

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Commonwealth MBA/MPA Programme)**

ECONOMIC ENVIRONMENT FOR BUSINESS (5571)

CHECK LIST

SEMESTER: AUTUMN, 2013

This packet comprises the following material:-

1. Text Books
2. Assignment No. 1, 2
3. Assignment Forms (two sets)
4. Course Outline

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Course: Economic Environment for Business (5571)
Level: COL MBA/MPA Programme

Semester: Autumn, 2013
Total Marks: 100

Instructions:

- (a) All written assignment must be well organized, presented in an easy-to-read format and neat. Moreover, pay particularly close attention to grammar, spelling, punctuation and understandability. Communication is extremely important in this course.
 - (b) Documentation is likewise very important. Un-supported statements or opinions are worth less to the reader, who desires to verify your finding. Complete and specific documentation is mandatory. Also, your references should be to primary sources, except in rare unusual situation.
 - (c) Quoting should be kept to an absolute minimum.
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Guidelines for Doing Assignments

We expect you to answer each question as per instructions in the assignment. You will find it useful to keep the following points in mind:

- 1) **Planning:** Read the assignments carefully, go through the Units on which they are based. Make some points regarding each question and then rearrange them in a logical order.
- 2) **Organization:** Be a little selective and analytical before drawing up a rough outline of your answer. Give adequate attention to question's introduction and conclusion.
Make sure that:
 - a) The answer is logical and coherent,
 - b) It has clear connections between sentences and paragraphs,
 - c) The presentation is correct in your own expression and style.
- 3) **Presentation:** Once you are satisfied with your answer, you can write down the final version for submission. It is mandatory to write all assignments neatly. If you desire so, you may underline the points you wish to emphasize. Make sure that the answer is within the stipulated word limit.

Wishing you all the best

ASSIGNMENT No. 1

Total Marks: 100

- Q. 1 (a) Explain the difference between the variables that are internal to the firm (or industry) and those that are external. **(10)**
(b) How different is a market economy from a centrally planned economy? **(10)**
- Q. 2 (a) What does the unemployment rate measure? Briefly explain how it is calculated. What is consumer Price Index and how it is calculated? **(10)**
(b) Increase in the rate of inflation can have a number of negative effects on the economy, explain at least four of them. **(10)**
- Q. 3 (a) The government gains revenue by imposing sales tax. Who stands to lose the most, the consumer or the producer, or both? **(10)**
(b) Explain conditions that determine the patter of international trade. **(10)**
- Q. 4 (a) Discuss why the price elasticity of demand is greater for goods and services that have better close substitutes. **(10)**
(b) If demand is price inelastic, does revenue increase when price rises? Explain with examples. **(10)**
- Q. 5 (a) What is the relationship among a firms total revenue, profit and total cost? How are they related? **(10)**
(b) How do economists measure profitability? Explain in detail. **(10)**

ASSIGNMENT No. 2

Marks: 100

Instructions:

1. This assignment is a research-oriented activity. You are required to develop a term paper and submit to the tutor for evaluation prior to the final examination. The last date of this assignment will be notified separately by our directorate of regional services and the same will be communicated to you directly as well as through approved study centers assigned to you.
2. You will have to participate in the activity fully, actively, and practically to be able to pass the final examination of the course. Please send one copy of this assignment to COL MBA/MPA Programme office, Block No. 11, Allama Iqbal Open University, Sector H-8, Islamabad.
3. For the preparation of this assignment, you should first thoroughly review the conceptual framework of the topic and develop a scholarly material of the same giving references, quotations, and extracts of various scholars and experts. Then visit any business/commercial organization and study the relevant practical aspects

there. Combining the theoretical and practical aspects, develop a comprehensive paper consisting of at least 20 to 25 typed pages to be submitted to your tutor.

- a) Introduction to the topic
 - b) Important sub-topics
 - c) Practical study of the organization with respect to the topic
 - d) Review of theoretical and practical situations, merits, de-merits deficiencies or strengths of the organization with respect to the topic under study.
 - e) Conclusion and recommendation
 - f) Annex, if any
4. Prepare a copy of this assignment and submit to your tutor for your evaluation.
 5. You should add any illustrative material/data/tables/analysis for effective submission.
 6. A number of topics given below are the general aspects of the course and you are required to select one of the topics according to the last digit of your roll number. For example, if the roll number is N-9337241, you will select topic number 1, and if the roll number is O-3427185 then you will select topic number 5 (the last digit).

