



Principles of Business

BA 2nd Year – January 2020

ISTITUTO MARANGONI – Principles of Business - 2019 / 2020

Course Plan

Course n°	Date	Time	Duration (H)	Section content
1	2020-01-08	14h45-17h15	2,5	Introduction to Economics
2	2020-01-08	17h30-20h	2,5	Economics Policy for 21st Century and New consensus of Business Economics
3	2020-01-20	8h30-11h	2,5	Group Presentation: Three pillars analysis for a chosen country
4	2020-02-05	14h45-17h15	2,5	What makes nations Grow: GDP & Business Fluctuations
5	2020-02-05	17h30-20h	2,5	The market system in action: Supply and Demand Mechanism
6	2020-02-17	8h30-11h	2,5	The market system in action: Price Elasticity of Demand (PED)
7	2020-02-19	14h45-17h15	2,5	Monetary Policy & Fiscal Policy: Price stability, Inflation, Interest rates
8	2020-02-19	17h30-20h	2,5	The role of government -Competition, Regulation, Monopoly Size of firms & Unemployment
		03-07/12/2018		Assessment period
		10-14/12/2018		Assessment period



Principles of Business : course n°1

Introduction to Economics

BA 2nd Year - 08/01/2020

Alexis NASS, CFA - 2019/2020

What is economy ?

An approach for beginners : few words from Jodi BEGGS, an economist and data scientist (Ph.D. in business economics from Harvard University), in article « Economics for Beginners: Understanding the Basics »
(<https://www.thoughtco.com/economics-for-beginners-4140372>)

Photo from Linkedin profile !



What is economy ?

Economics is a complex subject filled with a maze of confusing terms and details which can be difficult to explain. Even economists have trouble defining exactly what economics means. Yet, there is no doubt that the economy and the things we learn through economics affects our everyday lives.

In short, economics is the study of how people and groups of people **use their resources**. Money certainly is one of those resources, but other things can play a role in economics as well. In an attempt to clarify all this, let's take a look at the basics of economics and why you might consider studying this complex field.

What is economy ?

Economics is divided into two general categories : **microeconomics** and **macroeconomics**. One looks at the individual markets while the other looks at an entire economy.

From there, we can narrow economics into a number of subfields of study. These include econometrics, economic development, agricultural economics, urban economics, and much more.

Much of what we study in economics has to do with money and the markets. What are people willing to pay for something? Is one industry doing better than another? What is the economic future of the country or world? These are important questions economists examine and it comes with a few basic terms.

What is economy ?

Supply and Demand is one of the first things we learn in economics. Supply speaks to the quantity of something that's available for sale while demand refers to the willingness to purchase it. If the supply is higher than the demand, the market is thrown off balance and costs typically decrease. The opposite is true if demand is greater than the supply available because that commodity is more desirable and harder to obtain.

Elasticity is another key concept in economics. Essentially, here we're talking about how much the price of something can fluctuate before it has a negative impact on sales. Elasticity ties into demand and some products and services are more elastic than others.

Understanding the Financial Markets

As you might expect, many of the factors that play into economics have to do with the **financial markets**. This is also a complicated matter with many subtopics that you can dive into.

What is economy ?

First and foremost, it's important to understand how prices are set in a market economy. At the heart of this is information and what is known as a **contingent contract**. Essentially, this type of arrangement places stipulations on the price paid based on external factors: if X happens, then I'll pay this much.

One question that many investors have is "What happens to my money when stock prices go down?" The answer is not easy, and before you dive into the **stock market**, it's essential that you know how it works.

To further complicate things, economic situations like a recession can throw many things off. For instance, just because an economy goes into **recession**, doesn't mean that prices will fall. In fact, it's the opposite for things like housing. Quite often, prices go up because supply is down and demand is up. This rise in prices is known as inflation.

What is economy ?

Interest rates and exchange rates also cause fluctuations in the markets. You will often hear economists express concern over these. When interest rates go down, people tend to buy and borrow more. Yet, this can cause interest rates to rise in the end.

Exchange rates refer to how the currency of one country compares to those of another. These are key components in the global economy.

Other terms you'll hear in reference to the markets are **opportunity costs**, **cost measures**, and **monopolies**. Each is a key element in understanding the overall economic forecast.

What is economy ?

Measuring Economic Growth and Decline

Whether on a national or global scale, measuring the health of the economy is no easy feat. Nationally, we use terms like GDP, which stands for **Gross Domestic Product**. This refers to the market value of a country's goods and services. Each country's GDP is analyzed by entities like the World Bank and International Monetary Fund (IMF).

