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**Prescription: 520 The Economic Environment**


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**Elective prescription**

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| <b>Level</b>         | 5  |
| <b>Credit</b>        | 20   |
| <b>Version</b>       | 2  |
| <b>Aim</b>           | Students will apply elements of economic theory with emphasis on the contemporary New Zealand environment. |
| <b>Prerequisites</b> | nil  |

**Assessment weightings**

| Learning outcomes  | Assessment weighting % |
|--|------------------------|
| 1. Students will understand the nature of economics and the methodology used to analyse the economic problem.  | 5                      |
| 2. Students will apply the supply and demand model to explain the behaviour of markets.                        | 17                     |
| 3. Students will analyse the firm's profit maximising behaviour in the different market structures.            | 15                     |
| 4. Students will evaluate the role of government in conditions of market failure.                              | 15                     |
| 5. Students will apply macroeconomic concepts and models to understand the aggregate economy.                  | 15                     |
| 6. Students will analyse how government affects the macroeconomy.  | 18                     |
| 7. Students will evaluate the effects of international trade and changes in the global economy on New Zealand. | 15                     |
| <b>Total</b>   | <b>100</b>             |

All learning outcomes must be evidenced; a 10% aggregate variance is allowed.

**Assessment notes**

1. Assessment materials should reflect relevant and current legislation, standards, regulations and acknowledged good industry/business practices.
2. For both the micro and macro model's, a relatively higher weighting has been allocated to topics that require more judgement and evaluation by the learner.
3. Current economic issues must be used to provide the context for each learning outcome.
4. Learning outcome one can be assessed by using a model in action - for example, a PPF model.
5. Learning outcome two is a cornerstone for economics and provides the basis for the development of subsequent topics of this prescription. Assessment should therefore firmly establish the fundamentals of the market mechanism - for example, the response of consumers and producers to changes in price. Key elements b) and c) can be evidenced from analysis of current business examples.
6. Learning outcome three includes the law of diminishing returns and economies of scale. These items form the basis of understanding cost concepts, which in turn enable firms to make short run and long run output decisions.
7. Learning outcome four effectively concludes the development of the market model; therefore, critical evaluation is required. The efficiency versus equity consideration is intended to reflect the cost of the impact of government; ie it can lead to less efficient solutions as there has been a trade-off in favour of equitable outcomes.
8. Assessment of the macro-economy topics (learning outcomes five, six and seven) should focus on business implications or current issues rather than a rigorous evaluation of the underlying economic theory.
9. Key element a) of learning outcome seven could include trade barriers, free trade agreements, comparative advantage and changing patterns of international trade.

**Learning outcome one**

Students will understand the nature of economics and the methodology used to analyse the economic problem.

Key elements:

- a) Economic way of thinking:
  - decision making discipline
  - modelling process.
- b) Economic problem:
  - scarcity
  - choice
  - opportunity cost.

**Learning outcome two**

Students will apply the supply and demand model to explain the behaviour of markets.

Key elements:

- a) Definition of a market.
- b) Supply and demand:
  - At least one of law, assumptions or determinants
  - curves.
- c) Market equilibrium:
  - shifts in supply and/or demand.
- d) Elasticity of demand, at least one of:
  - price
  - income
  - cross price.
- e) Effect of Government intervention, at least one of:
  - tax
  - subsidy
  - price control.

**Learning outcome three**

Students will analyse the firm's profit maximising behaviour in the different market structures.

Key elements:

- a) Short and long run cost/revenue analysis:
  - Calculation and/or graphing.
- b) Identify market structures using distinguishing features:
  - perfect competition
  - monopolistic competition
  - oligopoly
  - monopoly.
- c) Business decision-making strategy:
  - perfect competition price taker
  - at least one form of imperfect competition.

**Learning outcome four**

Students will evaluate the role of government in conditions of market failure.

Key elements:

- a) Sources of market failure:
  - imperfect competition
  - public goods
  - externalities.
- b) Government intervention:
  - policies dealing with market failure
  - allocative efficiency versus equity.

**Learning outcome five**

Students will apply macroeconomic concepts and models to understand the aggregate economy.

Key elements:

- a) Circular flow.
- b) Consumer Price Index (CPI).
- c) GDP measurement:
  - nominal versus real
  - limitations as a measure of well being.
- d) Business cycle.
- e) ADAS model:
  - assumptions or determinants
  - shifts in curves.
- f) Economic growth.

**Learning outcome six**

Students will analyse how government affects the macroeconomy.

Key elements:

- a) Government objectives and trade-offs, at least two of:
  - economic growth
  - price stability
  - full employment
  - income distribution
  - balance of payments.
  
- b) Policy:
  - fiscal
  - monetary:
    - inflation
    - inflation targeting.

**Learning outcome seven**

Students will evaluate the effects of international trade and changes in the global economy on New Zealand.

Key elements:

- a) Advantages and disadvantages of moving towards free trade.
  
- b) Balance of payments:
  - current account.
  
- c) Foreign exchange:
  - relationship between foreign exchange and imports and exports
  - relationship between foreign exchange and monetary policy.

**Status information and last date for assessment for superseded versions**

| Process    | Version | Date          | Last Date for Assessment |
|------------|---------|---------------|--------------------------|
| Introduced | 1       | 2006          | 31 December 2013         |
| Review     | 2       | December 2011 | N/A                      |
|            |         |               |                          |