td>
<td>Quad 1045</td>
</tr>
</tbody>
</table>
2.2 Units of Credit

Faculty: Faculty of Commerce and Economics
School: School of Economics
Contact: Conlon, Robert
Campus: Kensington Campus
Career: Postgraduate
Units of Credit: 6
Contact Hours per Week: 3
Offered:
- Semester 1
  - 2005
- Semester 2
  - 2005
Fee Band: 2

2.3 Relationship of this course to other course offerings

This course provides an introduction to economic analysis and policy, with particular application to decision-making in business. The course provides students with the tools to use economic principles in decision-making and an understanding of the broader economic environment in which business decisions must be made.

This course provides a basis for further studies in economics. It may also be used as part of programs outside this faculty such as the SENGC13648: BE MCom Fast-Track Program, Postgraduate Risk Management, Actuarial Studies, and the Bachelor of Science (Food Science and Technology) / Master of Commerce.

2.4 Approach to learning and teaching

Learning outcomes:

In addition to acquiring an understanding of how economic concerns affects the business environment at the micro and macroeconomic level this course assists in providing an environment that fosters the following post-graduate attributes:

1. the skills involved in scholarly enquiry;
2. the capacity for analytical and critical thinking and for creative problem solving;
3. the ability to engage in independent learning;
4. information literacy – the skills to locate, evaluate and use relevant information;
5. the capacity for enterprise, initiative and creativity;
6. a respect for ethical practice and social responsibility;
7. the skills of effective communication.

Students will be supported in developing these attributes through:
(i) the course design
(ii) assessment strategies
(iii) learning and teaching strategies used in this course.
The learning and teaching philosophy used in this course reflects the UNSW Guidelines on Learning and Teaching, available at:

www.guidelinesonlearning.unsw.edu.au

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

The aim of this course is to provide an introduction to economic analysis, with particular applications to decision-making in business. On completion of this course, students should have an understanding of economic concepts, be able to construct economic arguments in terms of these concepts, and be able to apply simple economic models to the analysis of relevant economic issues.

COURSE OBJECTIVES

The course aims to provide benefits to business students in terms of:

- the ability to use economic principles in rational decision-making;
- an understanding of the economic environment in which business decisions must be made;
- an understanding of the key business and economic statistics that are periodically released by Australian government and international agencies, including the Australian Bureau of Statistics, the Reserve Bank of Australia, the Australian Treasury, the OECD and the IMF; and
- an understanding of the role and impact of economic policy.

The course assumes no previous study of economics.

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

Lectures
There are two hours of lectures each week.

Tutorials
- Tutorials of one-hour duration will commence in week 2. If for some reason you are not allocated to a tutorial or wish to change your allocated time, contact the Lecturer.

Students are expected to have attempted the tutorial questions prior to each tutorial.

Your regular and punctual attendance at lectures and tutorials 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

ASSESSMENT

The assessment in Business Economics will consist of the following components:

- Mid Session Exam (week 7, Monday 5 September) 30%
- Tutorial Test (week 4, Monday 15 August) 10%
- End of Session (Final) Exam 60%

Mid Session Exam
The mid session exam will be held during the lecture time (7-9pm) on Monday 5 September (week 7). The exam will last for 1 hour and 30 minutes and comprise a combination of multiple choice and short answer questions. The exam will cover
material presented in weeks 1-6. It accounts for 30% of the total mark in this course.

**Tutorial Test**
A short-answer tutorial test will be held on 15 August (week 4). It will cover the material presented in the first 3 weeks and will provide feedback on your progress in this course. It accounts for 10% of the total mark in this course.

**End of Session (Final) Exam**

The final exam is of 2 hours duration, closed book, and will involve a number of short-answer and essay-type questions. There is one compulsory question from the first half of the course (Lodewijks). There are four questions from the second half of the course (Conlon) from which you must attempt three. The final exam accounts for 60% of the total mark in this course.

*A satisfactory performance in the final examination is required for an overall pass in the subject.*

The rationale for the assessment and the relationship with specific student learning outcomes: assessment tasks test all of the learning outcomes listed above, with particular focus on objectives 2, 3 and 7.

**5.3 Special Consideration and Supplementary examinations**

**Examinations: requests for consideration.**

No supplementary examinations will be offered for the term examinations. 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.

