

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

ECONOMIC ENVIRONMENT FOR BUSINESS (5571)

CHECK LIST

SEMESTER: SPRING, 2014

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:

**Mailing Officer
Services Block No. 28
Allama Iqbal Open University
H-8, Islamabad
Phone: 9057611-12**

Salman A. Qureshi
(Course Coordinator)

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

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: Spring, 2014
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.

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

Salman A. Qureshi
(Course Coordinator)

ASSIGNMENT No. 1

Total Marks: 100

- Q.1 a) Briefly explain the variables that economists focus on when examining an economy. **(10)**
b) How unemployment rate is defined and describe how it is determined? **(10)**
- Q.2 a) Discuss different approaches to measure GDP. **(10)**
b) What factors contribute towards the GDP and discuss critically why GDP of Pakistan is not stable for the last ten years? **(10)**
- Q.3 a) Does the existence of a shadow or 'black' economy imply that the price system is not working? Does its existence consistent with the laws of demand and supply? **(10)**
b) The government gains revenue by imposing a sales tax. Who stands to lose the most, the consumer or the producer or both? **(10)**
- Q.4 What could be the remedial measures for improving the Balance of Payment of Pakistan? Discuss in the light of the data for the last 05 years. **(20)**
- Q.5 What are the assumptions of the theory of monopolistic competition? In what way do these assumptions differ from those of the perfectly competitive and monopoly models? **(20)**

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:

1. Causes of Economic Fluctuations in Pakistan
2. Central banking and monetary policy
3. Oligopoly and Prisoner's Dilemma
4. Production functions to Total Cost Curve
5. Production in the long run
6. Recessionary and inflationary gaps
7. Short run Profit Maximization
8. Type of unemployment and possible solutions in Pakistan
9. Unions and collective bargaining.
10. World Trade Organization (WTO) and Pakistan

ECONOMIC ENVIRONMENT FOR BUSINESS (5571)

COURSE OUTLINES

Module 1

Introduction to the Economic Environment and Understanding the Market Mechanism

Introduction

Terminology

Introduction to the Economic Environment

Introduction

Costs

The economic way of thinking

Rational choices

Opportunity cost

Benefit: What you are willing to sacrifice

On the margin

Responding to incentives

Economic environment of business

Making economic choices in business

PEST Analysis

Political/legal/institutional factors

Economic factors

Social and cultural factors

Technological factors

Government intervention in business

Three dominant macroeconomic principles

Types of economic evaluation

Accepted government objectives

Economic debate

Understanding the market mechanism and analysing market demand

Introduction

Command economy

Laissez-faire economy

The market system in action

What is a market?

The market system

Foreign and government sectors

Business in a competitive market

Price theory and the price mechanism

Price theory

The demise of the command systems

The coordination problem

The incentive problem

- Product (Output) market
 - Demand
 - Market demand and individual demand
 - Determinants of demand
 - Price and quantity demanded: The law of demand
 - The demand schedule and the demand curve
 - Shifts in the demand curve
 - Average income
 - Prices of related goods
 - Population
 - Distribution of income
 - Tastes and preferences of the household
 - Movements along the curve versus shifts of the curve
 - An illustration of change in demand versus quantity demanded
- Supply
 - What is quantity supplied?
 - Quantity supplied and the law of supply
 - The supply schedule and the supply curve
 - Shifts in the supply curve
 - Influences on supply
 - Price of inputs (Changes in costs of production)
 - Technology
 - Taxes and subsidies
 - Price of other goods
 - Producer expectations
 - Number of firms
 - Shifts in a supply curve versus movements along a supply curve
- Supply and demand together
 - Market equilibrium
 - The effect of changes in demand and supply
 - A change in demand
 - A change in supply
 - A change in both demand and supply
- Consumer Surplus, Producer Surplus and Market Efficiency
 - Demand and marginal benefit
 - Supply and marginal cost
 - Markets efficiency
 - Interfering with the law of supply and demand
 - Price ceilings: The case of rent control
 - Price floors: The case of minimum wage laws
 - Taxes
 - Ad valorem taxes
- Exports and imports

