



## **BUSINESS ECONOMICS**

Reimagining Europe, Prague, Czech Republic

**Suggested US semester credit hours: 4**

**IFSA course code: EC380-41**

**Contact hours: 60**

**Course level: 300**

**Course length: Semester**

**Delivery method: Face to Face**

**Language of instruction: English**

### COURSE DESCRIPTION

Organizations have a variety of purposes that depend on why they were established. Some operate for profit, whilst others do not. Organizations structure themselves and operate in ways that allow their objectives to be met in competitive business environments.

Every organization has a range of stakeholders whose interests need to be satisfied, but stakeholders have competing interests that may be hard to reconcile. Businesses operate in an environment shaped by the government, competitors, consumers, suppliers, and international factors. Learners will understand that some influences on the economic and financial environment are direct and clear, for example supply and demand can cause competitive pressures. Other influences are less clear, perhaps coming from the international arena and sometimes with only an oblique impact on the national business environment.

It is within this business environment that organizations function and have to determine strategies and a modus operandi that allow them to meet their organizational purposes in ways that comply with the relevant economic and financial regulatory frameworks. In addition, business markets take various forms and the structure of a market enables an understanding of how organizations behave in micro and macro environments. In this course learners will consider how different economic market structures shape the pricing and output decisions of businesses, as well as other aspects of their competitive behavior.

### LEARNING OBJECTIVES

1. Understand microeconomic theory relating to markets.
2. Understand the impact of market power on an economy.
3. Understand the role of government in the macroeconomic environment.
4. Be able to apply economic theories to the globalization of trade.
5. Become familiar with resources available for further study of Business Economics.

6. Make cognitive connections between learning in this course and other learning experiences on the Reimagining Europe program.

PREREQUISITE KNOWLEDGE

1. Understanding of basic organizational structures
2. Basic understanding of global economic changes

COURSE SCHEDULE

Possible Modes of Delivery			Content Delivery
Summer (3 weeks)	Fall (12 weeks)	Spring (15 weeks)	
1	1 - 3	1 - 3	<p><b>Understand microeconomic theory relating to markets</b></p> <ul style="list-style-type: none"> <li>● Explain the economic problem of scarcity and resource allocation</li> <li>● Explain how equilibrium in a market is achieved</li> <li>● Evaluate the importance of differing market systems</li> <li>● Evaluate the role of opportunity cost in determining how economies make decisions</li> <li>● Assess the importance of elasticity in market interactions.</li> </ul>
2	4 - 6	4 - 6	<p><b>Understand the impact of market power on an economy.</b></p> <ul style="list-style-type: none"> <li>● Explain the implications of pricing and objectives on a business firms operations.</li> <li>● Compare how prices are set in different market structures.</li> <li>● Analyze how firms behavior is affected by their market structure -Operations.</li> <li>● Evaluate the impact of regulations on market power in given situations.</li> </ul>
2	7 - 9	7 - 9	<p><b>Understand the role of government in the macroeconomic environment.</b></p> <ul style="list-style-type: none"> <li>● Analyze how the structure of an economy has changed in the 21st century giving the arguments for this change.</li> <li>● Evaluate the tools available to meet macroeconomic</li> </ul>

			<p>policy challenges.</p> <ul style="list-style-type: none"> <li>● Evaluate the success of government policies in achieving macroeconomic objectives.</li> <li>● Evaluate the economic performance of an economy in the global market</li> </ul>
3	10 -12	10 -15	<p><b>Be able to apply economic theories to the globalization of trade.</b></p> <ul style="list-style-type: none"> <li>● Demonstrate the theory of comparative advantage using relevant illustrations from emerging economies.</li> <li>● Justify the advantages and disadvantages of free trade for development using appropriate case studies.</li> <li>● Analyze the impact of emerging economies on the developed economies.</li> <li>● Evaluate the impact of recent domestic global economic shocks to the economy</li> </ul>

#### EVALUATION METHODS

Assignment Number	Type of Assignment	Description and Areas Assessed
1	Written Report (50%)	Material covered during weeks 1 to 6
2	Individual presentation (50%)	Material covered during weeks 7 to 12 based on selected organization

#### DETAILS OF THE WRITTEN REPORTS & PRESENTATION

##### **Written Report (50%):**

Students are required to write a **Business Report** analyzing a specific business case study, detailed requirements are provided below:

- All words processed must be 12-point font, double spaced and include a signed and correctly dated assignment coversheet.
- Total number of words between 3,000 to 4,000.
- All sources of information must be referenced correctly using the Harvard Referencing system

##### **Scenario and Background to Assignment**

Simply, and perhaps surprisingly put, economics is the study of scarcity. Resources are limited, and every society wants to figure out how to allocate its resources for maximum benefit. The field of economics serves in large part to help answer this resource allocation question.