List of Topics:

0. Causes of Economic Fluctuations in Pakistan.
1. Fiscal and Monetary Policy
2. International Trade and Exchange rate in Pakistan
3. Money and Aggregate Demand
4. Monopoly vs Perfect Competition in Pakistan
5. Oligopoly and Prisoner's Dilemma
6. Production function to Total Cost Curve
7. Recessionary and Inflationary Gap
8. Shortrun Profit Maximization
9. International Trade and Exchange Rate in Pakistan

**ECONOMIC ENVIRONMENT FOR BUSINESS (5571)
COURSE OUTLINES**

Block-1: Introduction to the Economic Environment

1. Introduction to the Nature of Economics
2. Value of Economics
3. Economic Environment of Business
 - 3.1 Macroeconomics
 - 3.2 Microeconomics
4. Making Economic Choices in Business
 - 4.1 PEST Analysis
 - 4.1.1 Political/legal/institutional factors

- 4.1.2 Economic factors
- 4.1.3 Social and cultural factors
- 4.1.4 Technological factors
- 5. Government Intervention in Business
 - 5.1 Three Dominant Macroeconomic Principles
- 6. Types of Economic Evaluation
 - 6.1 Accepted Government Objectives
- 7. Economic Debate

Block-2: Measures of Economic Activity

- 1. Introduction to Management and Measurement
 - 1.2 Gross Domestic Product
 - 1.3 Unemployment Rate
- 2. Measuring Economic Performance
 - 2.1 GDP versus GNP
 - 2.2 Income, Expenditure, and the Circular Flow
 - 2.3 Value Added and Intermediate Goods
- 3. Several Measures of Income
 - 3.1 Potential GDP
- 4. Real versus Nominal GDP
- 5. Price Indexes and Inflation
 - 5.1 The Consumer Price Index (CPI)
 - 5.2 Implicit GDP Deflator
 - 5.3 Inflation Rate
- 6. Unemployment Statistics
 - 6.1 Problems with Unemployment Statistics

Block-3: Understanding the Market Mechanism and Analyzing Market Demand

- 1. Introduction to Market Mechanism
 - 1.1 Command economy
 - 1.2 Laissez-faire Economy
- 2. What Is a Market
 - 2.1 The Market System
 - 2.1.1 Foreign and government sectors
 - 2.2 Business in a Competitive Market
- 3. Price Theory and the Price Mechanism
 - 3.1 Price Theory
- 4. Product (Output) Market
 - 4.1 Price and Quantity Demanded
 - 4.1.1 The Law of Demand
 - 4.2 The Demand Schedule and the Demand Curve
 - 4.3 Shifts in the Demand Curve
 - 4.3.1 Average Income
 - 4.3.2 Prices of Related Goods
 - 4.3.3 Population

- 4.3.4 Distribution of Income
- 4.3.5 Tastes and Preferences of the Household
- 4.4 Movements along the Curve versus Shifts of the Whole Curve
- 4.5 Change in Demand vs. Quantity Demanded
- 5. Supply
 - 5.1 What Is Quantity Supplied?
 - 5.2 Quantity Supplied and the Law of Supply
 - 5.3 The Supply Schedule and the Supply Curve
 - 5.4 Shifts in the Supply Curve
 - 5.5 Influences on Supply
 - 5.5.1 Price of Inputs (Changes in Costs of Production)
 - 5.5.2 Technology
 - 5.5.3 Number of Firms
 - 5.7 Shifts in a Supply Curve versus Movements along a Supply Curve
- 6. Supply and Demand Together
 - 6.1 Market Equilibrium
 - 6.2 The Effect of Changes in Demand and Supply
 - 6.2.1 A Change in Demand
 - 6.2.2 A Change in Supply
 - 6.2.3 A Change in Both Demand and Supply
 - 6.3 Interfering with the Law of Supply and Demand
 - 6.3.1 Price Ceilings (Rent Control)
 - 6.3.2 Price Floors (Minimum Wage Laws)
 - 6.4 Taxes
 - 6.4.1 Ad Valorem Taxes
- 7. Exports and Imports

Block-4: Market Demand and Pricing Decisions

- 1. Introduction to Market Demand
- 2. Demand Elasticity
 - 2.1 Different Types of Elasticities
- 3. Factors that Determine Price Elasticity
- 4. Elasticity of a Product versus Elasticity of a Brand
- 5. Point Elasticity and the Price Range Factor
- 6. Practical Application of Price Elasticities
- 7. Other Types of Elasticity
 - 7.1 Income Elasticity
 - 7.1.1 Business Implications of Income Elasticity
 - 7.2 Cross-Price Elasticity
 - 7.3 Advertising Elasticities

