

Economics and Finance

ECON130 ECONOMIC PRINCIPLES AND ISSUES

Trimester One 2007

COURSE OUTLINE

Contact Details

Paul Tompkinson	RH403	463-5737	course co-ordinator
Penelope de Boer	EA128/RH319	463-7449/5818	1310-1400 stream
Jerry Mushin	RH426	463-5884	1610-1700 stream
Adrian Slack	RH315	463-5233 ext 8571	0900-0950 stream
John Singleton	RH424	463-5131	1100-1150 stream (micro)
Muge Adalet	RH429	463-7486	1100-1150 stream (macro)

NB – to access EA128 to see Penelope de Boer, the course administrator, you must first report to the counter in EA005.

Class Times and Room Numbers

CRN 8721:	Mon, Tue, Wed	0900-0950	KKLT303
CRN 10034:	Mon, Wed, Thur	1310-1400	KKLT303
CRN 10035:	Mon, Wed, Thur	1610-1700	MCLT103
CRN 10036:	Mon, Tue, Wed	1100-1150	MCLT101

Tutorial times are to be finalised. Signup for the tutorial programme will commence on 1 March at 2000hrs. It will remain open for approximately two weeks. To access the signup, go to

<https://signups.vuw.ac.nz/login.aspx?ReturnUrl=%2findex.aspx&AspxAutoDetectCookieSupport=1>. You could also just type signups.vuw.ac.nz

The course starts on Monday, February 26, 2007. If you wish to change streams (and there is space) you will need to obtain a change of course form from the Student Administration Service, RLWY, or EA005.

ECON 130 is taught in the first and third trimesters

The final exam will be held during the period 4-30 June 2007.

Course Objectives

ECON 130 includes material from microeconomics (18 lectures) and macroeconomics (18 lectures).

Tutorials are groups of twelve to fourteen students and a tutor, meeting for fifty minutes once a week. They provide a forum for discussing problems and working through exercises. You will choose a tutorial group during the first week of lectures. Instructions above.

Tutorial exercises and discussion material are specified on Blackboard. This can be accessed at www.blackboard.vuw.ac.nz. The exercises have been designed to give structure to the tutorial sessions and to provide a focus for discussion, but it is expected that tutorials will range beyond them.

You are expected to prepare for tutorials by keeping up with the prescribed reading and by attempting the exercises in advance of your session. You should attempt, in writing, the questions before attending your tutorial. Tutorials are also your opportunity to raise and clarify any problems you may have with the material covered in lectures.

You must attend regularly the tutorial group to which you are assigned. If because of work or timetable clashes, you are no longer able to attend your allocated tutorial, you must notify Penelope de Boer, and you may then be able to change your tutorial.

If for reasons beyond your control, you are unable to attend their regular group in a particular week then you can attend one of the two catch-up tutorials. The time for the catch-up tutorials will be posted on Blackboard at the beginning of the trimester. This session is provided specifically for those students unable to attend their regular tutorial because of sickness, bereavement, etc. No more than two attendances at these catch-up tutorials will be allowed unless Mrs de Boer has been notified beforehand and good reasons given.

Because of the number of students enrolled in ECON 130, and administrative problems caused by students attending tutorials other than their own, tutorial attendances will be recorded **only** at a student's allocated tutorial, or at one of the catch-up sessions for the corresponding week.

Course Content

Students must be conversant with material from pp17 – 28 inclusive. If you are not 100% confident with this material, then a remedial tutorial will be held. Details will be advised.

LECTURES

Note that this is a broad outline only. It is sufficient to enable students to read ahead of lectures and put themselves in a position to benefit from lectures. However, individual lecturers will sometimes deviate from the order given here. The page references are from Sloman and Norris, "Principles of Economics."

Course outline ECON 130 2007

Economic Issues

pp 4-17

- L1 **The economic problem**
 - The problem of scarcity
 - Demand and supply
- L2 **Dividing up the subject**
 - macroeconomics
 - microeconomics
- L3 **Illustrating economic issues**
 - the production possibility curve
 - the circular flow of goods and services

Markets, demand and supply

pp 36 – 58

- L4 **Economic systems**
 - The command economy
 - The free market economy
- Demand**
 - The relationship between demand and price
 - The demand curve
 - Other determinants of demand
 - Movements along and shifts in the demand curve
- L5 **Supply**
 - The relationship between supply and price
 - The supply curve
 - Other determinants of supply
 - Movements along and shifts in the supply curve
- L6 **The determination of price**
 - Equilibrium price and output
 - Movement to a new equilibrium
- The free market economy**
 - Advantages of a free market economy
 - Problems with a free market economy
 - The mixed economy
 - Markets where prices are controlled pp 87 – 89

Markets in action

pp 66 – 80

L7

Price elasticity of demand

- Measuring the price elasticity of demand
- Interpreting the figure for elasticity
- Determinants of price elasticity of demand