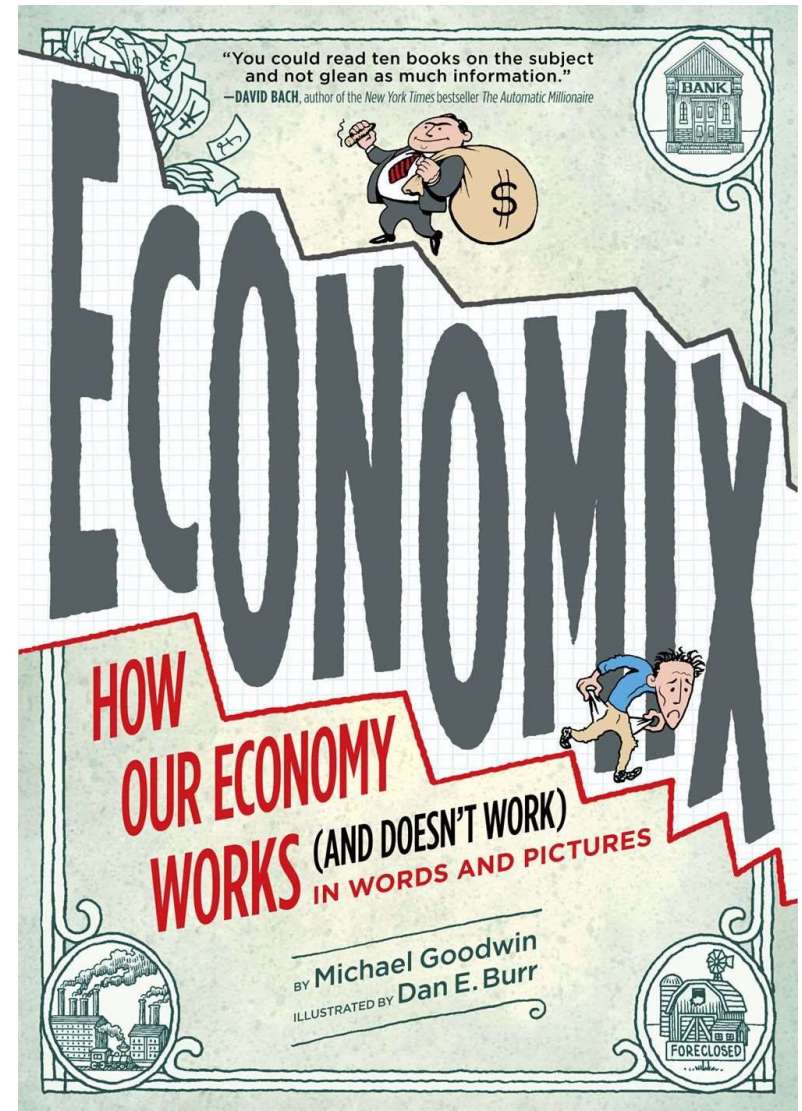
There is also much discussion these days about **globalization**. The concerns over countries like the U.S. outsourcing jobs has many fearing a higher unemployment rate and sagging economy. Yet, some argue that advancements in technology do just as much for employment as globalization.

Every now and then, you will hear government officials discussing **fiscal stimulus**. This is one theory for encouraging economic growth, particularly in tougher times. But again, it's really not as easy as creating jobs that will lead to more consumer spending.

As with all things in economics, nothing is simple. That is precisely why this topic is so intriguing and keeps economists up late at night. Predicting the wealth of a nation or the world is no easier than predicting your own gains 10 or 15 years into the future. There are too many variables that come into play, which is why economics is an endless field of study.

What is economy ?

Did you heard about famous comix ECONOMIX from Michael GOODWIN (draw : Dan BURR) ?



What is economy ?