Market Demand and Pricing Decision

Introduction

Demand elasticity

 Different types of elasticity

Factors that determine price elasticity

Elasticity of a product versus elasticity of a brand

Point elasticity and the price range factor

Practical application of price elasticities

Other types of elasticity

 Income elasticity

 Business implications of income elasticity

 Cross-price elasticity

 Advertising elasticity

 The price elasticity of supply

 Determinants of the price elasticity of supply

 Computing the price elasticity of supply

 Tax incidence and tax burden

Module 2

Production, Costs and Profit, and Market Structure

 Introduction

Terminology

Production, Costs and Profit

 Introduction

 Choice of technology

 What are costs?

 Opportunity costs

 Distinguishing between relevant and irrelevant cost

 Economic profit

 Time as a factor in the determination of relevant cost

 Production in the short run

 Total, average and marginal product

 Diminishing marginal returns

 The three stages of production

 The production function to the total-cost curve

 Cost curves and their shapes

 Shift in short-run cost curves

 Production in the long run

 Economies and diseconomies of scale

 Division of labour and specialisation

 Specialised capital

 Economies of scope

 The learning curve

 Break-even analysis

 Limitations of break-even analysis

Market Structure

Introduction

Market structure

Key assumptions used in the microeconomic theory of the firm

The output decision of a firm in a perfectly competitive market

Output decisions: Short-run profit maximisation

The short-run supply curve

Output decisions: Long-run optimisation

Price makers (imperfect competition)

Monopoly

Short-run profit maximisation

Monopoly in the long run

Monopoly versus perfect competition

Allocative efficiency

Price discrimination

Social benefits of monopoly

Economies of scale

Invention and innovation

Government policy toward monopoly

Monopolistic competition

Short-run profit maximisation

Long-run optimisation

The firm in an oligopoly

Pricing under oligopoly

Cooperative or collusive mechanisms

Non-cooperative (Competitive) mechanism

Oligopoly and the prisoner's dilemma

Pricing strategies in imperfectly competitive markets

Limit pricing

Network externalities

Market penetration pricing

Advertising

Module 3

The Macroeconomy: Aggregate Demand and Supply

Introduction

Terminology

Measures of Economic Question

Introduction

Management and measurement

Gross domestic product (GDP)

Unemployment rate

Measuring economic performance: Output and income

GDP versus GNP

Income, expenditure and the circular flow

- Value added and intermediate goods
- Several measures of income
 - Potential GDP
- Real versus nominal GDP
 - Phases of the business cycle
- Price indexes and inflation
 - The consumer price index (CPI)
 - Implicit GDP deflator
 - Inflation rate
- Unemployment statistics
 - Problems with unemployment statistics
- Aggregate Demand, Aggregate Supply and Economic Fluctuation
 - Introduction
 - Aggregate demand and its components
 - The aggregate demand curve
 - Changes in aggregate demand
 - Consumption and its determinants
 - Marginal Propensity to Consume (MPC)
 - Marginal Propensity to Save (MPS)
 - Disposable income
 - Wealth
 - Consumer expectations
 - Interest rates
 - Investment and its determinants
 - Nonresidential fixed investment
 - Residential construction
 - Change in business inventories
 - Investment demand curve
 - Government purchases
 - Net exports
 - Foreign income
 - Exchange rates
 - Trade policies
 - Money and aggregate demand
 - Money, interest rates and the price level
 - The money market
 - The demand for money
 - The supply of money
 - Output, aggregate supply and its components
 - The aggregate supply curve
 - Determination of natural level of output
 - Short-run versus long-run aggregate supply curve
 - Changes in aggregate supply
 - Input prices

- Resource supplies
- Technological knowledge
- Government policies
- Factors causing the short-run aggregate supply curve to slope upwards
- Factors causing a shift in the short-run aggregate supply curve
- General equilibrium
- Short-run macroeconomic equilibrium and business cycles
- Adjustments in the long run
- Causes of economic fluctuations
- Shifts in aggregate demand
- Shifts in aggregate supply