Price elasticity of demand and total consumer expenditure

- Elastic demand
- Inelastic demand
- Special cases

Price elasticity of supply

- Determinants of price elasticity of supply

Other elasticities

- Income elasticity of demand
- Cross price elasticity of demand

Markets and adjustment over time

- Short-run and long-run adjustment

Background to supply

pp 98 – 113

L8

Short-run costs

- Short-run and long-run changes in production
- Production in the short-run: the law of diminishing returns
- Costs and inputs
- Total costs
- Average and marginal costs

L9

Long run costs

- Production in the long-run
- Long-run average cost
- The relationship between long-run and short-run average cost curve
- Long-run cost curves in practice
- Decision making in different time periods

Profit maximisation

pp 119 – 127

L10

Revenue

- Total, average and marginal revenue
- Revenue when price is not affected by the firm's output
- Revenue curves when the price varies with output
- Shifts in revenue curves

Revenue costs and profit

- Short-run profit maximisation using total curves
- Short-run profit maximisation using average and marginal curves
- Some qualifications

Perfect competition and monopoly

pp 135 – 152

- L11 **Perfect competition**
- The short-run equilibrium of the firm
 - The short-run supply curve
 - The long-run equilibrium of the firm
 - Is perfect competition good for consumers?

- L12 **Monopoly**
- What is a monopoly?
 - Barriers to entry
 - Equilibrium price and output
 - Monopoly versus perfect competition
 - Contestable markets

Imperfect competition

pp 159 – 176

- L13 **Monopolistic competition**
- Equilibrium of the firm
 - Non-price competition
 - Monopolistic competition and the public interest

- L14 **Oligopoly**
- The 2 key features of oligopoly
 - Competition and collusion
 - Industry equilibrium under collusive oligopoly
 - Tacit collusion
 - Factors favouring collusion
 - Non-collusive oligopoly: the breakdown of collusion
 - Non-collusive oligopoly: the kinked demand curve
 - Oligopoly and the consumer

Wages and the distribution of income

pp 185 – 204

- L15 **Wage determination in a perfect market**
- Perfect labour markets
 - The supply of labour
 - The demand for labour
 - Wages and profits under perfect competition
- Wage determination in imperfect markets**
- The role of trade unions
 - Bilateral monopoly
 - The efficiency wage hypothesis
- Causes of inequality**
- Inequality in New Zealand
 - Identifying the causes of inequality
- The redistribution of income**

- Taxation
- Benefits

Market failures and government policy

pp 211 – 226

- L16 **Market failures**
- Externalities
 - Public goods
 - Monopoly power
 - Deadweight loss under monopoly
 - Ignorance and uncertainty
 - The principal-agent problem
 - Poor economic decision making
- L17 **Government intervention**
- The uses of taxes and subsidies
 - Disadvantages of taxes and subsidies
 - Laws prohibiting undesirable behaviour
 - Regulation of monopolies and restrictive practices
 - Changes in property rights
 - Provision of information
 - Direct provision of goods and services
 - Can the government always put things right?
- L18 **The environment: a case study market failure**
- Revision

Introduction to Macroeconomics

pp 246 – 268

- L19 **Macroeconomic objectives**
- The circular flow of income**
- The inner flow, withdrawals and injections
 - The relationship between withdrawals and injections
 - Equilibrium in the circular flow
 - The NZ picture
- L20 **Unemployment**
- The meaning of unemployment
 - Equilibrium (or natural unemployment)
 - Disequilibrium unemployment
- L21 **Inflation**
- The costs of inflation
 - The causes of inflation
 - **The measurement of GDP**

The determination of GDP

pp 275 – 282

- L22 and 23 **The equilibrium level of GDP**
- Showing equilibrium with a Keynesian diagram

- The withdrawals and injections approach
- The income and expenditure approach

The multiplier

- The withdrawals and injection approach
- The income and expenditure approach

Aggregate Demand and Supply

pp 296 – 299

- L24
- The aggregate demand curve
 - Shifts in the aggregate demand curve
 - The Aggregate supply curve
 - Shifts in the aggregate supply curve

Money and the Financial system

pp 314 – 326

- L25 and 26
- The meaning and functions of money**
- The functions of money
 - What should count as money?

The financial system in NZ

- The role of the financial sector
- Banks
- Non-bank financial intermediaries
- The Reserve Bank of New Zealand

- L27
- The supply of money**
- The creation of credit
 - The relationship between the money supply and the rate of interest

The demand for money

- What determines the size of the demand for money?

