



# MGSM845

## Economic Context of Management

Term 1 North Ryde 2019

*Dept of Economics*

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## General Information

Unit convenor and teaching staff

Danielle Merrett

[danielle.merrett@mqsm.edu.au](mailto:danielle.merrett@mqsm.edu.au)

Credit points

4

Prerequisites

Admission to MBA or MMgmt or PGDipMgt or GradDipMgt or MEngMgt

Corequisites

Co-badged status

Unit description

This unit examines economic analysis concepts and tools that enable students to set an organisation's decision-making within its wider economic context. Topics include supply, demand, and market equilibrium; scarcity; exchange and trade; choice theory; theory of the firm; game theory and strategy; market structure; market failures; role of government and government policies; aggregate economy; and international trade. We look at economic variables and how rises and falls in these variables affect people and businesses. We investigate how government policies, decisions by households and firms, and changes in the world economy affect inflation, exchange rates, interest rates, unemployment, growth, and social issues such as poverty and inequality.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Evaluate a wide array of local and global economics information to formulate well-informed and robust business decisions.

Develop a strategy for efficient allocation of scarce resources in a global marketplace.

Critically reflect on how changes in economic conditions affect individual businesses and society.

## Assessment Tasks

Name	Weighting	Hurdle	Due
<a href="#"><u>In-class Test 1</u></a>	10%	No	31 January 2019
<a href="#"><u>In-class Test 2</u></a>	10%	No	28 February 2019
<a href="#"><u>Essay</u></a>	30%	No	14 March 2019
<a href="#"><u>Final examination</u></a>	50%	No	Exam Week: 18 - 23 March 2019

### In-class Test 1

Due: **31 January 2019**

Weighting: **10%**

Closed book, 30 minutes. Calculators permitted. You will need to be familiar with material covered in earlier classes and readings

On successful completion you will be able to:

- Develop a strategy for efficient allocation of scarce resources in a global marketplace.

### In-class Test 2

Due: **28 February 2019**

Weighting: **10%**

Closed book, 30 minutes. Calculators permitted. You will need to be familiar with material covered in earlier classes and readings

On successful completion you will be able to:

- Develop a strategy for efficient allocation of scarce resources in a global marketplace.

### Essay

Due: **14 March 2019**

Weighting: **30%**

A penalty of 10% of possible marks per calendar day will be applied to late assignment submission. This penalty does not apply for cases in which an application for special consideration is made and approved. WORD LIMIT IS STRICTLY 3,000 words. You can attach relevant appendices and supporting documentation which will not be counted in this limit.

However, the report should stand alone – do NOT depend upon a reader to read the appendices. The appendices should be there to identify the sources of your research, show how your conclusions are reached and provide relevant back-up to your arguments.

The essay will be assessed on:

- Clarity and conciseness;
- The extent to which the questions are in fact answered;
- The quality of research, timeliness and relevance of information and statistics;
- Quality of analysis;
- Its usefulness to real world management issues; and/or
- Implication for economic policy.

The essay will be assessed against the relevant unit objectives, being:

- Interpret the meaning of economic information (both statistical, and qualitative), and to identify the additional economic (and other) information which might be useful for a decision, and where to get it; and
- Identify the factors likely to lead to a change in economic conditions, and provide scenarios of the likely economic impact of those changes.

TOPIC: TBA in class

**Please submit a softcopy through iLearn.**

On successful completion you will be able to:

- Evaluate a wide array of local and global economics information to formulate well-informed and robust business decisions.
- Critically reflect on how changes in economic conditions affect individual businesses and society.

## Final examination

Due: **Exam Week: 18 - 23 March 2019**

Weighting: **50%**

The final examination is of three (3) hours and ten (10) minutes reading time, open book.

There will be two (2) compulsory questions.

