

## Economics 457 (L01) (The Economics of Business Fundamentals)

Instructor: Heidi Esau  
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Lecture Location: ZOOM Delivery  
Lecture Days/Time: W: 17:00 – 19:45

Office: ZOOM Delivery  
Office Hours: T: 11:30 – 12:30, F: 10:00 - 11:00 (Winter 2021)

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### Course Description:

This course provides students with the opportunity to extend and apply key concepts introduced in Econ 301 and Econ 357. The course will provide students with an opportunity to become familiar with, understand, and assess common business practices based on their microeconomic background and expertise. The emphasis is not only on developing familiarity student with basic accounting and finance, but on using the student's microeconomic background to assess and critique common business practice.

### Course Learning Outcomes:

The objective is to provide students with the opportunity to develop expertise in the application and utilization of theory, gain familiarity with business practice and Excel, and gain a greater appreciation for the strengths and limitations of microeconomic analysis. The intent is to demonstrate how to measure and implement concepts in the theory of the firm, inter-temporal choice, and choice under uncertainty. In this respect the objective is for students to develop an understanding and a critical appreciation of financial statements, financial markets, corporate finance, and project evaluation. Completion of this course will provide students with an understanding of basic finance and accounting, as well as the use of Excel.

### Course Outline:

1. Accounting Basics
  - 1.1. Understanding Financial Statements
    - 1.1.1. Income Statement
    - 1.1.2. Balance Sheets
    - 1.1.3. Statement of Changes in Financial Position
    - 1.1.4. Accounting Treatments and Economics
    - 1.1.5. Economic Value Added
    - 1.1.6. Market Value Added
2. Inter-temporal Choice
  - 2.1. Valuing Cash Flows
    - 2.1.1. Economic Equivalence and the Time Value of Money
    - 2.1.2. Discounted Cash Flow Analysis
      - 2.1.2.1. Compound versus Simple Interest
      - 2.1.2.2. Continuous Compounding
    - 2.1.3. What is the Appropriate Interest Rate?
    - 2.1.4. Real World Complications
      - 2.1.4.1. Differences in Frequency of Payment and Compounding
      - 2.1.4.2. Changing Interest Rates

- 2.1.4.3. Inflation
        - 2.1.4.3.1. Nominal versus Real Interest Rates
  - 2.2. Project Analysis: Under Certainty
    - 2.2.1. Project Evaluation
      - 2.2.1.1. Independent and Mutually Exclusive Projects
      - 2.2.1.2. Determining Project Cash Flows
    - 2.2.2. Project Evaluation Decision Tools
      - 2.2.2.1. Present Value Analysis
      - 2.2.2.2. Rate of Return and Internal Rate of Return Analysis
      - 2.2.2.3. Annual Equivalent Cost
      - 2.2.2.4. Payback Periods
    - 2.2.3. Replacement Analysis
  - 2.3. Project Analysis: Under Uncertainty
    - 2.3.1. Source of Project Risk
    - 2.3.2. Incorporating Project Risk
    - 2.3.3. Real Options Approach
      - 2.3.3.1. The Implications of Irreversibility
- 3. Assessing Firm Performance
  - 3.1. Cost Concepts in Practice
    - 3.1.1. Determining Opportunity Costs
      - 3.1.1.1. Sunk vs Avoidable
      - 3.1.1.2. Fixed vs Quasi-Fixed
      - 3.1.1.3. Long-Run vs Short-Run
    - 3.1.2. Durable Inputs
      - 3.1.2.1. Economic Depreciation
      - 3.1.2.2. User Cost of Capital
      - 3.1.2.3. Historic Costs, Opportunity Costs, and Replacement Costs
  - 3.2. Ricardian Rents, Economic Profit, and Market Power
    - 3.2.1. Economic Profits
    - 3.2.2. Ricardian Rents
    - 3.2.3. Monopoly Profits
    - 3.2.4. Regulated Rates of Return
- 4. An Introduction to the Economics of Financial Markets
  - 4.1. Long-Term Financing Decisions
    - 4.1.1. Leverage
    - 4.1.2. Capital Structure of the Firm
      - 4.1.2.1. Strategic Considerations: Signalling
    - 4.1.3. Cost of Capital

**Prerequisites/corequisites:**

Economics 311, 357, and 359

**Required Textbook(s):**

Fundamentals of Corporate Finance, 10th Canadian Edition by Ross, Westerfield, Jordan, and Roberts

**Recommended Textbook(s):**

N/A

**Online Delivery:**

This course will be delivered online. Students are expected to be able to participate online in accordance with this Course Outline. Lectures, assignments, office hours, exams, readings and other course material, etc. all require online access and this access is the responsibility of the student.

