



## Level 5 Diploma in Business Economics (870) 139 Credits



<b>Unit:</b> Managerial Economics	<b>Guided Learning Hours:</b> 300
<b>Exam Paper No.:</b> 2	<b>Number of Credits:</b> 30
<b>Prerequisites:</b> Knowledge of accounting and business terminology.	<b>Corequisites:</b> A pass or higher in Certificate in Business Studies or equivalence.
<p><b>Aim:</b> The unit introduces the fundamental concepts of economic principles behind supply and demand, consumer choice, opportunity costs, market system, money, and banking as it applies to the management of an arts business. Learners learn how to use economic information to manage their own finances and investments. This unit is designed to provide learners with a basic understanding of microeconomic theory that can be used to understand behaviour (in markets and organisations) and to make effective managerial decisions. It is intended to provide learners with economic tools and an economic analysis used in the process of managerial decision making. The unit provide a basic understanding of firm and industry behaviour that serves as a basis for decision making. This will be achieved by first examining the relevant theory and then looking at real world examples. The unit begins with an introduction to basic economic principles and the fundamental role of transactions and markets. Economic theories of demand, cost, competition, monopoly, and oligopoly are introduced and applied in order to examine decisions about production and pricing. Modern game theory and economics are further used to examine mostly internal managerial issues, such as incentive conflicts, information problems, and allocation of decision rights. The unit provide learners with detailed knowledge of many of the decision rules of microeconomics and ways in which these can be applied in organisations.</p>	
<b>Required Materials:</b> Recommended Learning Resources.	<b>Supplementary Materials:</b> Lecture notes and tutor extra reading recommendations.
<b>Special Requirements:</b> The unit requires a combination of lectures, demonstrations and discussions.	
<p><b>Intended Learning Outcomes:</b></p> <p>1 Managerial economics; the scope of managerial economics business strategy, organisational structure; the assumptions of the neo-classical (or profit-maximising) model of the firm and the limitations of the model.</p> <p>2 The number of economic theories that describe, explain, and predict the nature of the firm, company, or corporation, including its existence, behavior, structure, and relationship to the market.</p>	<p><b>Assessment Criteria:</b></p> <p>1.1 Outline the subject matter of managerial economics</p> <p>1.2 Describe the analytical approach used in managerial economics</p> <p>1.3 Describe managerial decision-making in an environment of risk and uncertainty</p> <p>1.4 Explain economic concepts and economic analysis</p> <p>1.5 Describe problems of formulating rational managerial decisions</p> <p>1.6 Evaluate business objectives and the basic models of the firm</p> <p>1.7 Describe the differences between the profit-maximising model and the managerial models of a firm</p> <p>1.8 Describe the differences between the profit-maximising model and the behavioural model of a firm</p> <p>2.1 Define a firm</p> <p>2.2 Describe the differences between the Coasian and Williamson's analyses of the firm</p> <p>2.3 Analyse Williamson's different types of governance structure and the factors affecting the choice amongst them</p> <p>2.4 Describe the advantages and disadvantages of the separation of</p>

	<p>ownership from control and acquiring firm performance</p> <p>2.5 Outline ownership and control, diversification and mergers</p> <p>2.6 Describe the various reasons for mergers and takeovers</p> <p>2.7 Describe the extent maximum profit which firms seek when ownership and control are in the hands of different people?</p> <p>2.8 Describe the factors which determine the extent a firm diversifies across different industries?</p> <p>2.9 Describe how and why do mergers and take-overs take place?</p>
<p>3 Understand why international financial management is crucial to not only the large MNCs with numerous foreign subsidiaries but also to the small firms that conduct international business.</p>	<p>3.1 Define multinational enterprise (MNE)</p> <p>3.2 Describe the various theories explaining MNE</p> <p>3.3 Explain the impact of the MNE: benefits and costs</p> <p>3.4 Compare and contrast Intra-corporate Structure vs Inter-corporate Structure</p> <p>3.5 Compare and contrast Transnational Corporation (TNC) vs Multinational Enterprise</p>
<p>4 Economic theories of consumer behavior based on demand for underlying characteristics of goods.</p>	<p>4.1 Outline the economic theories of consumer behaviour</p> <p>4.2 Describe the purpose of the economic theory of consumer behaviour</p> <p>4.3 Analyse the difference between the economic theory and consumer behaviour in marketing</p> <p>4.4 Describe the main approaches to consumer behaviour in economics</p> <p>4.5 Explain the basic techniques of estimating demand functions and forecasting future sales and prices</p> <p>4.6 Describe estimating and forecasting demand</p> <p>4.7 Describe the difference between estimation and forecasting demand</p> <p>4.8 Describe the strengths and weaknesses of alternative approaches to estimation</p> <p>4.9 Describe the strengths and weaknesses of alternative approaches to forecasting</p>
<p>5 Understand the most important determinants of cost per unit (economies of capacity utilisation, economies of scale, economies of scope, learning effects); the models of market structure and the 'Five Forces' approach to market structure.</p>	<p>5.1 Outline production functions and costs</p> <p>5.2 Examine the relationship between inputs and outputs</p> <p>5.3 Identify the difficulties involved in the empirical estimation of these effects</p> <p>5.4 Explain the unusual features of costs in the information sector</p> <p>5.5 Explain the formal models of market structure used in economic analysis.</p> <p>5.6 Explain how price is determined in these models.</p> <p>5.7 Demonstrate how to carry out a '5-</p>

