Unit Title: Economic Principles and Their Application to Business	Unit Code: Econ
Level: 5	**Learning Hours: 160**

Learning Outcomes and Indicative Content:

Candidates will be able to:

1. Explain the problem of scarcity, the concept of opportunity cost, the difference between macroeconomics and microeconomics and the difference between normative and positive economics

1.1. Explain the problems of scarcity and opportunity cost. Explain how these concepts are related using numerical examples and/or a production possibility frontier

1.2. Explain what is meant by free market, command and mixed economies. Discuss, using real world examples, the relative merits of these alternative regimes

1.3. Explain what is meant by microeconomics and macroeconomics. Discuss the differences between these areas. Explain the meaning and implications of the 'ceteris paribus' assumption in microeconomics

1.4. Explain what is meant by normative and positive economics. Discuss the differences between these terms

2. Explain the theory of consumer choice using the concept of utility, individual demand and market demand. Explain the concept of elasticity in relation to different types of good and firm behaviour through an understanding of the revenue function. Solve numerical problems involving elasticity

2.1. Explain the concept of utility. Explain what is meant by marginal utility, utility maximisation and the property of diminishing marginal utility, using diagrams and/or numerical examples

2.2. Explain the relationship between individual utility and individual demand for a good, using examples where required

2.3. Solve numerical problems relating to marginal utility and utility maximisation based on utility or consumption data

2.4. Identify the difference between individual and market demand

2.5. Explain the reasons for movements along or shifts in demand curves

2.6. Identify the formulae for, and explain what is meant by, own-price, cross-price and income elasticities of demand. Discuss factors which affect each of these elasticities

2.7. Solve numerical demand elasticity problems using demand information

2.8. Explain, in words, diagrams and with reference to demand elasticities, what is meant by each of the following: normal goods, bads, inferior goods, Giffen goods, luxury goods, complements and substitutes. Identify real world examples of each of these

2.9. Examine, using diagrams and numerical examples, the relationship between total revenue, average revenue and marginal revenue and between marginal revenue and the elasticity of demand for a profit-maximising firm. Discuss how a profit-maximising firm might respond to information about demand elasticities

3. Discuss the theory of costs, explaining the differences and relationships between the various types of cost and distinguishing between the short- and long-run. Solve numerical problems based on cost information. Explain the concept of profit maximisation and solve problems using diagrams and data. Explain the link between a firm's supply curve and its cost functions. Explain and contrast, in words and with diagrams, the concepts of economies of scale and returns to scale

3.1. Explain, with reference to appropriate examples, the difference between fixed and variable factors of production
3.2. Identify the formulae for, and explain what is meant by, fixed cost, variable cost, marginal cost, average cost and total cost. Solve numerical and/or diagrammatic problems using cost data
3.3. Explain, using an appropriate diagram, the relationship between average and marginal cost
3.4. Explain, using appropriate examples, the difference between fixed cost and sunk cost
3.5. Explain, using words, diagrams and numerical examples, how a firm reaches its profit maximising choice of output with reference to marginal cost and marginal revenue. Solve diagrammatic and numerical problems of profit maximisation
3.6. Explain using diagrams how a firm chooses whether or not to stay in operation or leave the industry in the short- and long-run.
3.7. Explain how a firm's supply curve is derived from an analysis of its cost functions. Explain the reasons for movements along and shifts in supply curves
3.8. Identify the formula for the elasticity of supply. Examine the effect of changes in the elasticity of supply on the diagram of a supply curve. Solve numerical problems for the elasticity of supply based on data
3.9. Explain what is meant by economies and diseconomies of scale and relate these concepts to the long-run average cost curve. Explain what is meant by increasing, constant and decreasing returns to scale. Explain, using real world examples, how each of the above might arise. Compare and contrast the concepts of returns to scale and economies of scale

4. Explain the concept of market equilibrium and examine, using demand and supply analysis, the effect of changes in economic factors upon equilibrium price and quantity. Explain the difference between private and social costs, and examine the consequences of externalities for the market equilibrium. Examine the effects of various types of government intervention on market outcomes

4.1. Explain, in words and with diagrams, the concept of equilibrium in a supply and demand model and the process by which equilibrium is reached.

