Economics

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ECONOMICS

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HOW WE TEACH

- **Topic introduction through lectures**
  - **Talk**
  - **Use of Powerpoint slides/OHP slides**
  - **Use of whiteboard**
- **Interaction, discussion and exercises in class**

HOW YOU LEARN

- Attend lectures and participate
- Read textbook
- Read materials in course package
- Complete assessment

HOW YOU LEARN

- **Take assessment**
  - Individual assignment (due Week 3) (15%)
  - Mid-Term examination (Week 5) (25%)
  - Group assignment (due Week 9) (25%)
  - Final examination (Week 10) (35%)

ECONOMICS – ROAD MAP

- **Week 1:**
  - Introduction to economics, micro and macro
  - Using models
- **Week 2:**
  - Competitive market model: supply and demand
  - Competitive market model: elasticity
- **Week 3:**
  - Applications of the competitive market model

ECONOMICS – ROAD MAP

- **Week 4:**
  - The firm: costs, supply curves, and other topics
- **Week 5:**
  - Market power: Monopolies
- **Week 6:**
  - Market power: monopolistic competition
  - Macroeconomics: meanings and measurement

ECONOMICS – ROAD MAP

- **Week 7:**
  - Macroeconomics: meanings and measurement
  - Determining economic growth
- **Week 8:**
  - Determining economic growth
  - How money matters
- **Week 9:**
  - How money matters
  - Strategic behaviour

ECONOMICS – FUTURE

- Further Economics at AGSM - Micro
  - Managerial Economics (Term 3)
  - Industry Economics (Term 4)
  - Strategic Contracting (Term 1/5)
  - Economic Investment Appraisal (Term 2/6)
- Further Economics at AGSM – Other
  - Strategic Game Theory for Managers (Term 3)
  - Macroeconomics for Managers (Term 3)
  - Trade and International Business (tba)

TEN PRINCIPLES OF ECONOMICS

1. PEOPLE FACE TRADE-OFFS

- **You can't have it all.**
- **Examples?**
  - **Leisure time and income (or top grades)?**
  - **Celebrity and privacy?**
  - **National security and civil liberties?**
  - ***Efficiency* and *equity* (or fairness)**

TEN PRINCIPLES OF ECONOMICS

2. THE COST OF SOMETHING IS WHAT YOU GIVE UP (FORGO) TO GET IT

- Compare the benefits of a choice with the costs of choosing it.
- But some costs are not obvious:
  - The costs of attending the AGSM

    - The fees, of course, and living expenses

    - Your time (could be used to earn money, etc.,)
- The opportunity cost of a choice is what you forgo to get it

TEN PRINCIPLES OF ECONOMICS

3. RATIONAL PEOPLE THINK AT THE MARGIN

- **Marginal changes are small incremental changes.**
- ✓ **Doing the MBA: consider the additional costs and the additional benefits – that is, the *marginal* costs and benefits.**
- ✓ **How much should an airline charge for stand-by passengers?**

  Well, what is the marginal (additional) cost per such passenger?

  (Of course, the airline might want to charge more than its marginal cost per seat, but never less)

TEN PRINCIPLES OF ECONOMICS

4. PEOPLE RESPOND TO INCENTIVES

- **Such as prices and incomes (as we shall see). But others are more subtle.**
  - **An amnesty for illegal workers?**
  - **Your reputation as an effective committee member?**
  - **The effect of compulsory seat-belt laws?**
  - **The AGSM's grading scheme?**

TEN PRINCIPLES OF ECONOMICS

5. TRADE CAN MAKE EVERYONE BETTER OFF

- Two people come together (on eBay, on the ASX, at the shop) and *voluntarily* exchange: one forgoes money, the other gives up a new pair of shoes.

  Both are better off.

- Why? *Specialisation* means the shoe-maker is happy to get the money and the wearer is happy to part with the money and get the new shoes.
- We extend this to international trade, where countries specialise. Trade *can* make all better off – under certain conditions.

TEN PRINCIPLES OF ECONOMICS

6. MARKETS ARE A GOOD WAY TO ORGANISE ECONOMIC ACTIVITY

- **In a market economy, inputs (land, labour, capital, materials) and outputs (goods and services) are allocated by individuals through markets, not by government planners.**

  The natural experiment of the separation of East and West Germany from 1945 is seen as clear evidence of the dynamism of market economies.

  Adam Smith (*Wealth of Nations*, 1776) explained this as the "invisible hand" of market allocation.

  Government actions can distort the efficiency of market allocations.

TEN PRINCIPLES OF ECONOMICS

7. GOVERMENTS CAN SOMETIMES IMPROVE MARKET OUTCOMES

- **When?**

  Market failure **such as over-fishing, when a market doesn't allocate efficiently.**

- **Other cases?**

  Externalities **occur when your actions have an impact on me: pollution is an example.**

  Or when ***market power*** **allows a single firm or individual to influence market prices. Examples?**

TEN PRINCIPLES OF ECONOMICS

8. A COUNTRY'S STANDARD OF LIVING DEPENDS ON ITS ABILITY TO PRODUCE GOODS AND SERVICES

- **What explains differences in countries' living standards?**

  Different levels of *productivity*: the average quantity of good and services produced per work-hour.

  Higher productivity allows higher consumption of all kinds of goods and services, including health care and environmental amenity, as well as cars, travel, food, housing.

TEN PRINCIPLES OF ECONOMICS

9. WHEN GOVERNMENTS PRINT TOO MUCH MONEY, PRICES RISE

- **Inflation (remember that?) is an increase in the overall level of prices in the economy.**

  Q: what causes inflation?

  A: Generally, large rises in the quantity of money by government

TEN PRINCIPLES OF ECONOMICS

10. SOCIETIES FACE A SHORT-TERM TRADE-OFF BETWEEN INFLATION AND UNEMPLOYMENT