In order to remotely participate in online courses, students will need to have: computer with a current and updated operating system (macOS or Windows will work with all university-supported online learning technologies), a current and updated web browser installed – the latest versions of Firefox, Safari, Chrome or Edge will help to avoid compatibility issues, secure and reliable internet, microphone / headphones, webcam (optional), scanner (or camera to scan your work).

**Desire2Learn:**

This course will make use of the Desire2Learn (D2L) platform. Students who are registered in the course can log on at <http://d2l.ucalgary.ca> through their student centre. Please note that D2L features a class e-mail list that may be used to distribute course-related information. These e-mails go to your University of Calgary e-mail addresses only.

**Lectures:**

Lectures will be delivered online at the Registrar scheduled times and delivered using ZOOM. The lectures will be recorded and subsequently posted to D2L.

**Grade Determination and Final Examination Details:**

MIDTERM EXAM	30%	March 3rd
FINAL CASE STUDY	40%	TBA
ASSIGNMENTS (4)	30%	4x7.5% due: Feb 5, Feb 26, Mar 26, Apr 15
	100%	

The official grading system will be used. See <http://www.ucalgary.ca/pubs/calendar/current/f-1-1.html>.

A passing grade on any particular component of the course is not required for a student to pass the course as a whole.

If a student's letter grade on the final case study exceeds their midterm(s) letter grade, the weight of the midterm(s) may be transferred to the final case study at the discretion of the instructor. The student must have written the midterm(s) or provided supporting documentation for the absence(s) such as a medical note or statutory declaration.

As per the Writing Across the Curriculum Statement in the Calendar, writing and grading thereof will be a factor in the evaluation of student work. See <https://www.ucalgary.ca/pubs/calendar/current/e-2.html>.

Course material dealing with a particular assignment will typically be covered in class at least 7 days before the assignment is due; thus, assignments can be completed at any time up to and including the due date. Given these factors, only situations where someone can document illness or domestic affliction for an extended period (i.e., the entire 7 days prior to the due date) would possibly warrant shifting the assignment weight to the final exam. Furthermore, technical problems can be expected to occur with computer systems (and internet availability) so it may be a good idea to not wait until the last minute to submit your assignment.

The midterm exam(s) is take-home exam(s) designed and intended to be completed in 75 minutes. The exam(s) will be OPEN book. The exam(s) will be available on D2L. Student will download the exam from D2L, complete the exam, scan it, and submit using Dropbox in D2L. Student will have 50% time extension to complete the exam, at a time of your choosing, within a 24-hour period starting at 8:00 AM MT on the morning of the exam date, and ending at 8:00 AM MT on the day after the exam date.

The final case study will be take-home, comprehensive, with a deadline during the final exam period. Students will download the case study from D2L, complete the case in Excel and Word, and submit using Dropbox in D2L. Students will be given the case at least 10 days prior to the deadline.

All other course components will also be accessed, submitted, and returned through D2L.

**This course has no final examination.** Only in situations where a student can document illness or domestic affliction for an extended period (i.e., the entire 10 days prior to the due date of the term paper) an extension of the term -paper might be granted.

Tests and exams WILL NOT involve multiple choice questions and / or fill-in-blank questions.

The date for the in-class midterm will be March 3, 2020. Exams will be made available at 8:00 AM MT on that day and be available for 24 hours.

THERE WILL BE NO MAKEUP OR DEFERRED QUIZZES/TESTS/EXAMS under any circumstances, nor may the quizzes/tests/exams be written early. Students unable to write the quizzes/tests/exams because of documented illness, family emergency, religious observance, or university-sanctioned event will have the weight shifted to the final examination; otherwise a grade of zero will be assigned.

**Reappraisal of Grades and Intellectual Honesty:**

*For Reappraisal of Graded Term Work, see Calendar I.2*

<http://www.ucalgary.ca/pubs/calendar/current/i-2.html>

*For Reappraisal of Final Grade, see Calendar I.3*

<http://www.ucalgary.ca/pubs/calendar/current/i-3.html>

**ACADEMIC MISCONDUCT**

Academic Misconduct refers to student behavior that compromises proper assessment of students' academic activities and includes: cheating; fabrication; falsification; plagiarism; unauthorized assistance; failure to comply with an instructor's expectations regarding conduct required of students completing academic assessments in their courses; and failure to comply with exam regulations applied by the Registrar.