You are expected to present yourself for examination at the time and place designated in the MGSM Examination Timetable. The timetable will be available at <https://students.mgsm.edu.au/sydney-students/units/exams/>

On successful completion you will be able to:

- Evaluate a wide array of local and global economics information to formulate well-informed and robust business decisions.
- Develop a strategy for efficient allocation of scarce resources in a global marketplace.

- Critically reflect on how changes in economic conditions affect individual businesses and society.

## Delivery and Resources

Required text

Samuelson, W. & Marks, S., 2015, Managerial Economics, 8th edition, Wiley, ISBN: 9781118808948

For information on textbook prices and online ordering, please refer to the Co-Op Bookshop webpage at <http://www.coop.com.au>

MGSM iLearn

The web page for this unit can be found at: <https://ilearn.mq.edu.au/login/MGSM>

Unit requirements

You will not be expected to become an economist. You will be expected to acquire economic skills that are useful to managers.

To successfully complete the unit you will be expected to demonstrate that you can do the following things at a level acceptable in the business world:

- Understand and make practical use of basic economic concepts by applying them to typical business management problems.
- Interpret the meaning of economic information (both statistical and qualitative), and to identify the additional economic (and other) information which might be useful for a decision, and where to get it.
- Understand how economic models can be used in making predictions and interpreting economic trends. And be able to identify the assumptions and limitations of economic models used by economists to make predictions and policy recommendations.
- Identify the factors likely to lead to a change in economic conditions, and provide scenarios of the likely economic impact on a specific entity (such as a manufacturing or service company) of those changes.
- Evaluate the content and logic of reports containing economic information as it relates to the contemporary Australian, Asian and other world economies. Identify fallacies in economic arguments, and weigh up different theoretical interpretations of facts leading to alternative predictions.
- Identify and evaluate the options for managing economic variables to achieve specific objectives, at a corporate level (e.g. profit or sales maximisation).
- Analyse and report on the way that changes in economic circumstances are transmitted through the economy, and assess their likely impact on, and implications for a given

entity.

## Unit Schedule

Weekly class – Danielle Merrett – Thursday 6pm – 10pm (Starts: 10 January 2019)

Students are required to attend all classes.

The unit will be presented as follows:

Module	Lectures and class activities	Recommended readings
1 & 2	<p>Introduction</p> <ul style="list-style-type: none"><li>• Basic Concepts &amp; applications – how they relate to management in the private and public sector</li><li>• Trade-offs</li><li>• Opportunity cost</li><li>• Incentives</li><li>• Markets and voluntary trade</li><li>• Market failures: public goods, externalities, common pool resource problem</li><li>• Role of the government</li><li>• Role of institutions</li><li>• Supply and demand</li><li>• Elasticities</li><li>• Demand, supply, market equilibrium</li><li>• Goods market experiment</li><li>• Marginal decisions – MC MR (or MB)</li><li>• Sunk costs</li><li>• Goods market experiment</li></ul>	<p>Ch. 1-2</p> <p>Choi, H., &amp; Varian, H. (2012). Predicting the present with Google Trends. <i>Economic Record</i>, 88, 2-9.</p>

3 & 4	<p>Theory of choice, demand</p> <ul style="list-style-type: none"><li>• Budget constraints</li><li>• Preferences</li><li>• Choice</li></ul> <p>Labor market</p> <ul style="list-style-type: none"><li>• Labor market and supply of labor</li><li>• Nominal vs. real wages</li><li>• Minimum wage</li><li>• Value of labor</li><li>• Downward wage rigidity</li><li>• Reciprocity and loyalty</li><li>• Unemployment</li><li>• Reputation and reciprocity gift exchange game experiment</li></ul>	Ch. 3-4
5 & 6	<p>Theory of firm</p> <ul style="list-style-type: none"><li>• Factors of production</li><li>• Net present value of capital</li><li>• Accounting vs economic profit</li><li>• Maximizing profit</li><li>• Diminishing returns</li><li>• Costs, cost curves</li><li>• Perfect competition</li><li>• Short run vs long run</li></ul>	Ch. 6-8

