Business Economics and e-Commerce (BEEC)

Opening Statement and Guidance to the Course.

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- 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.

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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.

There are 2 lectures per week at ‘business-relevant’ times and students are offered one tutorial a week which is supported by solution and guidance notes prepared by the lecturer.

BEEC 2015 Assessment: 1-2 hour exam (70%), probably early June 2015; and by two assignments (30%)(15 marks each) , as below.

BEEC 2015 Assignments due: (1) Thursday April 2, 2015– 4pm (1600) deadline; (2) Thursday May 7, 2015 – 4pm also.

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.

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 will work with you to offer you fresh and valuable insights into 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, we formally changed the thrust of the subject in 2010 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 though 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 (completion 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.

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<th>What’s expected of you? (WIROM?)</th>
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<td>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.</td>
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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?
Content summary: BEEC, 2015

- **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 lecturers 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 – you 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”?  
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__________________________________________________________  
__________________________________________________________  
__________________________________________________________

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  
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Addendum to BEEC Preludes: The last (2014) Exam in BEEC

Answer **ALL** questions in the examination booklet(s) provided, respecting the EITHER/OR choice provided. Each question is worth a maximum of **twenty** marks towards a total of 80 marks which will be adjusted to maximum mark of 70% of the final assessment as the written-examination assessment for this subject. Assignments already assessed count for up to 30% of the final assessment in this subject.

**EITHER**

1 (a) Use economic analysis to explain how ANY THREE of the following concepts can help economists to understand and analyse business behaviour:

(i) Cross-price elasticity of demand;
(ii) Business goals making sales revenue prominent;
(iii) Buyer utility functions involving product variety; and
(iv) Linear average revenue functions.

**OR**

1 (b) Explain the main differences between EACH of the following pairs of concepts used by economists in studying business behaviour:

(i) Average and marginal revenue;
(ii) Perfect and imperfect information in relation to revenue functions
(iii) Average and marginal costs.

In each case, identify any circumstances where there are no such differences. Explain fully.

**EITHER**

2 (a) Suppose that a business firm has reliable information relating to its revenue and cost functions that are defined on the firm’s rate of output in a period of time. What further information is required to understand how its chosen product price might respond to exogenous changes in buyer income, hourly labour costs and the imposition of a tax geared to its use of environmentally-sensitive products.

**OR**

2 (b) With specific reference to any TWO products of your choice, list the main difficulties facing a modern business firm in estimating the impact on the rate at which its own product so demanded may arise from changes in (a) buyer income; (b) its own price; (c) rival prices; and (d) the intensity of its advertising program. In what ways would the selling of its product on line affect your answers?
EITHER
3 (a) A government concerned about its inability to collect tax from on-line sales activities seeks your advice on research it needs to undertake to estimate the magnitude of these tax losses and the effectiveness of any action it could take to limit their extent. Advise the government on this research program.

OR
3 (b) Consider the impact of e-commerce, other than that upon taxation collections. Explain the approach economists can take to value the damage inflicted upon fellow citizens. Use economic notions, theories or concepts, with examples to support your answer.

EITHER
4 (a) The public is divided on the case for official (government) policy to regulate business or impose penalties on e-commerce transactions specifically. Set out a framework to measure the extent of damage to the public and value their divergent views that might be found in relation to policy to limit the damage. Use examples where you can.

OR
4 (b) For any ONE country of your choice, outline briefly its competition policy laws and the manner in which e-commerce has made it necessary to revise them in the face of borderless transaction flows. Explain the role of economics and economists in such a policy and in amending it to account for the prospectively greater presence of e-commerce in future.

End of Examination