Economists study topics such as:

- How prices and quantities of items are determined in market economies
- How much value markets create for society
- How taxes and regulation affect economic value
- Why some goods and services are under-supplied in a market economy
- How firms compete and maximize profit
- How households decide what to consume, how much to save, and how much to work (or, more generally, how people respond to incentives)
- Why some economies grow faster than others
- What effect monetary and fiscal policy has on economic well-being

The analysis of costs and demand within organizations is also a key component of the way organizations function. Different types of costs and demand can be modelled mathematically as functions, this is useful for budgeting and forecasting and can assist managers to budget and control costs and revenues. In this assignment you are expected to model and use these cost functions and answer some particular questions. Costadema Ltd. is a medium sized manufacturing organization that manufactures costing machines; they use raw materials from suppliers and manufacture these machines as finished products.

The financial analyst Miss. Dema de Costs has modelled the demand and cost functions mathematically and has arrived at the following:

Extended demand function

$$Q_dY = 100 - 10 PY + 20 PX + 0.1 M$$

Where:

$Q_dY$  = quantity demanded of good Y

$PY$  = Price of good Y

$M$  = Average consumer income

$PX$  = Price of related good X (related in consumption to good Y)

supply function

$$Q_sY = 1300 + 90 P$$

Given the following extended demand function

$$Q_dY = 100 - 10 PY + 20 PX + 0.1 M$$

Where:  $Q_d Y$  = quantity demanded of good Y

$P_Y$  = Price of good Y

$M$  = Average consumer income

$P_X$  = Price of related good X (related in consumption to good Y)

Miss. Dema de Costs has asked you as the junior financial and business analyst to carry out the following tasks and present your work as a report to the senior management team during a strategy development meeting:

### **Task 1: Opportunity Cost and Elasticities**

- a) Explain the role of opportunity cost how the economic problem of scarcity and resource allocation may be relevant to the company.
- b) Discuss how the price elasticity of the products that the company is manufacturing may influence pricing strategy of the company in different market conditions.

### **Task 2: Market Equilibrium**

How is good X related to good Y and why?

If  $M = 20,000$  and  $P_X = 10$ , what is the reduced demand function for good Y?

Having the reduced demand function and the following supply function

$$Q_s Y = 1300 + 90 P$$

- a) Calculate the equilibrium price and quantity
- b) Graphically show the equilibrium quantity and price on a labelled graph
- c) What happens to the quantity demand and supply (surplus/shortage) and equilibrium if the Government decides to fix the price at  $P=8$  GBP
- d) If there is a change in the regulation of the market where the products are being sold discuss how this may have an impact on supply and demand of company products.

### **Task 3: Production Costs and Breakeven Analysis**

Given the following linear Cost Function

$$C(Q) = 4000 + 150 Q$$

Find out the following

- a) Fixed cost

- b) Variable cost
- c) Marginal Cost

For an output price of 400, compute the

- d) Revenue function
- e) Profit function
- f) Compute the quantity at which the firm is at break-even point and explain with reference to your breakeven graph what this point means for the organisation.
- g) Show the region where the firm makes losses and profit and explain to the financial analyst the consequences of maximum output and the related profit.
- h) Evaluate the impact of different long and short term costs to the profitability of the organisation and what the financial analyst should be aware of when planning future strategic development.

#### **Task 4: Financial Institutions**

Miss. Dema de Costs is aware that financial institutions like banks, where the company is mainly obtaining finance from are all changing in the country. The Government has recently introduced new regulation that private institutions can also provide funding to institutions and many banks will face serious competition. Banks are “tight” on their lending policy since after the financial crisis and many businesses are finding it difficult to obtain start-up or expansion funding. You have been assigned to work with the financial analyst to produce the following information.

- a) Evaluate the role of different financial institutions during the financial crisis, take an example of a specific banking institution and evaluate what role was important for this bank during the financial crisis.

The concept of “money supply” is not clear to the employees of the company and its relationship to business funding needs to be explored particularly relating to their future strategy concerning exports and imports. You have been asked to explain and evaluate this concept and its importance to the organization, especially during times of uncertain economic conditions and their future strategic plans relating to exports and imports.

#### **Individual Presentation (50%):**

This assessment will be in the form of an individual presentation that will be assessed for the following assessment criteria:

- Structure of the presentation and layout 10%
- Critical discussion content relating to the assignment tasks 20%
- Use of suggested academic literature 10%
- Conclusions to relevant tasks 10%

#### **Scenario and Background of Presentation**

Historically, countries remained closed and tried to promote only exports of goods and services rather than imports in order to attract foreign currency and cash (gold and silver) inflow into the country. However, international trade theories have proved that it is not beneficial to produce every good at home and importing some good might be helpful. In an increasingly interconnected world where countries trade in large number of goods and services, it is important to understand the theoretical background of how international trade might help both trading economies and how barriers to trade are currently creating protectionist measures amongst countries.