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**

**RESOURCE MATERIALS**

**Textbook**

**Text-book web site**
The website associated with MFP is available at [www.econ100.com](http://www.econ100.com). It is accessed by means of the unique PIN CODE behind the last page of each book. The web site includes answers to odd-numbered end-of-chapter problems, on-line quizzes linked to the text book, animated graphics, study tips, and links to policy debates, critical thinking skills, and technical thinking skills. Students are advised to carefully read the section at the beginning of the text on how to best use the book, the CD·Rom and the textbook web site.

**Additional reading**
From time to time, links will be provided to various interesting and relevant articles from magazines, journals, and newspaper articles. These will be available through the Business Economics web site.

**BUSINESS ECONOMICS WEB SITE**
There is a web site dedicated to Business Economics course through the university’s campus-wide WebCT system. Students will be expected to:
- Make sure they are officially enrolled in Business Economics
- Familiarise themselves with WebCT.
For more information and help, log on to [www.webctsupport.unsw.edu.au](http://www.webctsupport.unsw.edu.au)

Students should check the Business Economics web site regularly for course notices and materials.

7.1 **Other Resources, Support and Information**

**Pit Stop - Economics Tutorial Consultation Room**
The Economics PitStop is designed to provide convenient tutor assistance for all students in the large Economics courses. It is located in John Goodsell Room G18,
operates from Monday-Thursday (10am-6pm) and commences in week 4. This means that instead of having to wait until your tutor's or lecturer's consultation hours, you will be able to get help as soon as you run into a problem in your study. The PitStop staff can also be reached by phone (9385 1653) or by email on tutcentre@unsw.edu.au. PitStop staff will give help over the phone or through email when they can, but will give priority to students who attend in person.

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 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**

### Lecture Outline and References

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>Reading (MFP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25 July</td>
<td>Economics – The Big Picture</td>
<td>Chs 1,20,21</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microeconomic Market Coordination, Macroeconomic Challenges, Measuring the economy</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1 August</td>
<td>A Simple Model of the Macroeconomy</td>
<td>Ch 23</td>
</tr>
<tr>
<td>3</td>
<td>8 August</td>
<td>Economic Growth</td>
<td>Chs 31,32</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Economy in the Long Run, What Determines Growth, Why do Some Countries Grow Faster Than Others?</td>
<td></td>
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<tr>
<td>4</td>
<td>15 August</td>
<td>Inflation and Unemployment</td>
<td>Chs 22,30,33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Labour Market and Unemployment, Prices and Inflation</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>22 August</td>
<td>Understanding Fiscal and Monetary Policies</td>
<td>Chs 25,26, 27, 34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Government Budgets, Interest Rates, Implementation and Impact on the Economy</td>
<td></td>
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<tr>
<td>6</td>
<td>29 August</td>
<td>The International Economy</td>
<td>Chs 28,35</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance of Payments, Exchange Rates</td>
<td></td>
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<tr>
<td>7</td>
<td>5 September</td>
<td>Mid Session Exam – no lectures or tutorials this week.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>The exam will be held in the lecture room, CLB 8 from 7.00-9.00 pm</td>
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<tr>
<td>8</td>
<td>12 September</td>
<td>Markets, Trade and Efficiency</td>
<td>Chs 2,3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Opportunity Cost, Efficiency, Comparative Advantage</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>19 September</td>
<td>The Competitive Market Model</td>
<td>Chs 4,5,6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demand, Supply, Elasticity</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>Mid session break and Public Holiday</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>10 October</td>
<td>Applications of the Competitive Market Model</td>
<td>Chs 7,8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Floor and Ceiling prices, Tax Incidence, International Trade</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>17 October</td>
<td>The Business Firm: Production and Costs</td>
<td>Chs 9,10,11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production, Costs, Perfect Competition</td>
<td></td>
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<tr>
<td>13</td>
<td>24 October</td>
<td>Market Models</td>
<td>Chs 12,13</td>
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<tr>
<td></td>
<td></td>
<td>Monopoly, Oligopoly and Monopolistic Competition</td>
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<tr>
<td>14</td>
<td>31 October</td>
<td>Market Failure and Microeconomic Reform</td>
<td>Chs 18,19</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Externalities, Public Goods, Microeconomic Reform</td>
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</tr>
</tbody>
</table>

### Tutorial Program

- **Remember Tutorial Test on 15 August**
Week 2 Tutorial

Economics – The Big Picture

Main concepts:
Understanding the main macroeconomic indicators and the overall macroeconomic goals for the economy; applying this knowledge to evaluate selected economies.

