



**Master in International Business**

**1<sup>st</sup> semester 2015/2016**

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**FUNDAMENTALS OF ECONOMICS**

**Master in International Business (MIB)**

**Lecturer: Andrei Dementiev**

**SYLLABUS**

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**COURSE DESCRIPTION**

*Economics for Managers* is a one-semester course taught for Master in International Business students. The course aims at equipping students with the knowledge of fundamental principles of micro- and macroeconomics and their relevance to managerial decision-making. The module covers major theories and approaches to economic policy, helping students to appreciate the impact of economic forces on strategic and operational managerial decisions in contemporary organisations.

**PREREQUISITES**

Fundamentals of Economics is taught in English and is based on extensive self-study activities, including reading of economic journals, magazines and newspapers (i.e. the Economist, WSJ, FT, etc.) as well as essay writing. This requires sufficient fluency in *English*. It is mandatory for students to also have basic knowledge in linear algebra.

**COURSE OBJECTIVES AND AIMS**

The purpose of the course is to develop the economic way of thinking and make students ready to use logic and methods of economic analysis for the analytical support of business decisions. Specifically the course aims at:

- giving students a solid grasp of economic analysis at the intermediate-level using both graphical and algebraic techniques;
- ensuring students can apply economic analysis to the study of contemporary and historical economic problems and business cases;
- developing the students abilities to critically discuss professional economic literature.

**LEARNING OUTCOMES**

Students are expected to demonstrate the knowledge and understanding of the main concepts, principles and theories employed within the field of economics as well as basic methods analysis in economics. By the end of the course successful students will be able to:

- understand and interpret economic information presented in textual, numerical or graphical form,

- select and apply economic concepts and principles to explain and analyse contemporary events at the micro and macro levels and recognise unstated assumptions,
- evaluate alternative theoretical explanations and perspectives of economic problems, issues and policy decisions in a global context,
- organise and communicate economic ideas and arguments in a clear, logical and appropriate form.

## TEACHING METHODS

The following teaching methods and forms of study and control are used in the course:

**Lectures (1,5 hours a week)** Lectures offer a verbal presentation of the material to be mastered. More importantly, they indicate the relative importance of sub-topics and offer approaches to understanding the material that a reading of the notes or textbook sometimes leaves obscure.

**Classes (1,5 hours a week).** Classes immediately follow lectures and provide an opportunity to discuss lecture material with special focus on business application. The course emphasis is on conducting economic analysis rather than simply establishing a set of facts to be memorised. With this aim, a set of handouts (problem sets, case studies, journal articles) is distributed each week and discussed in tutorials. A number of cases-studies are to be discussed in groups to facilitate team-work and cooperative competition between students to support their learning strategy.

**Teachers' consultations.** Unresolved questions on the lecture material can be addressed with tutors on appointment during their consultation times (office hours).

**Self-study.** Before consulting a tutor, however, students are expected to make a serious attempt to solve the problem. Since learning for understanding can only be done by the student lecturers and tutors can do no more than offer advice as to how to go about it. Without prior effort to master a topic on the part of the student, consultation is a wasteful repeat of the lecture experience.

**Internet resources.** One can easily find plenty of useful materials in the Internet but to avoid a waist of time students are recommended to begin with the Companion Website for BFD's *Economics*, the basic textbook for the course, which offers interactive Multiple Choice Questions, Essay Topics selected for each chapter of the textbook

In total the course includes 15 hours of lectures and 15 hours of regular classes during the first semester.

## ASSESSMENT

The 3-hour written exam gives 50% of the final grade, in-class activities (including problem solving, presentations and discussions) gives 25% and written essay (based on an application of economics methods to real-life case) contributes another 25% to the final grade.

## READING LIST

### Essential Reading

- Begg D., Fischer S., Dornbusch R. *Economics*. 9th edition, McGraw-Hill, 2008. (BFD).

### Further Reading

- Mulhearn C., Vane H.R., Eden J. *Economics for Business*, Palgrave, 2001. (MVE).