4.2. Examine the effects of changes in market conditions, (for example a change in the price of a substitute good, a change in consumer income, an increase in advertising expenditure, the introduction of new cost-reducing technology), which lead to shifts in the demand and or the supply curve upon the equilibrium. Explain the importance of elasticity to the impact of such changes

4.3. Draw supply and demand curves based on data and solve for the equilibrium price and quantity

4.4. Explain the meaning of positive and negative externalities, and the distinction between private and social costs and benefits. Identify real world examples of externalities and discuss how they arise

4.5. Demonstrate the effects of externalities on the market equilibrium using demand and supply analysis. Identify the social costs associated with the distortions caused by externalities

4.6. Demonstrate how taxation policy can be used to remedy problems caused by externalities. Discuss the merits of a tax approach relative to possible alternative policies

4.7. Examine, using appropriate diagrams, the effects of taxes and subsidies on the market equilibrium, identifying the burden/benefit of taxation/subsidies on consumers and producers

4.8. Examine, using appropriate diagrams, the effects of quotas, price ceilings and price floors on the market price and quantity traded

5. Explain the profit-maximising outcomes under monopoly and perfect competition in the short- and long-run. Identify the differences between the two market systems. Examine the effects of changes in government policy upon these markets

5.1. Identify, using diagrams, the characteristics of perfect competition at the firm and industry level. Identify, in numerical and/or diagrammatic examples, equilibrium price, firm and/or industry quantity, profit, marginal cost, average cost, marginal revenue and average revenue

5.2. Examine the effects of changes in the conditions of the industry upon the market equilibrium in the short- and long-run. Discuss the mechanism by which the industry moves from the short-run to the long-run equilibrium. Discuss the welfare implications of perfect competition

5.3. Identify, using diagrams, the characteristics of monopoly. Explain the relationship between average and marginal revenue. Identify, in numerical and/or diagrammatic examples, equilibrium price, output, profit, total cost, total revenue, marginal cost, average cost, marginal revenue and dead-weight loss

5.4. Examine the effects of changes in the conditions of the industry upon the market equilibrium in the short- and long-run. Discuss the welfare implications of monopoly with reference to the dead-weight loss triangle and X-inefficiency

5.5. Discuss the merits of policy alternatives aimed at reducing the social cost of monopoly

5.6. Solve basic diagrammatic and numerical problems under monopoly and perfect competition

5.7. Identify and discuss real world examples of industries with similar characteristics to the models of perfect competition and monopoly

6. Explain the kinked demand curve model of oligopoly and the model of monopolistic competition. Discuss the idea of collusion and identify the factors that affect the stability of a collusive arrangement. Compare the predictions of these models with those of monopoly and perfect competition

6.1. Discuss the general characteristics of an oligopoly industry. Identify the characteristic similarities and differences between oligopoly models and the models of perfect competition and monopoly
6.2. Identify, using the appropriate diagram, the characteristics of the kinked demand curve model of oligopoly
6.3. Identify the equilibrium price, output and profit in the kinked demand curve model
6.4. Explain why the kinked demand curve model predicts price stability and discuss the limitations of this model
6.5. Identify, using the appropriate diagram, the characteristics of the model of monopolistic competition
6.6. Identify the equilibrium price, output and profit in the model of monopolistic competition in the short- and long-run
6.7. Discuss the meaning of collusion in the context of an oligopoly. Examine the factors that aid or hamper the ability of firms to collude. Discuss the implications of these findings for policy-makers concerned with maximising social welfare
6.8. Discuss the price, output and welfare implications of oligopoly models relative to the models of monopoly and perfect competition

