Business Economics and e-Commerce (BEEC)

Opening Statement and Guidance to the Course.

Prepared by Neville R. Norman
Associate Professor of Economics

4th floor FBE Building (Room 412)
Phone (834)4 5327
Home 9592 6120 Mobile 0414 653 770
n.norman@unimelb.edu.au
Introduction and Formalities

Welcome! We really hope you enjoy this course.

Aims: Through this subject students will gain respect for and appreciate the value of economic concepts and tools as applied to this contemporary aspect of modern business, marketing, value-added and technology-based commerce. Critical thinking and careful application skills will be developed, gaining new insights into both economics and e-commerce. Students will be able to define, advise and analyse e-commerce and other business situations using market analysis and strategic decision theory.

These Subject Notes are issued to students enrolled in ECON2006 for semester 1, year 2014. They are issued under the terms and conditions set out by the University of Melbourne, as reflected in the formal extracts in the Students’ Handbook, University Statutes and Department of Economics resolutions. They are subject also to the laws of copyright. No copying of materials here presented is permitted without the written authorisation of the author, Neville Robert Norman, Associate Professor of Economics, The University of Melbourne.

These notes are written specifically by the course co-ordinator for the benefit of students enrolled in this subject, to define the areas of study, to give definitions, meaning of concepts and the relevant economic aspects of the subject. We may supplement these materials as the need arises.

ALL RELEVANT MATERIALS AND IMPORTANT NOTICES TO YOU ABOUT THIS SUBJECT ARE MADE THROUGH THE SUBJECT “LMS” PROCEDURE. PLEASE VISIT IT REGULARLY.

BEEC 2014 Assessment: 1-2 hour exam (70%), probably early June 2014; and by two assignments (30%)(15 marks each), as below.

BEEC 2014 Assignments due: (1) Thursday April 3, 2014 – 4pm (1600) deadline; (2) Thursday May 8, 2014 – 4pm also.

Tutor: Anna Coffey

Tutorials:

8am Tuesdays Spot 5016; 3.15 pm Tuesdays Spot 2017; noon Thursdays Spot 2016.

Feedback

I welcome direct, even blunt, comments and criticisms of the course and how it is taught at any stage. We are seeking to give you as students a global and economic focus from a leading university and to use what is just the start of your studies in
economics completed already. We cannot presume that you have taken more than first-year economics before. That leads to some pressures to get to risk and imperfect competition and this is why we need your feedback at all times on how this is going.

Based on feedback on this course at this level I have made a large number of changes to better meet your needs. Some explanation is needed.

I took over the e-commerce course from Professor John Freebairn in 2005, having myself previously been responsible for a third-year e-commerce course which we no longer offer. There are obvious challenges when e-commerce relates ONLY to a world of incomplete information (that’s why it exists) and most of the economics that second-years students already have relates to a world of only perfect information embodied in the theory of ‘perfect competition’. I have the challenge of working with you about a business and e-commerce world dominated by imperfect information when economics courses normally only get to this point in late third and honour years. I get round that by using some classical imperfect competition (watch for GLIC!), but especially by introducing you to the very logical and straight-forward cost-benefit analysis (CBA) which handles chronological time and risk in an easy and practical way. I will give you chapters to read that help and mostly I will seek to help you by bringing out the underlying economics which most CBA suppresses.

Based on student feedback and to match the new name for the Faculty, during 2009 we formally changed the thrust of the subject to include much more ‘business’ aspects, taking a broad definition of that, while compressing the directly e-commerce matters in a smaller part of the course. This re-emphasis has been widely welcomed by students in classes since.

I welcome all students to this (relatively) new subject. So what is it?

**This is a course in the development, understanding and application of (selected tools of) economic analysis that can be applied to understand important aspects of business and e-commerce.**

Those aspects are –

a. Managerial decision tools, examples, mistakes, and applications. Why did/do/does businesses (including electronic commerce: “e-C” hereafter) come into operation? How are alternative forms of business used, selected and varied, priced, promoted and perceived in both the commercial and the general community in various ways? How are decisions made in business? What role is played by two essential features we cannot ever escape in business decision (or any!)analysis: goals and information. Change either and the decision is bound to change. Respect neither (or either) and you may have difficulty in judging why decision you might see as strange or irrational can actually be made. We look at decisions to set up a business and its structure; the selection and change in ‘products’, ‘prices’ and ‘promotion’ – get used to these three – also ‘partnerships’. We will weave e-commerce through all this, even though the materials and examples are cast much more generally. Forecasting and allowance for competitors and regulators then follows. This section covers about half the course and covers the domain of the first assignment. There is considerable emphasis on
the importance of gaining business-relevant information about ‘demand’ and how to improve it.