Discussion Questions
These questions will be discussed in your tutorial. They are designed to extend concepts and highlight debates. You should complete these questions before your tutorial and be ready to participate in the class discussion.

   a) Describe the path of economic growth over this period.
   b) What are the benefits and costs of long term economic growth?

   a) Describe the path of economic growth over this period.
   b) What is the definition of a recession? Did Argentina experience a recession during this period? What about Zimbabwe?

   a) Describe how the unemployment rate has changed over this period.
   b) Why is unemployment a problem?

   a) What has happened to the inflation rate in Japan over this period?
   b) What are some of the costs of inflation?
   c) What is deflation? Are there costs associated with deflation?

   a) What has happened to the current account balance in New Zealand over this period?
   b) Why might a current account deficit be considered a problem?
Week 3 Tutorial

A Simple Model of the Macroeconomy

Main concepts:
Measurement of output, the circular flow of income and expenditure, measurement issues.

Understanding the aggregate supply-aggregate demand model, the aggregate demand curve, the aggregate supply curve.

Discussion Questions


   Do you think that the Australian economy is achieving the macroeconomic goals? Outline any macroeconomic problems facing the Australian economy.

2.

   a). Outline the three approaches to the measurement of gross domestic product (GDP). Using the circular flow of income and expenditure show that these methods provide an equivalent measure of GDP.

   b). You are given the following information on real GDP per capita:

<table>
<thead>
<tr>
<th>Country</th>
<th>real GDP per capita, $US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>20,650</td>
</tr>
<tr>
<td>China</td>
<td>860</td>
</tr>
<tr>
<td>China (Hong Kong)</td>
<td>25,200</td>
</tr>
<tr>
<td>India</td>
<td>370</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,100</td>
</tr>
<tr>
<td>Japan</td>
<td>38,160</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4,530</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15,830</td>
</tr>
<tr>
<td>Singapore</td>
<td>32,810</td>
</tr>
<tr>
<td>Thailand</td>
<td>2,740</td>
</tr>
<tr>
<td>Vietnam</td>
<td>310</td>
</tr>
</tbody>
</table>

What does this data indicate about relative levels of economic welfare in the Asian region? (Hint: Is real GDP per capita a good indicator of economic welfare?)
Week 4 Tutorial

TUTORIAL TEST – 10%

Week 5 Tutorial

Economic Growth, Inflation and Unemployment

Main concepts:
What determines economic growth – long run aggregate supply and potential GDP, equilibrium in the labour market, the aggregate production function, the foundations of economic growth, economic growth and an ageing population, inflation and unemployment – the misery index

Discussion Questions

   i. Outline Japan’s current and projected population and labour market trends.
   ii. Explain how the projected demographic make-up of Japan may affect potential GDP (economic growth).
   iii. What policy advice do you have for the Japanese government?

   i. What are the challenges for future growth of the Australian economy
   ii. Outline possible policy strategies that might prove effective in meeting these challenges.

3. (a) Define frictional, structural, seasonal and cyclical unemployment and provide an example of each.
(b) What is the natural rate of unemployment? What policies can government introduce to reduce the natural rate of unemployment?
(c) Study ‘Reading Between the Lines’ on pp. 450-51 of your textbook (McTaggart):
   i. What is the effect of the increase in part time employment and the fall in full time jobs on unemployment and the participation rate?
   ii. Why did the unemployment rate in Australia increase in April 2001?
   iii. Is the increase in unemployment due to structural, cyclical, frictional or seasonal factors?
4.

(a) How is the CPI calculated? Why might it be a biased measure of inflation?

(b) Explain the difference between demand pull and cost push inflation.

(c) Can inflation be reduced without a detrimental impact on the unemployment rate?