## COURSE OUTLINE

Week	Topic	Lecture (1,5 hour each)	Class/Tutorial (1,5 hour each)
1	<b>Principles and Key Concepts of Economics for Business</b>  □ BDF 1, 2 □ MVE 1	o Scarcity, Resource Allocation and Opportunity Cost o Role of Markets (Price and Quantity adjustment) o Economic Models and Data o Micro-, Macroeconomics and Business	o Economic Activity Indicators: how to find and interpret business-relevant economic and financial data
2	<b>Demand and Supply</b>  □ BDF 3, 4, 7 □ MVE 2, 3, 4	o Consumer Choice and Utility Maximisation  o Demand Curve o Firm Behaviour and Profit Maximisation	o Problem Set on Market Equilibrium
			o Long-Run Cost Functions
3	<b>Market Structure</b>  □ BDF 8, 9 □ MVE 5	o Perfect and Imperfect Competition  o Monopoly and Monopsony o Oligopoly and Strategic Interaction of the Firms	o Option Games: the Case of the expansion options of Schiphol airport in The Netherlands
4	<b>Welfare Economics and Economic Systems in Different Countries</b>  □ BDF 15, 16, 17 □ MVE 7	o Equity and Efficiency o Pareto-efficiency, distortions and the second-best  o Market Failure and Externalities o The Government Regulation and Resource Allocation  o Ownership matters? o Industrial and Competition Policy	o Public Choice and Decision Making under different institutional environments o Free Market Economy, Social Market Economy, Planned Economy
5	<b>Unemployment and Inflation</b>  □ BDF 10, 11, 25, 26, 27 □ MVE 8, 10	o Labour Market and wage determination o Voluntary and Involuntary Unemployment o Output-inflation trade-off and problems with aggregate supply o Inflation, expectations and credibility	o Unemployment in Europe and Labour Market Frictions

6	<b>International Economy</b>  <input type="checkbox"/> BDF 28,29 <input type="checkbox"/> MVE 13, 14	<ul style="list-style-type: none"> <li>o International Trade, the theory of comparative advantages</li> <li>o Balance of Payments</li> <li>o Exchange Rate Systems</li> <li>o EMU</li> <li>o Foreign Direct Investment</li> </ul>	<ul style="list-style-type: none"> <li>o National Policies towards Multinational Firms (US, UK, German, French, Spanish, Japanese, Chinese experience)</li> <li><input type="checkbox"/> MVE 15</li> </ul>
7	<b>Wealth, Economic Growth and Business Cycles</b>  <input type="checkbox"/> BDF 30, 31  <input type="checkbox"/>  MVE 9, 11	<ul style="list-style-type: none"> <li>o Economic Growth and Factor Accumulation: the Role of Technological Progress</li> <li>o Endogenous Growth, Human Capital, R&amp;D and returns to scale</li> </ul>	<ul style="list-style-type: none"> <li>o Growth Miracles and Growth Disasters</li> <li>o International Business Cycle?</li> </ul>
8	<b>Fiscal and Monetary Policy</b>  <input type="checkbox"/> BDF 20, 21, 24 <input type="checkbox"/> MVE 10, 12	<ul style="list-style-type: none"> <li>o Stabilisation Policy in the short run and Efficiency of Demand Management</li> <li>o Fiscal-Monetary Policy Interaction</li> <li>o Discretion and Policy Rules and Credibility Issues</li> <li>o Inefficiency Policy Proposition</li> </ul>	<ul style="list-style-type: none"> <li>o Financial Crisis and Global Imbalances</li> <li>o Anti-crisis measures and problems with indebtedness</li> </ul>
9	<b>Economic Theory and Policy Debate</b>  <input type="checkbox"/> BDF 32, <input type="checkbox"/> MBE 7, 10.2, 11.6, 12	<ul style="list-style-type: none"> <li>o New Classical macroeconomics</li> <li>o Gradualist monetarists</li> <li>o Moderate Keynesians</li> <li>o Extreme Keynesians</li> </ul>	<ul style="list-style-type: none"> <li>o Liberalism, Neo-Liberalism (market failure and state failure, regulatory capture, privatization, competition and industrial policy)</li> <li>o The Tale of Two Cities: Hong Kong vs. Singapore</li> </ul>
10	Review Lecture		

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## SAMPLE PROBLEM TO STUDY IN CLASS

1. Read the article from the Financial Times below, and then answer the four questions relating to the article

**THE FINANCIAL TIMES** January 21, 2003 Do tax cuts stimulate economic growth? One thing is certain. Tax cuts increase output

only if they are spent. If households save the money the government forgoes, gross domestic product is unchanged. Standard economic theory suggests people are more likely to save a tax cut if it is seen as temporary, as they can spread the benefit over many years. So temporary tax cuts are likely to be pretty ineffective in boosting an economy.

Permanent tax cuts, of the sort Mr. Bush proposes, will tend to have a greater stimulus effect - but not always. Such tax cuts are also likely to be saved if the public is sceptical about their longevity. So if a tax cut threatens the long-term health of public finances and the public expects taxes to rise again in the future, the stimulus effect will be smaller.

- a) Try to formalise the “Keynesian” consumption function reflecting the fact that people could react differently (in terms of consumption) when their disposable income increases due to an increase in GDP and due to a reduction in taxes. Explain the notion of the marginal propensity (propensities) to consume here.
- b) What can you say about the marginal propensity (propensities) to consume if a tax reduction is transitory (should it be relatively high or small)? Derive the saving function and comment on it.
- c) If a permanent tax reduction is associated with large budget deficits in the future, should we expect the same properties of the consumption function and why?

Using the *IS* equilibrium condition, calculate the change in equilibrium output when taxes are reduced by 1 unit. What assumption should be imposed on the consumption function for the zero stimulus effect of a tax cut? Explain.