

## **BSM906 Economic Environment of Business**

Number of Aston Credits: 10

Number of ECTS Credits: 5

### **Staff Member Responsible for the Module:**

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### **Pre-requisites for the Module:**

None

### **Mode of Attendance:**

On Campus

### **Module Objectives and Learning Outcomes:**

The aim of this module is to provide students with (a) an introduction to the economic environment within which business enterprises operate, and (b) an appreciation of the importance of the economic environment for the performance of an industry and enterprises within it. As a result, students should develop: (a) the ability to apply relevant economic principles, concepts and tools to the analysis of issues faced by businesses, and (b) an understanding of the implications of the economic environment for business operation.

By the end of this module, students should be able to:

- > assess the implications of the prevailing economic environment for businesses;
- > assess, in broad terms, implications of economic policies and other economic events for the national economy, an industry and an enterprise;

- > discuss, in broad terms, strategic options available to a business in a specific economic environment.

## Module Content:

To begin with, students will be introduced to the construct of real options that explains how firms make strategic decisions under uncertainty. Specifically, a structured decision tree will be discussed, starting from the point where a firm identifies an opportunity, and ending at decisions about the choice between full engagement with the opportunity and giving it up altogether.

### Week 1 Strategic decision making under uncertainty

Arguably, the first thing that indicates the presence of an opportunity is economic growth which is correlated with the rate at which the demand for goods and services increase over time. Hence, we shall next examine the determinants of economic growth.

### Week 2 Economic growth

While economic growth is a necessary condition for new business opportunities, a high rate of economic growth is not sufficient for firms to invest in new projects and/or expand their existing business operations. Since a business has to enter into contracts with a number of stakeholders such as suppliers, distributors, creditors and employees, it takes into consideration the legal structure of countries, the ease with which explicit or implicit contracts can be enforced, and the (transactions) cost of ex post renegotiation of contracts. We shall discuss these issues during Weeks 3-5 of the module.

### Week 3 Laws, rules and regulations

### Week 4 Contracts and norms

### Week 5 Transactions cost

Decisions to invest in new projects and/or expand their existing business operations would also factor in the quality of public goods such as physical infrastructure and law and order, and the ability and willingness of governments to undertake economic reforms that would support market-based transactions. During Weeks 6 and 7, therefore, students will be introduced to the issues related to provision of public goods, and the political economy of decision-making by governments.

### Week 6 Public goods

### Week 7 Political economy of government policy-making

During Week 8, one of the most illuminating natural experiments in the transition to a market based economy from an alternative economic structure will be discussed, namely,

the process of economic transition in the former socialist economies of Central and Eastern Europe (and republics of the former Soviet Union). Where applicable, comparisons will be made with other emerging market economies that are also making transitions to market economies from different starting points.

**Week 8**      Transition to a market economy

Finally, Week 9 will be devoted to a review of the eight previous lectures, and the examination will take place in Week 10.

**Week 9**      Revision

**Week 10**     **Examination**

### **Corporate Connections:**

The lectures will draw on cases reported in academic literature, and experiences of developed countries and emerging in the aftermath of economic reforms and major policy changes. In addition, as part of their assessment, students would be expected to undertake sector and/or country-wide studies on aspects of the economic environment of business.

### **Contribution of Research:**

The module content will draw significantly on the lecturer's past and present research in the areas of impact of institutional quality and economic policy on strategic decisions and performance of companies.

### **Method of Teaching:**

The module will use a number of non-technical research papers (some of which are included in the recommended text book) on each of the key issues. Some of these papers would be required reading. The lectures would provide the analytical framework, and integrate the required reading would be integrated into this framework. The lectures would also draw on industry and country experiences, as appropriate. Each 2-hour lecture would be followed by a 1-hour tutorial in which student contribution to the discussion would be encouraged and facilitated. Assimilation of different viewpoints and critical analysis would be encouraged during the course of the lectures and the tutorials.

### Ethical Approval:

This module does not require any primary research and no ethical approval will be necessary.

### Method of Assessment and Feedback:

The assessment strategy for this module involves one 3-hour exam, with an open book component and a closed book component:

Open book component (research)	40%
Closed book exam (essay questions)	60%

The open book component would require students to do research over the duration of the term, on a research question that would be uploaded to Blackboard during Week 1. During the examination, they would have to answer one compulsory question that would test the depth of their research and the quality of their analysis. Students would be allowed to bring in data and relevant information about the country/industry/firm that they would study during the course of their research. But they would be restricted to one side of a A-4 sheet, and the data/information will have to be typed.

The rest of the final exam would involve essay questions, and would be closed book in nature. The essay questions would require students to critically analyse the theories and principles, more generally the literature, that would be discussed during the lectures and the tutorials.

The feedback on the students' performance on the course would be given using a variety of methods such as via Blackboard, or to individuals on request.

### Information for Distance Learning Students:

All information regarding this module is available/can be found on the Blackboard.

### Learning Hours:

Contact hours total	27
Lectures	18
Tutorials	9
Research	25
Private study	45
Final Assessment	3
<b>Total</b>	<b>100</b>

## Reading List:

Students will be required to read the papers with asterisks against them, knowledge of these papers will be assumed for assessment purposes. In addition, the lectures will draw on other research papers that are also listed below.