7. Evaluate national income as a measure of societal well-being and derive it through its various methods of measurement

7.1. Compare and contrast expenditure, income, and output measures of national income
7.2. Explain the distinction between gross *domestic* income and gross *national* income
7.3. Demonstrate an understanding of nominal and real measures of national income
7.4. Identify the different treatment of taxes, subsidies and transfer payments in the national income accounts
7.5. Explain how national income per capita is measured and the limitations of relying upon this measure
7.6. Recognise other, non-economic, aspects of well-being.
7.7. Explain how broader indices of well-being work, for example, the Human Development Index

8. Explain the determination of the equilibrium levels of national income using the Keynesian macroeconomic model in a closed and open economy and demonstrate how this can be of use to businesses

8.1. Interpret, graph, and solve simple numerical examples of the form $Y = C + I + G + (X - N)$
8.2. Explain how variation in the marginal propensity to save, consume, and import affects the closed and open economy multiplier
8.3. Compare and contrast inflationary and deflationary gaps using Keynesian cross diagrams
8.4. Discuss the components of government fiscal policy and explain how changes in these components affect the equilibrium level of national income
8.5. Make judgements about the factors that determine the effectiveness of fiscal policy
8.6. Explain the implications of fiscal policy for government borrowing (Public Sector Borrowing Requirement)

9. Explain and evaluate the effectiveness of monetary policy in a closed and open economy and be able to discuss the possible impact of monetary policy on business decision-making

9.1. Demonstrate an understanding of the relationship between the banking system and the creation of money
9.2. Identify the components of the high powered money stock and explain why these have a magnified impact on the money supply
9.3. Explain the Quantity Theory of Money and its role in explaining the rate of inflation
9.4. Discuss the components of monetary policy and explain how they work
9.5. Evaluate the factors that determine the effectiveness of monetary policy
9.6. Compare and contrast the relative effectiveness of fiscal and monetary policy

10. Understand and interpret the main objectives of government macroeconomic policy

10.1. Explain the conflicts that can arise between various macroeconomic objectives
10.2. Use Aggregate Demand and Supply diagrams to demonstrate how these conflicts arise
10.3. Discuss the possible advantages of using fiscal and monetary policy together to try and reconcile conflicts in macroeconomic objectives
10.4. Show, using Aggregate Demand and Aggregate Supply diagrams, how the degree of under-utilisation of an economy's labour resources can affect the trade-offs between economic growth, price stability, interest rates and unemployment

11. Explain the fundamental advantages and disadvantages of free trade, including the principles of absolute and comparative advantage

11.1. Explain, using numerical examples, how gains from specialisation arise
11.2. Interpret data on opportunity costs
11.3. Explain how the various measures of the external account (for example, current account, capital account, balance on visible trade) are constructed
11.4. Examine the different factors which determine the state (surplus/deficit) of these accounts
11.5. Identify economic reasons why governments may decide to promote free-trade or impose restrictions on free-trade
11.6. Explain the impact of free-trade on business in developed and/or developing economies
11.7. Discuss the means that can be employed by governments to restrict or promote trade and evaluate the advantages and disadvantages of employing policies to restrict free-trade.

12. Understand how exchange rates are determined and to evaluate the relative merits of fixed and floating exchange rate regimes

12.1. Discuss the differences between the key terms used in the analysis of exchange rates: devaluation, depreciation, revaluation and appreciation
12.2. Explain the terms of trade
12.3. Examine the concept of purchasing power parity theory and its implications
12.4. Identify the relationship between fiscal/monetary policy and fixed/floating exchange rates
12.5. Discuss the ways in which government manipulation of exchange rates can generate a competitive advantage

Assessment Criteria:

- Assessment method: written examination
- Length of examination: three hours
- Candidates should answer four questions from a choice of eight, each question carrying equal marks
- Section A comprises a **compulsory** question comprising five true/false elements
- Section B comprises seven questions of which the candidate must answer three
- All questions are worth equal marks i.e. 25%.

Recommended Reading

ABE, *ABE Study Manual – Economics*, ABE

Sloman J, *Economics* (2002), Pearson Higher Education
ISBN: 0273655744

Taylor M, Mankiw N, Economics (2006), Thomson Learning
ISBN: 1844801330