Block-5: Production, Costs and Profit

- 1. Introduction to the Concept of Cost
- 2. Defining Opportunity Costs

3. Distinguishing Between Relevant and Irrelevant Cost
 - 3.1 Economic Profit
4. Time as a Factor in the Determination of Relevant Cost
5. Production in the Short Run
6. Total, Average, and Marginal Product
7. Diminishing Marginal Returns
8. Three Stages of Production
9. Production Function and Total-Cost Curve
10. Cost Curves and Their Shapes
11. Production in the Long Run
 - 11.1 Division of Labour and Specialization
 - 11.1.1 Specialized Capital
 - 11.3 Economies of Scope
 - 11.4 The Learning Curve
12. Break-Even Analysis
 - 12.1 Limitations of Break-Even Analysis

Block-6: Market Structure

1. Introduction to Market Structure
 - 1.2 Market Structure
2. Key Assumptions in the Microeconomic Theory of the Firm
3. The Output Decision of a Firm in a Perfectly Competitive Market
 - 3.1 Output Decisions in Short-run Profit Maximization
 - 3.2 The Short-run Supply Curve
 - 3.3 Output Decisions in Long-run Optimization
4. Price Makers (Imperfect Competition)
 - 4.1 Short-run Profit Maximization
 - 4.2 Monopoly in the Long Run
 - 4.3 Monopoly versus Perfect Competition
 - 4.4 Allocative Efficiency
 - 4.5 Price Discrimination
5. Monopolistic Competition
 - 5.1 Short-run Profit Maximization
 - 5.3 Long-run Optimization
6. The Firm in an Oligopoly
 - 6.1 Pricing under Oligopoly
 - 6.2 Cooperative or Collusive Mechanisms
 - 6.3 Non Cooperative (Competitive) Mechanism
 - 6.4 Oligopoly and the Prisoner's Dilemma

Block-7: Aggregate Demand, Aggregate Supply and Economic Fluctuation

1. Introduction to Aggregate Demand
2. The Components of Aggregate Demand
 - 2.1 The Aggregate Demand Curve
 - 2.2 Changes in Aggregate Demand

3. Consumption and its Determinants
 - 3.1 Interest Rates
 - 3.2 Disposable Income
 - 3.3 Wealth
 - 3.4 Consumer Expectations
4. Investment and Its Determinants
 - 4.1 Nonresidential Fixed Investment
 - 4.2 Residential Construction
 - 4.3 Changes in Business Inventories
 - 4.3.1 Investment demand curve
5. Government Purchases
6. Key Concepts
 - 6.1 Foreign Income
 - 6.2 Exchange Rates
 - 6.3 Trade Policies
7. Money and Aggregate Demand
 - 7.1 Money, Interest Rates, and the Price Level
 - 7.2 The Money Market
 - 7.2.1 The Demand for Money
 - 7.2.2 The Supply of Money
8. Output, Aggregate Supply and Its Components
 - 8.1 The Aggregate Supply Curve
 - 8.2 Determination of Natural Level of Output
9. Short-run vs. Long-run Aggregate Supply Curve
 - 9.1 Changes in Aggregate Supply
 - 9.1.1 Input Prices
 - 9.1.2 Resources Supplies
 - 9.1.3 Technological Knowledge
 - 9.1.4 Government Policies
 - 9.1.5 Factors Causing the Short-Run Aggregate Supply Curve to Slope Upward.
 - 9.1.6 Factors Causing a Shift in the Short-run Aggregate Supply Curve
 - 9.2 General Equilibrium
 - 9.3 Short-Run and Business Cycles

Block-8: Inflation and Unemployment

1. Introduction to Inflation
2. Defining Inflation
 - 2.1 Causes of Inflation
 - 2.1.1 Demand-Pull Inflation
 - 2.1.2 Cost-Push Inflation
 - 2.2 Money Supply and Inflation
 - 2.3 The Inflationary Process
3. Inflation, Unemployment and the Phillips Curve