Main aspect of the book :

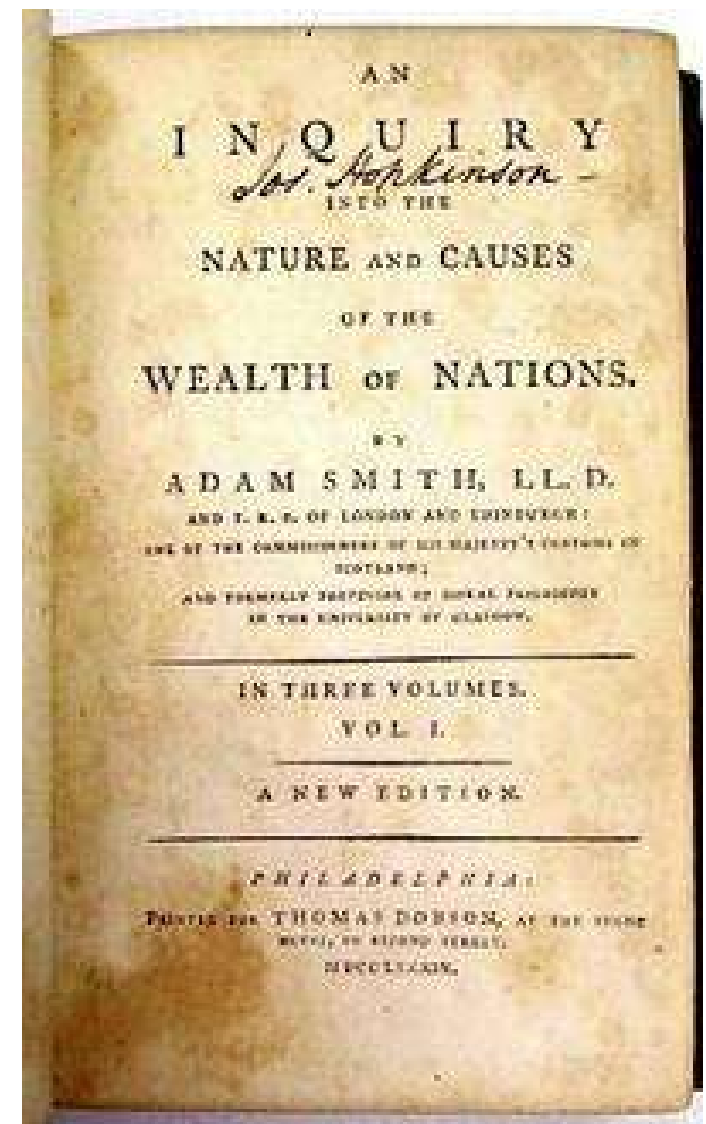
- Great popularization effort
- Great synthesis : author has been reading original sources
- It is politic : author claim in introduction that the understanding of economy is necessary for political decision
- The author is clearly on the left side of political spectrum, sadly it is not explicitly stated.

Source : Michael GOODWIN, 2012
(original edition, 2013 French
edition), *ECONOMIX*

 <u>Du passé lointain à 1820</u> La main invisible 13	 <u>1820-1865</u> À toute vapeur 43	 <u>1865-1914</u> Le pouvoir de l'argent 73
 <u>1914-1945</u> Tout s'écroule 95	 <u>1945-1966</u> Les armes et le beurre 131	 <u>1966-1980</u> L'ère des limites 163
 <u>1980-2001</u> La révolte des riches 197	 <u>Après 2001</u> Le monde aujourd'hui 251	

Founders of Economic science

Adam SMITH, *Wealth of nations*, 1776.



Adam Smith findings

Super famous pin / needle factory example.