7 & 8	<p>Game theory</p> <ul style="list-style-type: none"><li>• Simultaneous-move games</li><li>• Prisoner's dilemma &amp; cooperation</li><li>• Dominant and dominated strategies</li><li>• Nash equilibrium<ul style="list-style-type: none"><li>• Coordination</li></ul></li><li>• Sequential games</li><li>• Strategy</li><li>• Market entry game</li><li>• Credible vs. empty threat</li><li>• Commitment</li><li>• Ultimatum game</li><li>• Finitely and infinitely repeated games</li><li>• Strategic behavior experiments</li></ul>	<p>Ch. 10</p> <p>An Introduction to Game Theory</p> <p>S. Meier &amp; E. Reuben "Competitive Dynamics &amp; Business Strategy" 2010.</p> <p>What is the Nash equilibrium and why does it matter?</p> <p><a href="https://www.economist.com/news/economics-brief/21705308-fifth-our-series-se-minal-economic-ideas-looks-nash-equilibrium-prison">https://www.economist.com/news/economics-brief/21705308-fifth-our-series-se-minal-economic-ideas-looks-nash-equilibrium-prison</a></p> <p>Experimental Methods: A Primer for Economist – Ch. 1, 2 (optional reading)</p>
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<p>9 &amp; 10</p>	<p>Market structure</p> <ul style="list-style-type: none"> <li>• Monopoly profit maximization</li> <li>• Natural monopoly and returns to scale</li> <li>• Monopoly vs perfect competition</li> <li>• Monopoly market power and anti-competitive behavior</li> <li>• Market pricing experiment</li> <li>• Price discrimination</li> <li>• Regulating monopolies</li> <li>• Oligopoly – Cournot and Bertrand models</li> <li>• Collusion</li> <li>• Product differentiation and monopolistic competition                             <ul style="list-style-type: none"> <li>• Monopoly experiment</li> </ul> </li> </ul> <p>Asymmetric information</p> <ul style="list-style-type: none"> <li>• market for lemons</li> <li>• quality choice</li> <li>• adverse selection</li> <li>• moral hazard</li> <li>• Principal-agent problem</li> </ul> <p>Behavioural economics</p> <ul style="list-style-type: none"> <li>- Loss and risk aversion</li> <li>• Endowment effect</li> <li>• Prospect theory</li> <li>• Framing</li> </ul> <p>Review</p>	<p>Ch.3 &amp; 14</p> <p><a href="https://hbr.org/2017/10/how-retailers-use-personalized-prices-to-test-what-your-e-willing-to-pay">https://hbr.org/2017/10/how-retailers-use-personalized-prices-to-test-what-your-e-willing-to-pay</a></p> <p><a href="http://freakonomics.com/podcast/uber-economists-dream/">http://freakonomics.com/podcast/uber-economists-dream/</a></p> <p><a href="https://www.economist.com/blogs/economist-explains/2016/09/economist-explains-economics-1">https://www.economist.com/blogs/economist-explains/2016/09/economist-explains-economics-1</a></p> <p><a href="https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/distortions-and-deceptions-in-strategic-decisions?cid=other-eml-clsmkg-mck-oth-1704">https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/distortions-and-deceptions-in-strategic-decisions?cid=other-eml-clsmkg-mck-oth-1704</a></p>
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## Learning and Teaching Activities

### Active Learning

Lectures will be used to introduce you to topics, and to show you how these things fit into a broader context. You will then need to read up on and revise basic concepts through the text. Lectures, class exercises and cases, will be used to show you how to apply the concepts and techniques

### Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](https://staff.m) (<https://staff.m>

[mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central](http://mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central)). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)
- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Undergraduate students seeking more policy resources can visit the [Student Policy Gateway](https://students.mq.edu.au/support/study/student-policy-gateway) (<https://students.mq.edu.au/support/study/student-policy-gateway>). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central](http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central) (<http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central>).