<p>6 Using expected values formula, variance and statistics and expected utilities to take decisions in a situation of risk; game theory, strategy and strategic thinking and its application in managerial economics.</p>	<p>forces' analysis of an industry. 5.8 Identify the key factors determining competition in an individual industry</p> <p>6.1 Distinguish the alternative states of information 6.2 Distinguish alternative attitudes to risk 6.3 Define risk and uncertainty 6.4 Demonstrate how to construct and use decision trees 6.5 Describe how to use alternative criteria for decision-making under uncertainty 6.6 Explain the place of game theory in Economics 6.7 Demonstrate to represent and solve simple games 6.8 Describe how to apply game theory to the issue of collusion 6.9 Demonstrate how to model Cournot, Bertrand and von Stackelberg competition 6.10 Describe how to take a game-theoretic approach to entry deterrence 6.11 Explain the limits of game theory</p>
<p>7 Pricing issues: alternative pricing methods; transfer pricing, pricing for public enterprise and demonstrate pricing in theory and in practice.</p>	<p>7.1 Describe the basic rules for optimal pricing 7.2 Define pricing and market structures 7.3 Explain pricing and entry conditions - the pre-game theory approach 7.4 Define price discrimination 7.5 Evaluate pricing and the product life cycle 7.6 Identify the pricing objectives adopted by firms 7.7 Describe cost- plus pricing methods 7.8 Explain the relationship between the evidence on COST-PLUS and the MC=MR model</p>
<p>8 Applying basic economic concepts to: product characteristics; the promotional mix; the product mix.</p>	<p>8.1 Demonstrate how to use a simple economic model to explain the need for a properly balanced marketing mix 8.2 Describe how to extend the formal economic model of the firm to include marketing variables 8.3 Evaluate the 'rules-of-thumb' which are used by firms to set their marketing budgets 8.4 Describe the non-price competition and the marketing mix</p>
<p>9 Investment decisions and the cost of capital and analyse the relationship between economics and business strategy.</p>	<p>9.1 Describe the concepts of capital budgeting and cost of capital 9.2 Illustrate techniques for the appraisal of investments 9.3 Describe financial models used to estimate the cost of capital 9.4 Illustrate concepts used in the analysis of</p>

	9.5	business strategy Examine the relationship between economic analysis and changing trends in the analysis of strategy
<b>Methods of Evaluation:</b> A 2½-hour written examination paper with five essay questions, each carrying 20 marks. Candidates are required to answer all questions. Candidates also undertake project/coursework in Managerial Economics with a weighting of 100%.		

**Recommended Learning Resources: Managerial Economics**

<b>Text Books</b>	<ul style="list-style-type: none"> <li>• Managerial Economics: Firms, Markets and Business Decisions (Paperback) by Ian Dobbs. ISBN-10: 0198775709</li> <li>• Managerial Economics (Hardcover) by Mark Hirschey. ISBN-10: 0324183305</li> <li>• Managerial Economics in a Global Economy (Hardcover) by Dominick Salvatore. ISBN-10: 0195307194</li> </ul>
<b>Study Manuals</b> 	BCE produced study packs
<b>CD ROM</b> 	Power-point slides
<b>Software</b> 	None

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