Work division is efficient and increase productivity



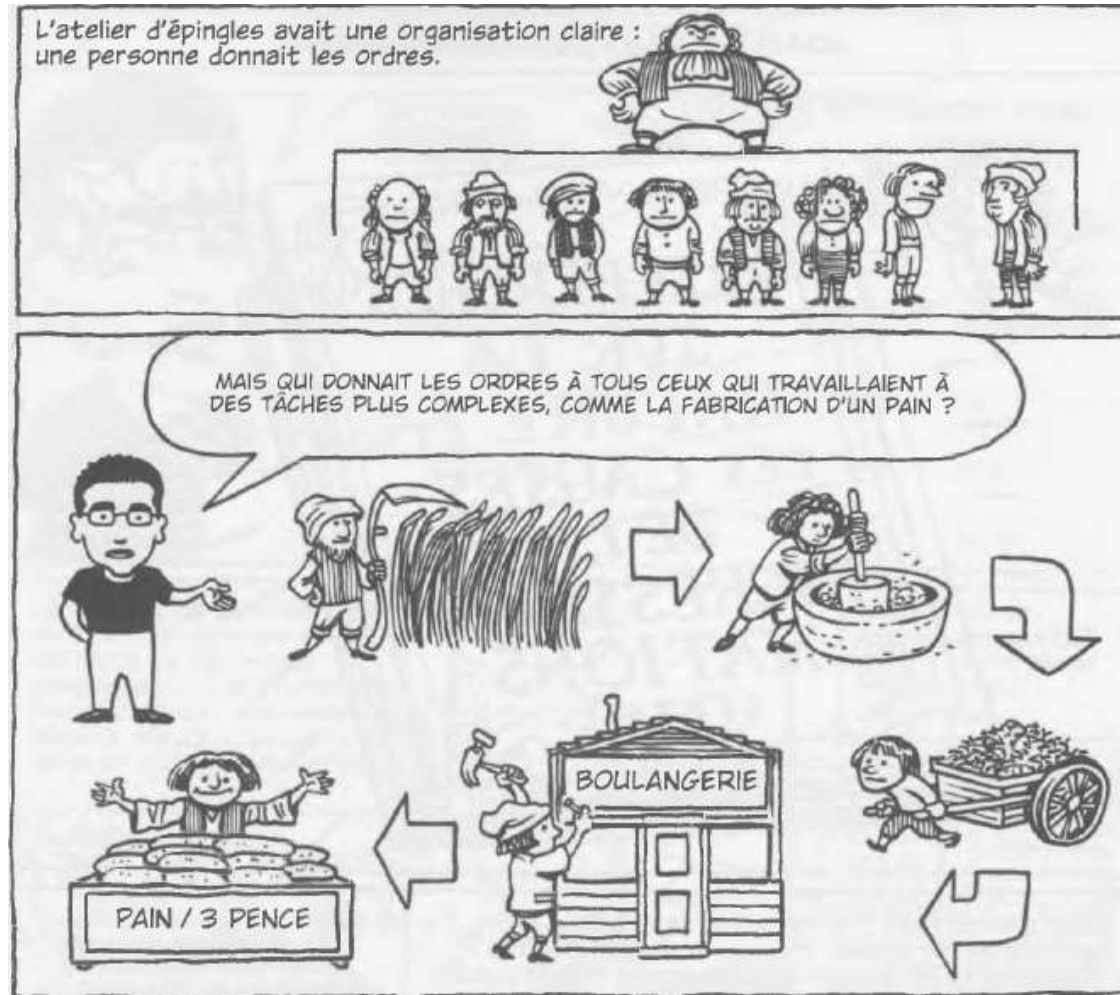
Adam Smith findings

The invisible hand : from each individual interest emerge the common good.

Super famous quotation :

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages”

Adam SMITH, *Wealth of nations*, 1776



Adam Smith findings

The invisible hand: no need for government supervision, market can equilibrate by itself.



Adam Smith findings

The invisible hand: no need for government supervision, market can equilibrate by itself.