### Week 1

\*Bowman, Edward H. and Hurry, Dileep (1993). Strategy through the option lens: An integrated view of resource investments and the incremental-choice process. *The Academy of Management Review*, Vol. 18, No. 4, pp. 760-782, <http://www.jstor.org/stable/258597>.

### Week 2

\*Ménard and Shirley (2008): Chapter 1 (D. North)

\*Ménard and Shirley (2008): Chapter 24 (M.M. Shirley)

Acemoglu, Daron, Johnson, Simon and Robinson, James (2004). Institutions as the fundamental cause of long run growth, Working paper no. 10481, National Bureau of Economic Research, Cambridge, Massachusetts. <http://www.nber.org/papers/w10481>.

Barro, Robert J. (1991). Economic growth in a cross-section of countries, *Quarterly Journal of Economics*, Vol. 106, No. 2, pp. 407-443. <http://www.jstor.org/stable/2937943>.

### Week 3

\*Ménard and Shirley (2008): Chapter 9 (P.H. Rubin)

\*Ménard and Shirley (2008): Chapter 10 (B. Arruñada and V. Andonova)

Posner, Eric (1996). Law, economics, and inefficient norms. *University of Pennsylvania Law Review*, Vol. 144, No. 5, pp. 1697-1744, <http://www.jstor.org/stable/3312637>.

Pagano, Marco and Volpin, Paolo (2001). The political economy of finance. *Oxford Review of Economic Policy*, Vol. 17, No. 4, pp. 502-519, <http://www.london.edu/facultyandresearch/research/docs/pagano-volpin2.PDF>.

La Porta, Rafael et al. (1998). Law and finance. *The Journal of Political Economy*, Vol. 106, No. 6, pp. 1113-1155, <http://www.jstor.org/stable/2990735>.

### Week 4

\*Ménard and Shirley (2008): Chapter 19 (V.P. Goldberg)

\*Ménard and Shirley (2008): Chapter 27 (P. Keefer and S. Knack)

Williamson, Oliver E. (2002). The theory of the firm as a governance structure: From choice to contract. *The Journal of Economic Perspectives*, Vol. 16, No. 3, pp. 171-195, <http://www.jstor.org/stable/3216956>.

Holmstrom, Bengt and Roberts, John (1998). The boundaries of the firm revisited. *The Journal of Economic Perspectives*, Vol. 12, No. 4, pp. 73-94, <http://www.jstor.org/stable/2646895>.

Ostrom, Elinor (2000). Collective action and the evolution of social norms. *The Journal of Economic Perspectives*, Vol. 14, No. 3, pp. 137-158, <http://www.jstor.org/stable/2646923>.

#### Week 5

\*Ménard and Shirley (2008): Chapter 3 (O.E. Williamson)

Williamson, Oliver E. (1981). The economics of organization: The transactions cost approach. *The American Journal of Sociology*, Vol. 87, No. 3, pp. 548-577, <http://www.jstor.org/stable/2778934>.

Williamson, Oliver E. (1990). Transaction cost economics: How it works; where it is headed. *De Economist*, Vol. 146, No. 1, pp. 23-58, doi: 10.1023/A:1003263908567.

Ghoshal, Sumantra and Moran, Peter (1996). Bad for practice: A critique of the transaction cost theory. *The Academy of Management Review*, Vol. 21, No. 1, pp. 13-47, <http://www.jstor.org/stable/258627>.

#### Week 6

\*Ostrom, Vincent and Ostrom, Elinor (undated). Public goods and public choices. Mimeo, Indiana University, <http://theworldbuilders.witesman.com/v372/Ostrom%20public%20goods%20and%20public%20choices.pdf>.

Alesina, Alberto, Baqir, Reza and Easterly, William (1999). Public goods and ethnic divisions, *Quarterly Journal of Economics*, Vol. 114, No. 4, pp. 1243-1284, <http://www.jstor.org/stable/2586963>.

#### Week 7

\*Haggard, Stephen and Webb, Steven B. (1993). What do we know about the political economy of economic policy reform? *World Bank Research Observer*, Vol. 8, No. 2, pp. 143-168, doi: 10.1093/wbro/8.2.143.

Simmons, Beth A. and Elkins, Zachary (2004). The globalization of liberalization: Policy diffusion in the international political economy, *American Political Science Review*, Vol. 98, No. 1, pp. 171-189, <http://www.jstor.org/stable/4145304>.

#### Week 8





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\*Ménard and Shirley (2008): Chapter 26 (P. Murrell)

\*Estrin, Saul (2002). Competition and corporate governance in transition, *Journal of Economic Perspectives*, Vo. 16, No. 1, pp. 101-124, <http://www.jstor.org/stable/2696578>.

### **Useful Reference:**

Doing Business, <http://www.doingbusiness.org/>.

### **Recommended Text Book:**

Ménard, Claude and Shirley, Mary M. (2008). *Handbook of New Institutional Economics*, Springer.



For further information on any of the opportunities that Aston Business School offers, please contact:

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