Equilibrium

- Equilibrium in the money market
- The full effect of changes in the money supply

Interest rates and monetary control

- L28 and 29
- The Reserve bank of NZ
 - OCR and monetary control
 - Other ways to control the monetary supply

Fiscal policy

pp 333 – 342

- L30
- Fiscal policy**
- Deficits and surpluses

- The use of fiscal policy
- The effectiveness of fiscal policy**
- Discretionary fiscal policy: problems of magnitude
 - Discretionary fiscal policy: problems of timing
 - Side effects of discretionary policy

International trade

pp 361 – 388

- L31 **The gains from trade**
- Specialisation as the basis for trade
 - The gains from trade based on comparative advantage
 - The terms of trade
 - Other reasons for gains from trade
- L32 **Arguments for restricting trade**
- Methods of restricting trade
 - Arguments in favour of restricting trade
 - Problems with protection
- L33 **World attitudes towards trade and protection**
- History of protectionism
 - The Uruguay round and the WTO
- Trading Blocs**
- Types of preferential trading arrangement
 - The direct effects of a customs union: trade creation and trade diversion
 - Long-term effects of a customs union
 - Preferential trading in practice
- L34 **Trade and developing countries**
- Trade strategies
 - Exporting primaries – exploring comparative advantage
 - Import substituting industrialisation
 - Exporting manufactures – a possible way forward?

Balance of payments and exchange rates

pp 395 – 411

- L35 **The balance of payments account**
- The current account
 - The capital account
 - The financial account
- Exchange rates**
- Determination of the rate of exchange in a free market
- Exchange rates and the balance of payments**
- No government or central bank intervention
 - With government or central bank intervention
- Fixed versus floating exchange rates**
- Advantages of fixed exchange rates
 - Disadvantages of fixed exchange rates

- Advantages of a free-floating exchange rate
- Disadvantages of a free-floating exchange rate
- Exchange rates in practice

L36

Essay writing and question answering

Expected Workload

You should expect to spend ten to twelve hours per week on this subject, three hours in lectures, one hour in a tutorial and six to eight hours reading, preparing for lectures and tutorials

Readings

The readings are detailed in the lecture schedule (above) and are from *Principles of Economics*, Sloman and Norris, Pearson, ISBN 1 74103 405 1. Some streams may have extra lecturer prepared material on Blackboard. If you cannot find what you are looking at on your stream's Blackboard, please contact your lecturer directly.

The most appropriate **Supplementary reading**, which you will find helpful but which is not required, will vary according to your particular interests, experience and aptitude but may well include the following texts in the library.

William J Baumol and Alan S Blinder, *Economics: Principles and Policy*, (Harcourt), 5th edition, 1991

Jerry Mushin, *Income, Interest Rates and Prices: An Overview of Macroeconomic Theory* (Dunmore Press), third edition 1999.

Michael Parkin, *Microeconomics*, (Addison Wesley), 3rd edition, 1996

Alan C Stockman, *Introduction to Microeconomics and Introduction to Macroeconomics*, (Dryden Press/Harcourt Brace), 1999.

If you are in doubt about the meaning of any economic terms, we suggest that you consult D.W. Pearce (ed) *Macmillan Dictionary of Modern Economics* (1983) which is available in the Study Hall of the Library. However, do not expect too much of a dictionary - Economics deals with concepts and ideas rather than with words.

For those frightened of maths, we recommend

Penelope Proffitt, *Maths Made Easy* (Prentice Hall, 2002);

G. Kennedy, *Mathematics for Innumerate Economists* (Homes and Meier, 1982), especially Chapters 1-4.

A good guide to the recent developments in the New Zealand economy is

Paul Dalziel and Ralph Lattimore, - *The New Zealand Macroeconomy: Striving for Sustainable Growth with Equity* (Oxford UP, 2004) also contains a useful guide for further reading. "The New Zealand Macroeconomy: Striving for Sustainable Growth with Equity" (Oxford UP, 2004).

Stuart Birks and Srikanta Chatterjee, (ed). *The New Zealand Economy: Issues and Policies* (Third edition, Dunmore Press, 1997)

Regular surveys of the New Zealand economy are produced by: The Reserve Bank of New Zealand *Bulletin* and *Annual Report* (<http://www.rbnz.govt.nz/>); the Organisation for Economic Co-operation and Development (OECD) in its *Economic Survey of New Zealand* (<http://www.oecd.org/>); and the New Zealand Institute of Economic Research in its *Quarterly Predictions*. Statistical sources for New Zealand include the *New Zealand Official Yearbook*, Statistics New Zealand's monthly *Key Statistics*

(<http://www.stats.govt.nz/>) and the N.Z. Institute of Economic Research *Quarterly Survey of Business Opinion* (<http://www.nzier.org.nz/>).

Materials and Equipment

Silent non-programmable calculators may be taken into the test and examination. You may find a calculator useful, but they are by no means compulsory.