**Week 6 Tutorial**

**Fiscal and Monetary Policy and the International Economy**

*Main concepts:*

- **Tools of fiscal policy** – government expenditure, taxation, transfer payments; multipliers; discretionary fiscal policy vs automatic stabilisers; stance of fiscal policy – expansionary or contractionary
- **Tools of monetary policy** – targeting money supply or the cash rate; understanding money supply and money demand; the transmission mechanism – how changing monetary conditions influence the economy

**Macroeconomic Policy in an Open Economy.**

**Discussion Questions**

1. Comment on current monetary and fiscal policy in Australia.

2. Using the aggregate demand-aggregate supply model, discuss the type of monetary and fiscal policy you would adopt, when confronted with the following situations:
   - a. There is a strong expansion in large overseas economies.
   - b. Business confidence collapses.
   - c. The economy appears to be stuck in an unemployment equilibrium.

3. (a) Using the demand and supply model of foreign exchange, outline those factors that influence the exchange rate under a flexible exchange rate regime.
   (b) What are fixed exchange rates? What are the arguments for and against intervention in the foreign exchange market?
   (c) Under a flexible exchange rate regime, what effect would the following have on the Australian dollar:
      - i. An increase in economic growth in Australia.
      - ii. The central bank (RBA) reduces the cash rate.
      - iii. Interest rates fall in the United States.
      - iv. There is strong economic growth in Japan and China.
4. Read the article ‘The Asian Economic Crisis’, Reserve Bank Bulletin, April 1998. According to this article what role did exchange rates and current account deficits play in the Asian Economic Crisis?

5. What is the relationship between the ‘current account balance’ and the ‘capital and financial account balance’?

**Week 7- NoTutorials – Mid-Session Test 7.00-9.00 pm.**

**Week 8 Tutorial – Review of mid-Session Exam .**

**Week 9 Tutorial**

*An Introduction to Microeconomics: Markets, Trade, Demand and Supply*

**Discussion Questions**

1. (a) Use the theory of comparative advantage to explain why economists are generally in favour of ‘Free Trade’. What conditions are necessary for the gains from trade and specialisation to be realised?

   (b) Outline possible economic justifications for interference by governments to ‘manage’ trade? Evaluate whether any of these are justified. *(In your answer you should refer to McTaggart Ch. 8 pp. 145-147 and the article ‘Exploding the Myths’ available on the Business Economics web site.)*

2. Assume the market for rental accommodation can be represented by the competitive market model. Represent the model diagrammatically and use the model to explain the impact of the following scenarios.
   (a) An increase in the number of people seeking rental accommodation due to an increase in migration.
   (b) An increase in the general level of interest rates in the economy.
   (c) A government decision to increase the quantity of public housing available.
   (d) A change in the tax legislation to allow deductibility for mortgage interest payments against income for owner occupiers.
   (f) The granting of a government subsidy to the construction of rental accommodation.
   (g) The provision of a government subsidy to renters.
   (h) A change in the tax legislation to remove the allowance of “negative gearing” for the taxation of landlords’ income.
   (e) The imposition of a legislated maximum rent (“rent control”).

Can you suggest any alternative policies to assist low income earners obtain affordable rental accommodation?
Week 10 - No Tutorial – Public Holiday

Week 11 Tutorial

Applications of the Competitive Market Model

Discussion Questions

1.
   i. Explain price elasticity of demand, income elasticity of demand and cross elasticity of demand.
   ii. What factors determine the elasticity of demand for airline use?
   iii. Go to the Qantas web site at www.Qantas.com.au. Check the airfares for a trip from Sydney to Melbourne on Friday 4 November 2005. What do you notice about the price of a ticket at different times of the day? The price of a ticket by different airfare types? How does the price of a Business Class ticket compare? Use this information and what you now know about price elasticity of demand and its relationship with total revenue to explain this pricing schedule.

2.
   i. Consider the market for cars. Use the supply and demand model to illustrate the effects on competitive market equilibrium of the imposition of a $5,000 per unit sales tax on cars.
   ii. Explain the factors that determine the amounts by which the equilibrium price and quantity of cars will change as a result of the imposition of the tax. Who bears the burden of this tax?
   iii. Now suppose a 10% sales tax is levied on all goods and services. Will the tax result in an equal proportionate increase in the market prices of all goods and services?
   iv. Suppose the government decides to limit the imposition of the sales tax to particular goods and services and to apply different rates to different goods and services. What criteria should the government use in applying this sales tax?