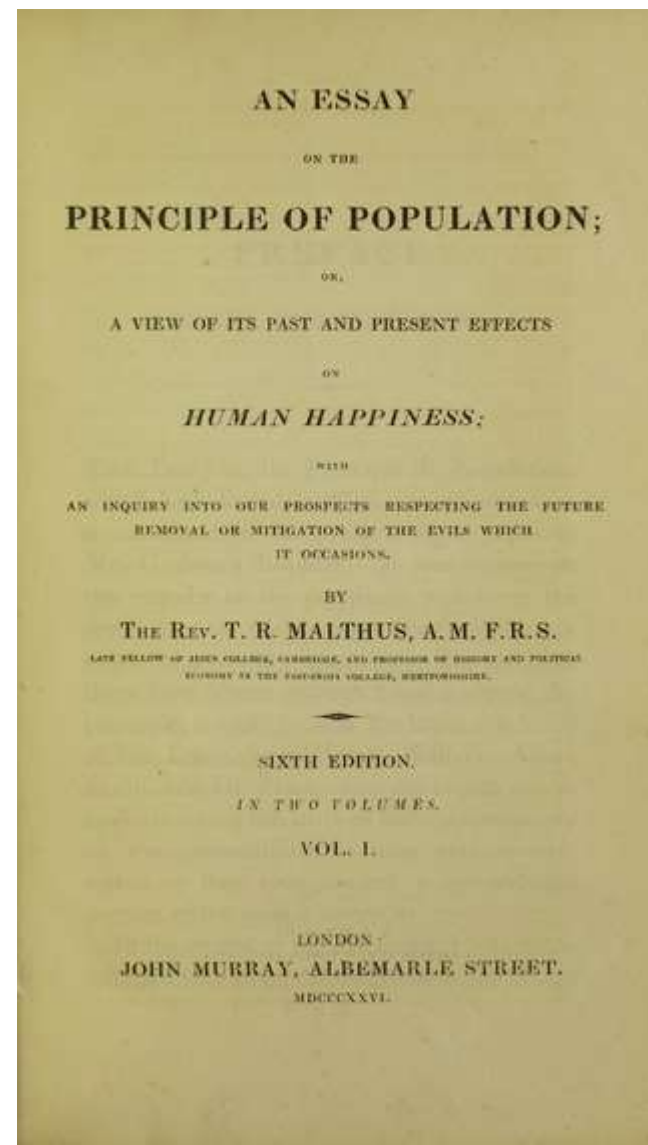


Founders of Economic science

Thomas MALTHUS, 1766-1834



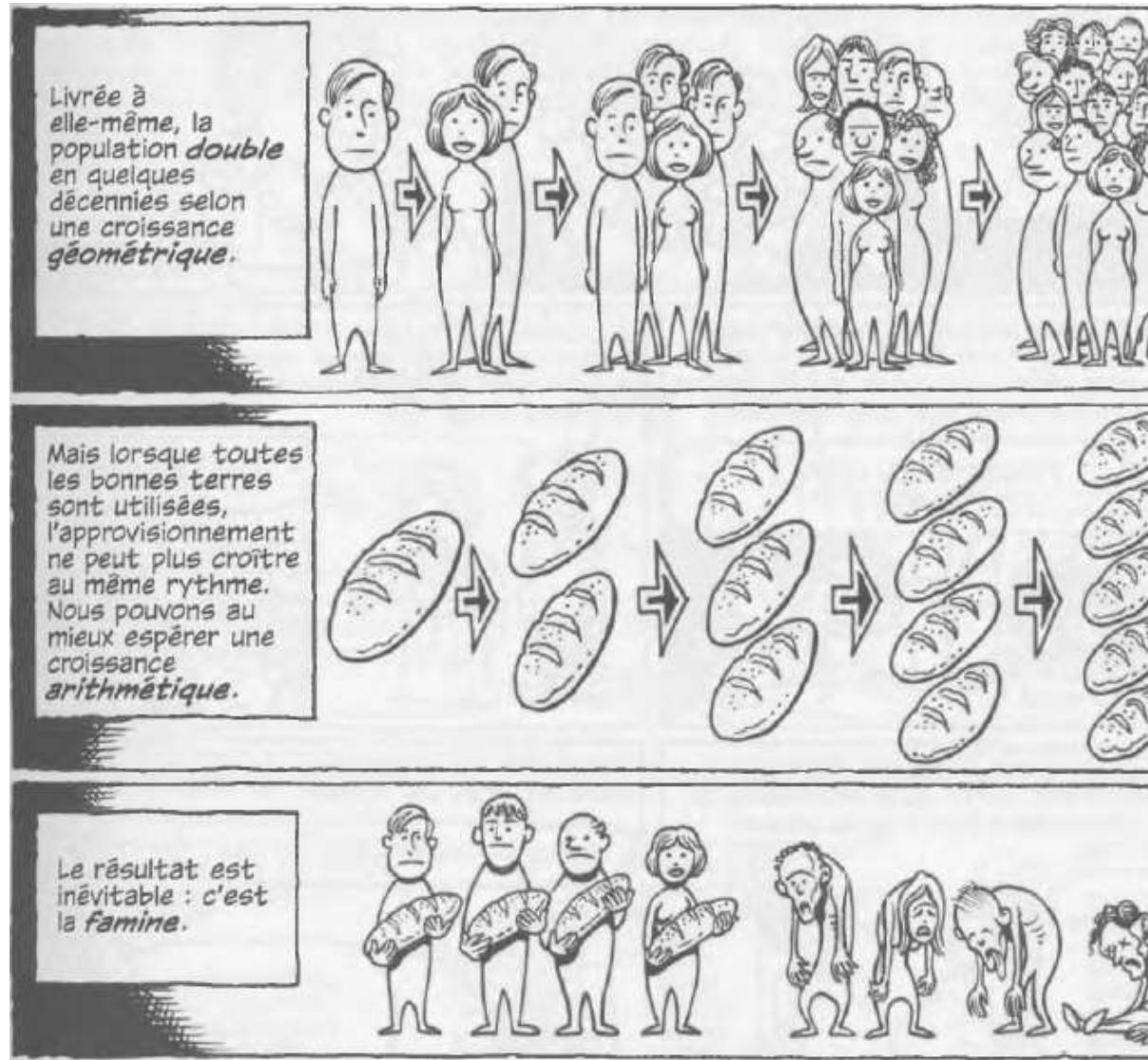
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Malthus findings

Malthus is very often negatively considered because he raise the question of limits to population growth : that is not popular !