Assessment Requirements

Assignments	15%	as announced on Blackboard - see below
Maths competency test	0%	5pm on Thursday 15 March 2007
Multi choice test	25%	6.30pm Thursday, 26 April 2007
Exam:	60%	TBA

The test on 26 April 2007 will cover the microeconomic component of the course. In particular, all the material covered in lectures up to the end of lecture 18, and all the reading which is specified in the lecture outline as relevant for those lectures will be examinable. A missed test will be entered as a zero unless either written permission has been granted **in advance** by the Course Administrator, or there are clear medical reasons for non-attendance, supported by written evidence from a doctor.

The assignments consist of short on-line tests to be completed at the end of each chapter as it is taught from the text. You will complete them via Blackboard. Follow the link from the Announcements page for test one. There are 16 such tests and your assessment will be based on the best 15 marks you obtain. If you choose to complete only 15 assignments, then those 15 marks will be included. If you choose to do all 16, then the marks of the best 15 assignments will be included. The tests will be made available as the material is taught with all the tests being due by 23:55 on 31st May 2007.

VERY IMPORTANT NOTE – you will need to regularly check your marks (under “Tools” and then “My Grades” on Blackboard) to make sure that all tests are submitted correctly. If any of your marks show as a padlock symbol, then you must contact Penelope de Boer (by email ONLY) as soon as possible. The padlock symbol means that while you were submitting your assignment some problem happened with your internet connection (like the cat pulled out the connecting cord etc) OR you accidentally exited the test before completion by using the navigation buttons of your browser rather than those within the test. If your mark shows as an “!” it means that you exceeded the time limit. If you exceeded it by less than a minute, you will be credited with the marks for that test (though this won’t happen immediately). If you exceeded the time limit by more than a minute your mark will not be credited (unless there are extenuating circumstances).

Maths competency test

In order to understand what we teach you, you need to have a basic grasp of some simple maths concepts. So that we can identify (and then help) those who need the help, a competency test is attached to this course outline. It is also available on Blackboard. If you attend the first lecture, please hand the test (please rip it off carefully) to your lecturer at the conclusion of the lecture. If you do not do this, you must hand it in to Penelope de Boer by 5pm on Thursday 15 March, 2007. Those who do not meet the required standard will then be personally invited to a low-key lecture to help them achieve this standard. The notes for this lecture can be accessed from the announcements page of Blackboard

Mandatory Course Requirements

There are no mandatory course requirements for ECON 130.

Communication of Additional Information

Additional information will be placed on Blackboard, www.blackboard.vuw.ac.nz from time to time.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to www.vuw.ac.nz/policy.

For information on the following topics, go to the Faculty's website www.vuw.ac.nz/fca under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.

Name:

Student ID number

1. Draw a suitable graph to represent the following data. You can either do it by hand or use Excel. If you wish to use Excel, please remember to hand your completed test in to Penelope de Boer by 5pm on Thursday 15 March. Use the back of the page.

Period	Unemployment Rate
Sep 2004	3.8
Dec 2004	3.6
Mar 2005	3.8
Jun 2005	3.7
Sep 2005	3.7
Dec 2005	3.6
Mar 2006	3.9
Jun 2006	3.6
Sep 2006	3.8

Employment by industry	%
Forestry and mining	0.9
Manufacturing	16.2
Electricity, gas and water	0.5
Construction	7.6
Wholesale trade	7.4
Retail trade	12.0
Accommodation, cafes and restaurants	4.2
Transport, storage and communication	7.6
Finance and insurance	3.5
Property and business services	11.7
Government admin. and defence	4.1
Education	8.3
Health and community services	9.7
Cultural and recreational services	2.5
Personal and other services	3.7

2. Show the employment by industry data (above) in a suitable graph. You can either do it by hand or use Excel.

3. Find the percentage change in the GDP deflator (1995/1996 = 1000) between 1995 and 2005

Calendar year	GDP deflator	Percentage change
1993	947.96	
1994	964.21	
1995	981.13	
1996	1000.00	
1997	1013.47	
1998	1034.91	
1999	1047.34	
2000	1055.14	
2001	1090.45	
2002	1134.43	
2003	1139.13	
2004	1167.55	
2005	1162.89	

4. The index for each industry in year 1 (the base year) is 100. This means that the weighted average index is also 100. The table then shows what happens to output in year 2. Industry A's output falls by 20%, industry B's output rises by 20% and industry C's output rises by 10%. Complete the table and explain your result.

Industry weight	year 1 index	index times weight	year 2 index	index times weight
A	0.7	100		
B	0.2	100		
C	0.1	100		
total	1	<u>100</u>		<u> </u>

5. Find the slope of $y = 26 - 2x$
6. Sketch (without plotting) the function $y = 26 - 2x$ (use the back of the page)
7. Sketch $y = x(4 - x)$ for $x \geq 0$. Explain in words what happens to the slope of the curve as we move along it from left to right. Use the back of the page.