b. **Economy**-wide effects of business and e-commerce: what impact business and e-C, compared with some alternative states or scenarios, has/had/is likely to have on “the economy”/society. There are references to on-line transacting in the first part, but its impact on the economy overall is the theme in this section, beginning with important starting material on the ‘contribution’ of anything to anything, as measured and assessed in the social sciences, especially economics.

c. **Public Policy and Regulation** – using economics again, what implications the development of business and e-C has for public policy intervention in the areas of competition policy, pricing, property rights (copyright, etc.) policy towards business, regulations, tax approaches, legal and compliance/penalty aspects are pursued including anti-trust (competition policy), technology policy and measures designed explicitly to advance or curtail electronic commerce. The principles or working in a world or imperfect information pervade the course, especially here.

Armed with these tools we may also be able to make some predictions or prognoses.

This course is especially designed for students seeking a practical and very contemporary application of economic analysis. It makes use of economics or principles lying behind economics. Most students will have basic familiarity with these already. **A major objective will be to review, extend and develop understanding of the properties and limitations of these approaches, especially basic decision analysis/theory and cost-benefit analysis used in economics, accounting and finance.**

**My Teaching Philosophy.**

The ambitions, goals and future prospects of students are the most fundamental and only considerations in presenting this course. I seek to honour all University of Melbourne rules, to work with and respect all students, and to help them gain their developmental aspirations at this most important time in their education and training.

**What’s expected of you? (WIROM?)**

I just ask that you do your best to make the most of this subject; work firmly and confidently; tell me as soon as you are struggling with anything or in any way. I ask that you read and keep the lecture outlines (LecOuts) as a guide to the structure and relative importance of the materials in this course; that you read ahead and do all “tasks” I set you, especially the tutorial exercises, that are designed to give you help and guidance to deepen your knowledge of economics and its application to e-commerce matters.

I encourage all students to look closely **RIGHT NOW** at what the course is about. The following is an attempt to give you a glimpse of it.
What is BEEC?

Business Economics and E-Commerce (BEEC) is better described by its much-longer title: the development and application of economic analysis to better understand and improve business decisions, whether in new or old commerce, and other decisions affecting business, by buyers, suppliers, competitors and regulators. If that’s too much to digest, try our best one-word description:

DECISIONS

BEEC is all about decisions – but name an area of economics which isn’t! While doing this subject, and perhaps for a long time after, you will be much more conscious of decisions that you make, and those know to you by either direct observation or knowledge through media. Let’s first think about decisions in a much more general context. We’ll try this in the first lecture. Think about this in advance, please: sketch some notes; ask your friends or family.

1. Name some of the biggest decisions you’ve ever heard about. Who made them? What were they about? How were they executed? How did they turn out? Were they good or bad decisions? How would you judge them anyway, and why might some people think them good while others think them bad?

2. Name some of the biggest decisions you or your family members have ever made. Same questions: What were they about? How were they executed? How did they turn out? Were they good or bad decisions? How would you judge them anyway, and why might some people think them good while others think them bad?

3. Name any recent decision you have made, either large or small. In what ways is it different from the decisions you have considered in 1. and 2. above?

4. Think back over first-year economics. Name the main decisions embraced there? Who made them? (Select about 3 such decisions that typify the materials given to you in first-year economics.) Describe the decision-making environment and how the decision fitted into the course: why we needed to tell you about these decisions; where the decisions went: that is, what got changed by them?
### BEEC Class Schedule for 2014:

<table>
<thead>
<tr>
<th>Week #</th>
<th>Monday Lectures 215pm-315pm</th>
<th>Friday Lectures Noon-1pm</th>
<th>Tutorial Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mar. 3rd – lecture 1</td>
<td>Mar. 7th – lecture 2</td>
<td>No tutorial</td>
</tr>
<tr>
<td>2</td>
<td>Mar. 10th – lecture 3</td>
<td>Mar. 14th – lecture 4</td>
<td>Trial tutorial</td>
</tr>
<tr>
<td>3</td>
<td>Mar. 17th – lecture 5</td>
<td>Mar. 21st – Lecture 6</td>
<td>Tutorial A</td>
</tr>
<tr>
<td>4</td>
<td>Mar. 24th – lecture 7</td>
<td>Mar. 28th – lecture 8</td>
<td>Tutorial B</td>
</tr>
<tr>
<td>5</td>
<td>Mar. 31st – lecture 9</td>
<td>Apr. 4th – lecture 10</td>
<td>Tutorial C</td>
</tr>
<tr>
<td>6</td>
<td>Apr. 7th – lecture 11</td>
<td>Apr. 11th – lecture 12</td>
<td>Tutorial D</td>
</tr>
<tr>
<td>7</td>
<td>Apr. 14th – lecture 13</td>
<td>Apr. 18th Good Friday</td>
<td>Tutorial E</td>
</tr>
<tr>
<td>8</td>
<td>Apr. 21st – lecture 14</td>
<td>May 2nd – lecture 15</td>
<td>Tutorial F</td>
</tr>
<tr>
<td>9</td>
<td>May 5th – lecture 16</td>
<td>May 9th – lecture 17</td>
<td>Tutorial G</td>
</tr>
<tr>
<td>10</td>
<td>May 12th – lecture 18</td>
<td>May 16th – lecture 19</td>
<td>Tutorial H</td>
</tr>
<tr>
<td>11</td>
<td>May 19th – lecture 20</td>
<td>May 23rd – lecture 21</td>
<td>Tutorial I</td>
</tr>
<tr>
<td>12</td>
<td>May 26th – lecture 22</td>
<td>May 30th – lecture 23 - last</td>
<td>Tutorial R: revision</td>
</tr>
</tbody>
</table>

### Content summary: BEEC, 2014

- **Logic of the economic approach to decision making**: focus on the issue, set goals, collect issue-relevant information (e.g. demand and cost conditions, competitor activity, market background), solve decision problem (optimisation) and implement
- **Examples** of significant (good and bad) business decisions
- **Types of business decision** – a classification
- **Demand and marketing** – as an input into business decisions on product and price
- **Cost, scale and technology** – as an input into business decisions, again
- **Additional tools**: imperfect competition analysis, risk analysis, game theory (basic) and Cost-Benefit Analysis (we’ll call that ‘CBA’)
- **Application of tools** (above) to business decisions
- **The use of decision analysis** to select a business form, partners (associates/mergers), location, distribution systems and to undertake risk-sensitive strategic plans.
- **Business Forecasting** and prediction analysis
• **E-Commerce aspects** – management and buyer decisions’ economic impact; regulation and policy aspects

• **Economic impact of e-commerce**, including adverse effects/tax losses/annoyance

• **Economics of business regulation** and how business can relate to it; business policy interventions

• **Case studies and applications** introduced throughout, including e-commerce applications.

**FAQ(s):**

1. **Is there a textbook?** Not as such, because the materials are combined in such a way that the textbook market has not kept up; most e-commerce books are not really ‘economics of e-commerce’, even if they wear that title, and the materials are too current to be covered in most ‘books’ as such.

2. **How will the lecturer get materials to us?** Lecture notes, designated as chapters (not completely aligned with lecture numbers), additional notes, lecture outlines, tutorial questions (and solutions sheets/comments), assignments (2) and reports on them, lecture slides and anything else of relevance will; be pre-loaded onto the LMS. You can expect material for the next 2 weeks to be pre-loaded. In Monday lectures I will bring hard copies of lecture outlines (Louts), some slides and selected materials. I will have supplementary copies at Friday lectures for those who missed Monday lectures.

3. **Do we really have to come to lectures?** Formally yes: it’s a Uni rule. With a relatively small class the lecturer gets to know who’s there and who’s not. The informal answer is that the lecturer tends to add so much not-otherwise-available material and insights that you run a risk in not attending. (The lecturer is known as “Never Normal”, and for good reasons!) Some students gamble that they can overcome this by using the recorded lectures (Lectopia). Trying that for both lectures each week will be untenable and courting disaster’

4. **How does this subject relate to the previous e-commerce subject?** The previous 316-212, which ended in 2009, had three parts: (A) business aspects of e-commerce set-up and design; (B) economic effects of e-commerce; and (C) policy aspects of e-commerce. Basically, (A) has been stretched to occupy about half of the course, to give a great focus on business aspects and to extend the domain beyond e-commerce; (B) and (C) has been compressed into about half of the course.
5. **Is computer ‘literacy’ helpful?** Pretty much. It will be useful to use internet links and spreadsheet applications at times. If you write/read programs or html (web language) that will not be necessary in the course.