« That the increase of population is necessarily limited by the means of subsistence,
That population does invariably increase when the means of subsistence increase, and,
That the superior power of population is repressed by moral restraint, vice and misery. »



Founders of Economic science

David RICARDO, 1772-1823, *On the Principles of Political Economy and Taxation* (1817)



Ricardo findings

Work value theory = each good value is proportional to the work involved to create it



Ricardo findings

International trade theory :
comparative advantage

Dans ce modèle, Ricardo a *exclu* tous les pays sauf l'Angleterre et le Portugal, et tous les produits sauf le vin et les vêtements.

1 travailleur fabrique 2 fûts de vin ou 4 baluchons de vêtements par an.

D'évidence, si chaque pays fabrique une chose de manière plus compétente, il a du sens à ce qu'il se spécialise dans cette chose et en fasse *commerce*.

VOUS FAITES LE VIN ; NOUS ON FERA LES VÊTEMENTS

1 travailleur fabrique 4 fûts de vin ou 2 baluchons de vêtements par an.

Maintenant, imaginons que l'Angleterre n'ait *aucune compétence*. Le commerce a-t-il toujours du sens ? Le sens commun nous dit que *non*.

LÀ, NOUS SOMMES *DÉSAVANTAGÉS*. SI NOUS LAISSONS ENTRER VOS BIENS BON MARCHÉ, NOUS ALLONS ÊTRE INONDÉS !

POURQUOI *ACHÈTERIONS*-NOUS DES CHOSÉS QUE NOUS POUVONS *FABRIQUER* PLUS VITE ?

1 travailleur fabrique 2 fûts de vin ou 4 baluchons de vêtements par an.

1 travailleur fabrique 4 fûts de vin ou 6 baluchons de vêtements par an.

MAIS ATTENDEZ : SI L'ANGLETERRE PREND, DISONS, 100 TRAVAILLEURS QUI FAISAIENT DU VIN POUR LEUR FAIRE FAIRE DES VÊTEMENTS, VOUS FABRIQUEREZ 200 FÛTS DE VIN EN MOINS MAIS 400 BALUCHONS DE VÊTEMENTS EN PLUS. EXPÉDIEZ AU PORTUGAL 380 BALUCHONS, ET IL VOUS EN RESTERA ENCORE 20 DE *PLUS* QUE CE QU'IL VOUS AVIEZ AU DÉPART.

OUI... ET ALORS

Ricardo findings

International trade theory : comparative advantage

ALORS, SI LE PORTUGAL PREND 60 TRAVAILLEURS QUI FAISAIENT DES VÊTEMENTS POUR LEUR FAIRE FAIRE DU VIN, VOUS FABRIQUEREZ 360 BALUCHONS DE VÊTEMENTS EN MOINS, MAIS ÇA NE FAIT RIEN PUISQUE LES ANGLAIS VOUS EN ENVOIENT 380.

ET LES 80 TRAVAILLEURS FABRIQUERONT 240 FÛTS DE VIN EN PLUS. EXPÉDIEZ 220 FÛTS EN ANGLETERRE, ET TOUT LE MONDE AURA PLUS DE MARCHANDISES QU'IL N'EN AVAIT AU DÉPART !

ANGLETERRE /	-200 VIN	+400 VÊTEMENTS
	+220 DU PORT.	-380 VERS PORT.
	+20	+20

PORTUGAL /	+240 VIN	-360 VÊTEMENTS
	-220 VERS L'ANG.	+380 DE L'ANG.
	+20	+20

D'ACCORD...

ÇA A L'AIR DE MARCHER...

C'EST LOUCHE

Ne vous inquiétez pas si vous n'avez pas compris à la première lecture. Cela vient du fait qu'un *modèle simplifié* de commerce international nous a fourni une intuition que nous n'aurions peut-être pas eue à la simple observation : un pays, *même un pays désavantagé*, peut profiter du libre-échange en se spécialisant là où il est le *moins* désavantagé.

Presque immédiatement, l'approche abstraite de David Ricardo, appelée *économie politique classique*, s'empara de la pensée économique.

UN AVANTAGE COMPARATIF !

C'EST DE LA SCIENCE !