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/study/getting-started/student-conduct>

## Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au) or if you are a Global MBA student contact [globalmba.support@mq.edu.au](mailto:globalmba.support@mq.edu.au)

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)

- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

If you are a Global MBA student contact [globalmba.support@mq.edu.au](mailto:globalmba.support@mq.edu.au)

For queries about your study at MGSM, please contact [studentservices@mgsm.edu.au](mailto:studentservices@mgsm.edu.au)

## IT Help

For help with University computer systems and technology, visit [http://www.mq.edu.au/about\\_us/offices\\_and\\_units/information\\_technology/help/](http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/).

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

#### Learning outcomes

- Evaluate a wide array of local and global economics information to formulate well-informed and robust business decisions.
- Develop a strategy for efficient allocation of scarce resources in a global marketplace.
- Critically reflect on how changes in economic conditions affect individual businesses and society.

#### Assessment tasks

- In-class Test 1
- In-class Test 2
- Essay
- Final examination

#### Learning and teaching activities

- Lectures will be used to introduce you to topics, and to show you how these things fit into

a broader context. You will then need to read up on and revise basic concepts through the text. Lectures, class exercises and cases, will be used to show you how to apply the concepts and techniques

## PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

### Learning outcome

- Critically reflect on how changes in economic conditions affect individual businesses and society.

### Assessment tasks

- Essay
- Final examination

### Learning and teaching activities

- Lectures will be used to introduce you to topics, and to show you how these things fit into a broader context. You will then need to read up on and revise basic concepts through the text. Lectures, class exercises and cases, will be used to show you how to apply the concepts and techniques

## PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

### Learning outcome

- Develop a strategy for efficient allocation of scarce resources in a global marketplace.

### Assessment tasks

- In-class Test 1
- In-class Test 2
- Final examination

## PG - Effective Communication

Our postgraduates will be able to communicate effectively and convey their views to different social, cultural, and professional audiences. They will be able to use a variety of technologically supported media to communicate with empathy using a range of written, spoken or visual formats.

This graduate capability is supported by:

### Learning and teaching activities

- Lectures will be used to introduce you to topics, and to show you how these things fit into a broader context. You will then need to read up on and revise basic concepts through the text. Lectures, class exercises and cases, will be used to show you how to apply the concepts and techniques

## Changes from Previous Offering

No changes from previous offering

## Alignment with MGSM's mission-driven attributes

- **Leadership:** Develop skills required of leaders with respect to the synthesis of a wide array of economics information in order to make well-informed and financially robust strategic decisions
- **Global mindset:** Assessment of the implications of global activity and strategic decisions from an entity perspective, across a wide spectrum of stakeholders
- **Citizenship:** Apply a true and fair view approach to matters of economic policy making and implementation related to business strategies through consideration of the wider stakeholder implications which may arise from such policies and the subsequent business decisions
- **Creating sustainable value:** Adoption of a forward-looking perspective on the impact of decisions on the financial position and performance of the entity

## Attendance Policy (MGSM)

The interactive environment of the classroom is central to the MGSM experience. Students are required to attend the full duration of all classes for the units in which they are enrolled. We recognise that exceptional circumstances may occur, such as unavoidable travel on behalf of your organization or the serious illness or injury of you or a close family member.

Special consideration may be given for a maximum of 20% non-attendance for such circumstances as long as lecturers are contacted in advance, and supporting documentation provided, to request exemption from attendance. Failure to abide by these conditions may result in automatic withdrawal, with academic and/or financial penalty. The full Student Attendance

Policy is published in the MGSM Student Handbook at <https://students.mgsm.edu.au/handbook>

## **Content Disclaimer**

These unit materials and the content of this unit are provided for educational purposes only and no decision should be made based on the material without obtaining independent professional advice relating to the particular circumstances involved.