In addition to international trade policies, governments are also faced with country objectives and Fiscal policy is an economic stabilization policy that has increasingly been used by the government to foster economic growth and to generate employment opportunities. Sound understanding of fiscal policy is helpful in understanding government response to any slowdown in the economy, like that of the Czech Republic.

You have just started your new job with a business consulting company called McKenny Ltd. after completing your BA in International Business Management from Prague College. Your manager, Miss. Ymo Noce has assigned you a job to create a business intelligence report in the form of a presentation (around 30 mins) for the Czech Republic, this report should analyse macroeconomic data for certain tasks (detailed below) and discuss the relevant outcomes together with an analysis of the trade taking place between countries and the current state of different trade barriers and protectionism.

### **Task 1: Czech Republic imports and exports and exchange rate relationship**

You are to explore the import and export data for the Czech economy for the last five years and related your finding with the fluctuations of the exchange rate of the Czech currency. Your senior manager has asked you to investigate the relationship between these variables and come up with some conclusions. In particular she is interested to know what kind of protectionist measures exist in international trade if these have had an impact on the Czech Economy.

### **Task 2: Czech Republic and Fiscal policy objectives**

Miss. Ymo Noce is very interested to know as part of her business intelligence report how the government of the Czech Republic has carried fiscal policy to reach macro economic goals, she has asked you to investigate the following:

- a) What is fiscal policy? And what are the main tools of fiscal policy?
- b) What are the three main goals of fiscal policy for the Czech Republic?
- c) What are the two types of fiscal policy? When is each policy applied? What impact does each policy have on the GDP, Inflation and Unemployment in the Economy?
- d) Explain the impact of each policy both the help of AD (Aggregate demand) equation and illustrate this with the help of relevant graphs.

What possible impact has fiscal policy had on the national budget and debt of the Czech Republic during the past five years?

### **Task 3: International trade and protectionism**

Countries remained closed and tried to promote only exports of goods and services rather than imports in order to attract foreign currency and cash (gold and silver) inflow into the country. However,

international trade theories have proved that it is not beneficial to produce every good at home and importing some good might be helpful. In an increasingly interconnected world where countries trade in large number of goods and services, it is important to understand the theoretical background of how international trade might help both trading economies.

You are to consider only two countries: Germany and Bangladesh. Both are endowed with a limited amount of labor that is the only factor of production. If both countries have their labor fully employed, they can produce quantities according the following table.

Country	Cars	Cloth
Germany	24	12
Bangladesh	10	18
World		

1. Draw a PPF (Production Possibility Frontier) for each country and explain it.
2. What is the opportunity cost of producing one good in terms of another good for each country?
3. Which country has absolute advantage in producing which good?
4. According to the theory of absolute advantage which country should specialize in which good?
5. Consider there are ONLY TWO countries in the world i.e. Germany and Bangladesh, what is the world output of cars and Cloth before and after the specialization? Based on the given information decide whether free trade was better or worse for world economic growth.
6. By considering recent developments in changes to international trade policies, such as NAFTA and the role protectionism has played, discuss the impact on exports and imports of such protectionist measures on a country like Bangladesh.
7. What could be the possible economic, ethical and humanitarian impact on a country like Bangladesh if developed countries were to increase protectionism and bring increased trade barriers?

**Additional Guidance:**

As part of your response to the summary of tasks you should consider doing the following:

A – The effective use of MS Excel in demonstrating that you are able to analyze tabulated data and present it as diagrams to support your arguments.

B – Ensure that all relevant diagrams and charts have a source reference and figure number.

**Timely Submissions**

Assignments submitted after the deadline will be accepted at the discretion of the course instructor and generally only in the event of a documented illness or emergency.

ACADEMIC INTEGRITY

Any academic endeavor must be based upon a foundation of honesty and integrity. Students are expected to abide by principles of academic integrity and must be willing to bear individual responsibility for their work while studying abroad. Any academic work (written or otherwise) submitted to fulfill an academic requirement must represent a student's original work. Any act of academic misconduct, such as cheating, fabrication, forgery, plagiarism, or facilitating academic dishonesty, will subject a student to disciplinary action.

IFSA-Butler takes academic integrity very seriously. Students must not accept outside assistance without permission from the instructor. Additionally, students must document all sources according to the instructions of the professor. Should your instructor suspect you of plagiarism, cheating, or other forms of academic dishonesty, you may receive a failing grade for the course and disciplinary action may result. The incident will be reported to the IFSA-Butler resident director as well as your home institution.