Student committing academic misconduct during the final exam will not receive a passing grade on the course.

For information on the Student Academic Misconduct Policy and Procedure please visit:

<https://ucalgary.ca/policies/files/policies/student-academic-misconduct-policy.pdf>

<https://ucalgary.ca/policies/files/policies/student-academic-misconduct-procedure.pdf>

Additional information is available on the Academic Integrity Website at <https://ucalgary.ca/student-services/student-success/learning/academic-integrity>.

**Academic Accommodations:**

Students seeking an accommodation based on disability or medical concerns should contact Student Accessibility Services. SAS will process the request and issue letters of accommodation to instructors. Students who require an accommodation in relation to their coursework based on a protected ground other than disability should communicate this need in writing to their Instructor. The full policy on Student Accommodations is available at <http://www.ucalgary.ca/policies/files/policies/student-accommodation-policy.pdf>.

**Freedom of Information and Protection of Privacy (FOIP) Act:**

Personal information is collected in accordance with FOIP. Assignments can only be returned to the student and will be accessible only to authorized faculty and staff. For more information, see <http://www.ucalgary.ca/legalservices/files/legalservices/faq-students.pdf> and [http://www.ucalgary.ca/legalservices/files/legalservices/faq-faculty\\_0.pdf](http://www.ucalgary.ca/legalservices/files/legalservices/faq-faculty_0.pdf).

**Copyright Legislation:**

See the University of Calgary policy on Acceptable Use of Material Protected by Copyright at <https://www.ucalgary.ca/policies/files/policies/acceptable-use-of-material-protected-by-copyright-policy.pdf>. Students who use material protected by copyright in violation of this policy may be disciplined under the Non-Academic Misconduct Policy.

Course materials created by instructors (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the instructor. These materials may NOT be reproduced, redistributed or copied without the explicit consent of the instructor. The posting of course materials to third party websites such as note-sharing sites without permission is prohibited. Sharing of extracts of these course materials with other students enrolled in the course at the same time may be allowed under fair dealing.

**Recording of Lectures:**

Recording of lectures is prohibited, except for audio recordings authorized as an accommodation by SAS or an audio recording for individual private study and only with the written permission of the instructor. Any unauthorized electronic or mechanical recording of lectures, their transcription, copying, or distribution, constitutes academic misconduct. See <https://www.ucalgary.ca/pubs/calendar/current/e-6.html>.

**Important Dates:**

Please check: <http://www.ucalgary.ca/pubs/calendar/current/academic-schedule.html>.

**Student Organizations:**

Faculty of Arts Students' Association (F.A.S.A.):

Economics Department Representative

E-mail: [econrep@fasaucalgary.ca](mailto:econrep@fasaucalgary.ca) and Web: [www.fasaucalgary.ca](http://www.fasaucalgary.ca).

Society of Undergraduates in Economics:

<https://www.ucalgarysue.com/>.

Society of Undergraduates in Economics is a student run organization whose main purpose is to assist undergraduate economics students to succeed both academically and socially at the University of Calgary. Services include access to the exam bank, career events such as Industry Night and information sessions, mentorship programs, and social events for members. They invite you to join by contacting SUE at [societyofundergradsineconomics@gmail.com](mailto:societyofundergradsineconomics@gmail.com).

**Faculty of Arts Program Advising and Student Information Resources:**

- Have a question, but not sure where to start? The Arts Students' Centre is your information resource for everything in Arts! Call them at 403-220-3580, or email them at [artsads@ucalgary.ca](mailto:artsads@ucalgary.ca). You can also visit the Faculty of Arts website at <http://arts.ucalgary.ca/undergraduate>, which has detailed information on common academic concerns, including program planning and advice.
- For registration (add/drop/swap), paying fees and assistance with your Student Centre, contact Enrolment Services at 403-210-ROCK [7625].

**Student Support and Resources:**

- See <https://www.ucalgary.ca/registrar/registration/course-outlines> for information on campus mental health resources, the Student Ombuds' Office, Student Success Centre, Safewalk, and Emergency Evacuation and Assembly.
- Online writing resources are available at <https://ucalgary.ca/student-services/student-success/writing-support>.

**Notes:**

1. Students are responsible for all assigned material, e.g., supplementary material posted on D2L, regardless of whether or not the material was covered in class.

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