- 3.1 Short- Run Phillips Curve
- 3.2 Costs of Inflation
- 3.3 Redistribution Effect Of inflation
- 3.4 Other Impacts of Inflation
 - 3.4.1 Shoe-leather Costs
 - 3.4.2 Tax Distortions
 - 3.4.3 Confusion and Money illusion
 - 3.4.4 Inflation Variability
 - 3.4.5 Inflation Tax
- 3.5 The Benefits of Inflation
- 4. Unemployment
 - 4.1 The Labour Force Survey
 - 4.2 The Official Unemployment Rate
 - 4.3 The Causes of Unemployment
 - 4.4 Drawbacks of the Official Unemployment Rate
 - 4.4.1 Underemployment
 - 4.4.2 Discouraged Workers
 - 4.5 Anatomy of Unemployment
 - 4.6 The Unemployment Pool
 - 4.7 Types of Unemployment
 - 4.7.1 Frictional Unemployment
 - 4.7.2 Structural Unemployment
 - 4.7.3 Cyclical Unemployment
 - 4.7.4 Seasonal Unemployment
 - 4.8 Full Employment
 - 4.8.1 Determinants of the Natural Rate
 - 4.8.2 Reducing the Natural Rate of Unemployment
- 5. Public Policy
 - 5.1 Unemployment Insurance
 - 5.2 Minimum Wages
 - 5.3 Unions and Collective Bargaining
 - 5.4 Reservation Wage and Efficiency Wage
 - 5.5 Costs of Unemployment

Block-9: Financial Markets, Monetary and Fiscal Policy

- 1. Introduction to Financial Market
- 2. Money
 - 2.1 Definition and Functions of Money
 - 2.1.1 Means of Payment
 - 2.1.2 Store of Value
 - 2.1.3 Unit of Account
 - 2.2 The Supply of Money
 - 2.2.1 Currency
 - 2.2.2 Deposits
 - 2.3 The Demand for Money

3. Bonds
4. Financial Systems
5. Financial Intermediaries
 - 5.1 Commercial Banks
 - 5.2 Near Banks
 - 5.3 Cash Reserves
 - 5.4 Fractional Reserve Banking System
6. The Banking (Money) Multiplier
7. Central Bank
8. Monetary Policy
 - 8.1 Tools of Monetary Policy
 - 8.1.1 Open-market Operations
 - 8.1.2 Reserve requirements
 - 8.1.3 The Central Bank Rate
9. Transmission Mechanism of Monetary Policy
 - 9.1 How Much Extra Aggregate Demand Is Needed?
10. Objectives of Monetary Policy
 - 10.1 Ingredients of a Successful Price Stability Program
11. Budget Deficits, Debts, and Fiscal Policy
 - 11.1 Discretionary versus Automatic Policy
 - 11.2 The Multiplier Effect
12. Effect of a Tax Cut
13. The Crowding-Out Effect on Investment
 - 13.1 Government Budgets
 - 13.2 Deficits and Debts
14. The Limits of Policy Activism

Block-10: The Open Economy

1. Introduction to Open Economy
2. The Balance of Payments Accounts
 - 2.1 Trade in Goods (Merchandise)
 - 2.2 Trade in Non-merchandise
 - 2.2.1 Services
 - 2.2.2 Net Investment Income
 - 2.2.3 Transfers
 - 2.3 Current Account Balance
 - 2.4 The Capital and Financial Account
 - 2.4.1 Portfolio investment
 - 2.4.1 Direct investment
 - 2.5 Capital (Financial) Account Balance
 - 2.6 The Official Settlements Account
 - 2.7 Balance of Payments Balance
 - 2.8 Current Account, Lending and Borrowing
3. Exchange Rates
 - 3.1 Exchange Rate Determination

4. Foreign Exchange Market
 - 4.1 Demand for Foreign Currency (Exchange)
 - 4.2 Changes in the Demand for Dollars
 - 4.2.1 Interest Rates
 - 4.2.3 Incomes
 - 4.2.4 Inflation rates
 - 4.2.5 Exchange Rate Expectations
 - 4.3 Supply of Foreign Currency (Exchange)
 - 4.4 Changes in the Supply of Dollars
 - 4.4.1 Interest Rates
 - 4.4.2 Incomes
 - 4.4.3 Inflation rates
 - 4.4.4 Exchange Rate Expectations
5. The Exchange Rate and Aggregate Demand Curve
6. Current Account
7. Net Exports
8. Interest Rate Parity
9. Exchange Rate Policy
 - 9.1 High Exchange Rates (Low Currency Values)
 - 9.2 Low Exchange Rates (High Currency Values)
 - 9.3 The Exchange Rate in the Long Run: Purchasing Power Parity
 - 9.4 Importance of Current Account
 - 9.5 Corrective Policy Options
10. Why Do Countries Trade?
 - 10.1 Specialization and Trade
 - 10.1.1 Absolute Advantage
 - 10.1.2 Comparative Advantage
 - 10.2 Terms of Trade
 - 10.3 The Sources of Comparative Advantage
11. Trade Policy