6. **How do we contact the lecturer?** I warmly encourage ALL students to contact me by email, phone or by calling into my office (834(4 5327) 4th Floor Faculty of Business and Economics, next to the ‘Spot’. I also encourage calls to my mobile (0414 653 770) and at home (9592 6120).

7. **What about exams and assignments?** See the opening notes which accompany these notes.

8. **Is the course JUST about Australia?** No – just could study or run a banana business in Brazil from the tips you’ll get in this course. Several Australian examples will be given, but we’re basically ‘global’ or borderless here.

---

**Starting Exercise – Self-Help** *(That means: Do it in your own time, talk to other students and, lastly, email Neville Norman if you are struggling.)*

What is the nature and function of a “market”?
__________________________________________________________
__________________________________________________________
__________________________________________________________

What sort of markets, in terms of how they function, can you recall hearing about in economics?
__________________________________________________________
__________________________________________________________
__________________________________________________________

Write down in a few words what e-Commerce means to you and what “economics means to you – based on your own experience and views. How are e-Commerce and the sort of commerce before e-C similar and different?

By Electronic Commerce (e-C), I mean:
(Adjacent question – how long has e-commerce been around?)
(Please do all this before searching electronically or otherwise
__________________________________________________________
Addendum to BEEC Preludes: The 2013 Exam in BEEC

ANSWER ALL QUESTIONS.
In each question choose on of the two either/or alternatives

Answer EACH question in the examination booklet(s) provided.
Each question is worth twenty-five marks.

Question 1

EITHER

1(a) Explain how a cost-benefit analysis represented in spread sheets can incorporate risk and different time periods relevant to business planning. Can this approach be made consistent with the more conventional graphical representation of demand and cost curves applied to an imperfect-competition setting? Explain how the cost-benefit approach can be applied to analyse different scenarios for price and advertising choices of the firm.

OR

1(b) With reference to any two business situations of your choice, explain how start-up businesses might be able to obtain useful information about (i) cross-price elasticities of demand and their connection to business rivalry, (ii) advertising elasticities of demand and their relevance to best-practice advertising by business firms, and (iii) income elasticities of demand and their relevance to the shares of buyers’ incomes devoted to these products over long periods of time.

Question 2

EITHER

2(a) Outline how the optimally-selected price by a business firm will, in economic theory, depend on (a) business goals; (b) the shape and position of demand and cost curves; and (c) the degree of confidence firms can have in cost and demand
information. Explain how you would test this approach when it is applied in a specific practical business situation. In what ways does it matter, if at all, if the firms involved are e-commerce firms? Use examples and economic concepts where possible.

OR

2(b) Explain how economists model the decisions of business firms to select the range and variety of products they offer. In what ways are the approaches you describe dependent on the stated, imputed or assumed business goals and the nature of information available? How would you advise a business firm, using your economics, to test whether substantial advertising outlays would meet the goal(s) of the business? Use examples and economic concepts where possible.

**Question 3**

**EITHER**

3(a) Explain the manner in which economic analysis in its various relevant forms can assist in understanding the economic effects of electronic commerce on economic growth, prices, industry structure, and possible burdens or nuisances to buyers of e-commerce products or services. Use examples and economic concepts where possible.

OR

3(b) Explain how the advent and relative growth of electronic commerce in any modern economy may influence the amount and type of taxation collections in that economy. Explain how economic theories and empirical analysis can assist in measuring the extent of any tax evasion arising from electronic commerce.

**Question 4**

**EITHER**

4(a) Explain briefly how governments can intervene in modern economies to influence business operations to further advance the public interest or to correct damage done to the public by electronic-commerce operations. How can economic frameworks assist such governments to resolve conflicts in public policy arising from differences in public-policy goals. Illustrate with examples that include electronic commerce.

OR

4(b) Outline briefly the anti-trust or competition policy regulations and consumer protection provisions of any one country of your choice. Explain how, or whether, the regulations you have outlined can redress some of the adverse effects of electronic commerce on buyers and how an economist might advise the authorities on any policy reform that might be necessary if electronic commerce becomes a much more significant part of the relevant economy.

End of Examination