Week 12 Tutorial

The Business Firm: Production and Costs

Discussion Questions

1.
   (i) Explain the difference between ‘marginal returns to a variable input’ and ‘returns to scale’.
(ii) What is meant by ‘economies of scale’ and ‘diseconomies of scale’ in production?

(iii) Give an example of an industry in which you believe a producer can achieve economies of scale, and explain the source of these economies.

(iv) Are there limits to scale economies in your example? What are they?

2. The number of automatic teller machines (ATMs) overtook the number of bank branches in Australia around 10 years ago. Several banks have programs for cutting the number of their branches. Over-the-counter banking using human tellers is being replaced by new delivery channels.

i. What is the difference, from a cost point of view, between human tellers and ATM machines? Compare the average variable costs and average fixed costs per transaction for each system.

ii. Draw the SRAC curve for banking services delivered by teller transactions and that for ATM transactions.

iii. Use the figure in part (ii) to explain why you think ATMs have become so common.

iv. Suppose the government put a tax on the banks for each ATM transaction but didn’t impose a similar tax for human teller transactions. How would the tax affect a bank’s costs and cost curves? Would it change the number of ATMs and the number of tellers that banks hire?

Week 13 Tutorial

Perfect Competition and Monopoly

Discussion Questions

1.

i. Outline the main features of perfect competition.

ii. What are the consequences of these characteristics for the relationship between price and marginal revenue for a typical firm?

iii. Will the perfectly competitive firm make economic profits in the short run? The long run?

2.

i. Outline the main features of monopoly.

ii. Assume that the mobile phone industry is currently characterised by perfect competition. Suppose this industry is bought out by a single firm. What will happen to price, output, economic profit and efficiency?
3. Three families jointly own the only pizza shop in town. The Lee family wants to sell as many pizzas as possible without losing money. The O’Brien family wants to make the largest possible profits. The Yang family wants the shop to bring in as much revenue as possible.

i. Using a single diagram, depicting the demand curve for pizzas by town residents and the cost curves of the pizza shop, illustrate and explain the price-quantity combination favoured by each of the partner families.

ii. Suppose the local government decided to impose price regulations on the pizza shop. Outline the quantity produced and the deadweight loss under:
   a. average cost pricing
   b. marginal cost pricing
   c. profit maximisation

Week 14 Tutorial

Monopolistic Competition and Oligopoly

Discussion Questions

1.

Suppose Netscape and Microsoft each develop their own versions of an internet browser that is not only much more efficient and powerful for the user, but also allows advertisers to better target potential customers. Each firm must decide whether to sell the browser (for say $30) or give it away free.

Giving the browser away free means more people will use it and will bring in increased advertising revenue. However, selling the browser will generate substantial sales revenue. Since the browsers are almost perfect substitutes, if one firm gives theirs away free, the other firm will sell none if they charge a price, thus making a loss equal to their development costs. Assume the development costs are $2b for each firm.

The estimated outcomes for each firm are as follows:

If Microsoft and Netscape both charge $30, they share the market and each makes $3b in sales revenue and $4b in advertising revenue

If Microsoft and Netscape both give the browser away free they share the larger market and each makes $5b in advertising revenue

If one firm gives the browser away free, while the other tries to charge a price, the former makes $10b in advertising revenue and the latter makes zero revenue.

(i) Construct the pay-off matrix showing each firm’s profit under different strategies.
(ii) Assuming the situation can be modelled as a single competitive game, is there a Nash equilibrium? What is it?
(iii) Does this situation provide any incentive for collusion by the two firms?
(iv) How does your analysis change if development costs are assumed to be $6b?
2. How do firms compete in monopolistic competition?
   (i) Use an economic model to explain whether it is possible for a firm in monopolistic competition to earn economic profit in both the short run and the long run.
   (ii) Show that firms in this type of market tend to operate with excess capacity and unexploited economies of scale.

3.
   (i) What is a “cartel”? Give some examples.
   (ii) Consider a cartel that is maximising total industry profit. Why is there an incentive for each firm in the cartel to cheat by increasing its output even if the cartel is already maximising profit?

STUDENTS SHOULD ALSO USE THIS TUTORIAL TO ASK REVISION QUESTIONS.

Best of luck on the final exam!