Module 4

Government Macroeconomic Policy

Introduction

Financial Markets, Monetary and Fiscal Policy

Introduction

Money

Definition and functions of money

Means of payment

Store of value

Unit of account

The supply of money

Currency

Deposits

The demand for money

Bonds

Financial systems

Financial intermediaries

Commercial banks

Near banks

Cash reserves

Fractional reserve banking system

The banking (money) multiplier

Central bank

Monetary policy

Tools of monetary policy

Open-market operations

Reserve requirements

The central bank rate

Transmission mechanism of monetary policy

How much extra aggregate demand is needed?

Objectives of monetary policy

Ingredients of a successful price stability programme

- Budget deficits, debts and fiscal policy
 - Discretionary versus automatic policy
 - The multiplier effect
 - A successful expansionary fiscal policy
 - A successful contractionary fiscal policy
- Effect of a tax cut
- The crowding-out effect on investment
 - Government budgets
 - Deficits and debts
- The limits of policy activism
- Inflation and Unemployment
 - Introduction
 - Inflation
 - Causes of inflation
 - Demand-pull inflation
 - Cost-push inflation
 - Money supply and inflation
 - The inflationary process
 - Inflation, unemployment and the Phillips curve
 - Short-run Phillips curve
 - Costs of inflation
 - Redistribution effect of inflation
 - Other impacts of inflation
 - Shoe-leather costs
 - Tax distortions
 - Confusion and money illusion
 - Inflation variability
 - Inflation tax
 - The benefits of inflation
 - Unemployment
 - The labour force survey
 - The official unemployment rate
 - Drawbacks of the official unemployment rate
 - Underemployment
 - Discouraged workers
 - Anatomy of unemployment
 - The unemployment pool
 - Types of unemployment
 - Frictional unemployment
 - Structural unemployment
 - Cyclical unemployment
 - Seasonal unemployment
 - Full employment
 - Determinants of the natural rate

- Reducing the natural rate of unemployment
- Public policy
 - Unemployment insurance
 - Minimum wages
 - Unions and collective bargaining
 - Reservation wage and efficiency wage
 - Costs of unemployment

Module 5

The Open Economy

Introduction

Overview

The balance of payments accounts

The current account

Trade in goods (merchandise)

Trade in non-merchandise

Services

Net investment income

Transfers

Current account balance

The capital and financial account

Portfolio investment

Direct investment

Capital (financial) account balance

The official settlements account

Balance of payments balance

Current account, lending and borrowing

Exchange rates

Exchange rate determination

Foreign exchange market

Demand for foreign currency (exchange)**Ошибка! Закладка не определена.**

Changes in the demand for dollars

Interest rates

Incomes

Inflation rates

Exchange rate expectations

Supply of foreign currency (exchange)**Ошибка! Закладка не определена.**

Changes in the supply of dollars

Interest rates

Incomes

Inflation rates

Exchange rate expectations

Market equilibrium

- Changes in exchange rates
 - Real exchange rates
 - Exchange rate regimes
- The exchange rate and the aggregate demand curve
- Current account
- Net exports
- Interest rate parity
- Exchange rate policy
 - High exchange rates (low currency values)
 - Low exchange rates (high currency values)
 - Monetary policy and exchange rates
 - The exchange rate in the long run: Purchasing power parity
 - The importance of current account
 - Corrective policy options
 - Causes and implications of trade deficits
 - Increased current consumption
 - Increased indebtedness level
- International trade
- Why do countries trade?
 - Specialisation and trade
 - Absolute advantage
 - Comparative advantage
 - Terms of trade
 - The sources of comparative advantage
- Trade policy
 - The case for trade protection
 - Trade agreements and trade liberalisation
 - Regional trade agreements
 - Economic integration between countries
 - Understanding World Trade Organization (WTO)