

School of Economics and Finance

ECON130 ECONOMIC PRINCIPLES AND ISSUES

Trimester One 2008

COURSE OUTLINE

Contact Details

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Class Times and Room Numbers

ECON 130 10034	MRF	8:00	8:50	KKLT303
ECON 130 10035	MRF	15:10	16:00	MCLT103
ECON 130 10036	MTF	16:10	17:00	KKLT303
ECON 130 8721	W	14:10	15:00	HMLT206
ECON 130 8721	TF	14:10	15:00	KKLT303

Tutorial rooms and times will be available on signups.vuw.ac.nz after 1500 (3pm) on Tuesday 26 February. You can sign up to a tutorial at this site. Tutorial signup must be completed by 1500 (3pm) on 4 March 2008. Anybody not having signed up for a tutorial by that time will need to see the course administrator.

The final exam will be held in the period between 6 June 2008 and 25 June 2008

The course starts on Monday, February 25, 2008. 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

Course Objectives

ECON 130 includes material from microeconomics and macroeconomics.

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 the course administrator, and you may then be able to change your tutorial.

Course Content

Students must be conversant with material from pp17 – 28 Sloman and Norris inclusive. If you are not 100% confident with this material, then you will need to attend a remedial tutorial. 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.", first edition

Course outline ECON 130 2008

Economic Issues

pp 4-16

L1-3

The economic problem

- The problem of scarcity
- Demand and supply

Dividing up the subject

- macroeconomics
- microeconomics

Illustrating economic issues

- the production possibility curve
- the circular flow of goods and services

Markets, demand and supply

pp 36 – 58

L4-6

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

Supply

- The relationship between supply and price
- The supply curve
- Other determinants of supply
- Movements along and shifts in the supply curve

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

Background to supply

pp 98 – 105

L7

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

Profit maximisation

pp 119 – 127

L8-9

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

L10-11

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?

Monopoly

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

Market failures and government policy

pp 211 – 237

L12-14

Market failures

- Externalities
- Public goods
- Monopoly power
- Deadweight loss under monopoly
- Ignorance and uncertainty

- The principal-agent problem
- Poor economic decision making

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?

The environment: a case study market failure

Applications

- Revision

L15-17

Introduction to Macroeconomics

pp 246 – 268

L18-20

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

Unemployment

- The meaning of unemployment
- Equilibrium (or natural unemployment)
- Disequilibrium unemployment

Inflation

- The costs of inflation
- The causes of inflation
- **The measurement of GDP**

Interest rates and Money

pp 314 – 326

L21-25

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

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

Fiscal policy

pp 333 – 342

L26

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

Finance

L27-29

Introduction to basic finance

International trade

pp 361 – 388

L30-32

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

Arguments for restricting trade

- Methods of restricting trade
- Arguments in favour of restricting trade
- Problems with protection

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

Trade and developing countries

- Trade strategies
- Exporting primaries – exploring comparative advantage
- Import substituting industrialisation
- Exporting manufactures – a possible way forward?

L33

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

L34-5

Revision

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 section on Finance is not included in the text. References can be made to Penelope de Boer and Mohammed Khaled, *Mathematics for Business and Economics*, Pearsoned, 2nd edition. Another useful book is N Gregory Mankiw, Debais Bandyopadhyay, Paul Wooding, *Principles of Macroeconomics in New Zealand*. It is not necessary to purchase either of these books.

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 28 February 2008
Multi choice test	25%	6.30pm Thursday, 10 April 2008
Exam:	60%	TBA

The test on 10 April 2008 will cover the microeconomic component of the course. In particular, all the material covered in lectures up to the end of lecture 14, and the application materials 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 11 such tests and your assessment will be based on the best 10 marks you obtain. If you choose to complete only 10 assignments, then those 10 marks will be included. If you choose to do all 11, then the marks of the best 11

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 30th May 2008.

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 the course administrator (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). You can attempt each test as many times as you like. However, it is not recommended that you attempt it more than five times, given the small weight each test has in your final grade.

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 28 February, 2008 (EA128, accessed via EA005). 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. You will also receive emails sent to the email address recorded on Student Records. Please check at the start of the course that this is the address you want us to use.

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 on the ground floor (EA005). This counter is the first point of contact for :

- 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.

Notice of Turnitin Use

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. *At the discretion of the School, handwritten work may be copy typed by the School and subject to checking by Turnitin.* You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

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.victoria.ac.nz/home/about/policy/students.aspx

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

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

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means *no cheating*. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website:

www.victoria.ac.nz/home/studying/plagiarism.html

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 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.

MATHS COMPETENCY TEST

Name: _____

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 by 5pm on Thursday 28 February 2008. 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 and between subsequent years.

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.
8. Calculate $(1.05)^{12} \times 1500$. Calculate $(1.05)^{-12} \times 1500$
9. Calculate $FV = A \times \left(\frac{(1+i)^n - 1}{i} \right)$ when $A = \$100$, $i = 0.01$ and $n = 36$
10. Calculate $PV = A \times \frac{1 - (1+i)^{-n}}{i}$ when $A = \$100$, $i = 0.01$ and $n = 48$