
PRESCRIPTION: 520 THE ECONOMIC ENVIRONMENT

This prescription replaces *120 The Economic Environment*.

ELECTIVE PRESCRIPTION

LEVEL	5
CREDIT	20
VERSION	1
INTRODUCED	2006
AIM	Students will apply elements of economic theory to contemporary business issues.
PREREQUISITES	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 demonstrate an understanding of the free market using the supply and demand model.	15
3. Students will demonstrate an understanding of the firm's profit maximising behaviour in the different market structures.	15
4. Students will discuss the assumptions and failure of the free market model and evaluate the role of government.	17
5. Students will demonstrate an understanding of models and methods used to illustrate the macro-economic environment.	15
6. Students will analyse how government affects the economy.	18
7. Students will evaluate the potential effects of free trade and analyse the impact on New Zealand of changes in the global economy.	15
TOTAL	100

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 models a relatively higher weighting has been allocated to topics that require more judgement and evaluation by the learner.
3. Assessment of the macro-economy topics should focus on business implications rather than a rigorous evaluation of the underlying economic theory.
4. Current economic issues can be and should be used to provide the context for each learning outcome.
5. Learning outcome two is a cornerstone for economics. Learning outcome two provides the basis for the development of subsequent topics of this prescription, assessment should therefore firmly establish the fundamental of the market mechanism, rather than develop specific aspects to a high technical level.
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 closes 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. Learning outcome six includes the labour market. This is an important aspect of business within the macroeconomic context; consideration needs to be made as to its relationship to aggregate supply.
9. Learning outcome seven includes the potential effects of free trade. This requires the development of the free trade model to enable students to evaluate the relative advantages and restrictions of this model.

LEARNING OUTCOME ONE

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

Key elements

- a) Nature of economics:
 - decision-making discipline.
- b) Methodology:
 - modelling process:
 - assumptions
 - analysis
 - outcome evaluation
 - conclusion.
- c) Economic problem:
 - scarcity
 - choice
 - opportunity cost.

LEARNING OUTCOME TWO

Students will demonstrate an understanding of the free market using the supply and demand model.

Key elements

- a) Free market:
 - characteristics.

- b) Supply and/or demand:
 - law
 - assumptions
 - determinants
 - curves.

- c) Market equilibrium:
 - shifts.

- d) Elasticity of demand, one of:
 - price
 - income
 - cross price.

- e) Effect of Government intervention, one of:
 - tax
 - subsidy
 - price control.

LEARNING OUTCOME THREE

Students will demonstrate an understanding of the firm's profit maximising behaviour in the different market structures.

Key elements

- a) Cost/revenue analysis:
 - short and/or long run derivation from production:
 - calculation and/or graphing.

- b) Business decision-making strategy:
 - perfect competition price taker
 - one form of imperfect competition.

LEARNING OUTCOME FOUR

Students will discuss the assumptions and failure of the free market model and evaluate the role of government.

Key elements

- a) Effect on allocative efficiency:
 - perfect competition
 - imperfect competition.

- b) Optimal social equilibrium:
 - public goods or externalities.

- c) Government:
 - objectives:
 - economic growth
 - price stability
 - full employment
 - balance of payments equilibrium
 - equitable distribution of income.
 - failure:
 - efficiency versus equity.

LEARNING OUTCOME FIVE

Students will demonstrate an understanding of models and methods used to illustrate the macro-economic environment.

Key elements

- a) Circular flow.

- b) GDP measurement method.

- c) Business cycle.

- d) ADAS model.

LEARNING OUTCOME SIX

Students will analyse how government affects the economy.

Key elements

- a) Labour markets.

- b) Policy:
 - fiscal
 - monetary:

- inflation
- inflation targeting.

LEARNING OUTCOME SEVEN

Students will evaluate the potential effects of free trade and analyse the impact on New Zealand of changes in the global economy.

Key elements

- a) Advantages and restrictions.
- b) Balance of payments:
 - current account.
- c) Foreign exchange.
- d) Effect of transmission mechanisms on:
 - monetary policy and/or growth.