

## Economics 499.57 (L01) (Selected Topics in Economics II: Business Applications)

Instructor: Heidi Esau  
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Lecture Location: EDC 280  
Lecture Days/Time: T 17:00 - 19:45

Office: SS 335  
Office Hours: T 19:45 – 20:45

(FALL 2018)

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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 Objectives/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. Inter-temporal Choice
  - 1.1. Valuing Cash Flows
    - 1.1.1. Economic Equivalence and the Time Value of Money
    - 1.1.2. Discounted Cash Flow Analysis
      - 1.1.2.1. Compound versus Simple Interest
      - 1.1.2.2. Continuous Compounding
    - 1.1.3. What is the Appropriate Interest Rate?
    - 1.1.4. Real World Complications
      - 1.1.4.1. Differences in Frequency of Payment and Compounding
      - 1.1.4.2. Changing Interest Rates
      - 1.1.4.3. Inflation
        - 1.1.4.3.1. Nominal versus Real Interest Rates
  - 1.2. Project Analysis: Under Certainty
    - 1.2.1. Project Evaluation
      - 1.2.1.1. Independent and Mutually Exclusive Projects

- 1.2.1.2. Determining Project Cash Flows
    - 1.2.2. Project Evaluation Decision Tools
      - 1.2.2.1. Present Value Analysis
      - 1.2.2.2. Rate of Return and Internal Rate of Return Analysis
      - 1.2.2.3. Annual Equivalent Cost
      - 1.2.2.4. Payback Periods
    - 1.2.3. Replacement Analysis
  - 1.3. Project Analysis: Under Uncertainty
    - 1.3.1. Source of Project Risk
    - 1.3.2. Incorporating Project Risk
    - 1.3.3. Real Options Approach
      - 1.3.3.1. The Implications of Irreversibility
2. Assessing Firm Performance
  - 2.1. Cost Concepts in Practice
    - 2.1.1. Determining Opportunity Costs
      - 2.1.1.1. Sunk vs Avoidable
      - 2.1.1.2. Fixed vs Quasi-Fixed
      - 2.1.1.3. Long-Run vs Short-Run
    - 2.1.2. Durable Inputs
      - 2.1.2.1. Economic Depreciation
      - 2.1.2.2. User Cost of Capital
      - 2.1.2.3. Historic Costs, Opportunity Costs, and Replacement Costs
  - 2.2. Understanding Financial Statements
    - 2.2.1. Income Statement
    - 2.2.2. Balance Sheets
    - 2.2.3. Statement of Changes in Financial Position
    - 2.2.4. Accounting Treatments and Economics
    - 2.2.5. Economic Value Added
    - 2.2.6. Market Value Added
  - 2.3. Ricardian Rents, Economic Profit, and Market Power
    - 2.3.1. Economic Profits
    - 2.3.2. Ricardian Rents
    - 2.3.3. Monopoly Profits
    - 2.3.4. Regulated Rates of Return
3. An Introduction to the Economics of Financial Markets
  - 3.1. Long-Term Financing Decisions
    - 3.1.1. Leverage
    - 3.1.2. Capital Structure of the Firm
      - 3.1.2.1. Strategic Considerations: Signalling
    - 3.1.3. Cost of Capital
  - 3.2. Financial Markets
    - 3.2.1. Efficient Markets
    - 3.2.2. Portfolio Theory
    - 3.2.3. Asset Pricing Theories and Models

**Prerequisites/corequisites:**

Economics 357, familiarity with Excel an advantage.

**Required Textbook(s):** None

**Recommended Textbook(s):**

*Fundamentals of Corporate Finance, 9th Canadian Edition* by Ross, Westerfield, Jordan, and Roberts

**Books on Reserve:**

*Fundamentals of Corporate Finance, 9th Canadian Edition* by Ross, Westerfield, Jordan, and Roberts

*Investments, 8<sup>th</sup> Canadian Edition* by Bodie, Kane, Marcus, Perrakis, Ryan

**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.

**Grade Determination and Final Examination Details:**

ASSIGNMENTS	40%	4 x 10% due Sept. 25, Oct 16, Nov 6, and Nov 27
MIDTERM	20%	In class on October 23rd
FINAL EXAMINATION	<u>40%</u> 100%	TBA

*Grading Scale*

A+	95 – 100	B	73 – 76	C-	60 – 62
A	85 – 94	B-	70 – 72	D+	56 – 59
A-	80 – 84	C+	67 – 69	D	50 – 55
B+	77 – 79	C	63 – 66	F	0 – 49

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

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.

Any student work which remains undistributed after the last day of classes will be available to students through the instructor's office during his office hours.

The final examination will be comprehensive, scheduled by the Registrar, held in a classroom, and last 2 hours. If a student cannot write their final exam on the date assigned by the Registrar's Office, they need to apply for a deferred exam [www.ucalgary.ca/registrar/exams/deferred\\_final](http://www.ucalgary.ca/registrar/exams/deferred_final). Under no circumstance will this be accommodated by the Department.

Tests and exams will involve multiple-choice questions. Non-programmable calculators but NOT cell phones WILL be allowed during the writing of tests or final examinations.

The date for the in-class midterm is October 23, 2018.

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>

*Statement of Intellectual Dishonesty, see Calendar K.4*

<http://www.ucalgary.ca/pubs/calendar/current/k-4.html>

*Plagiarism and Other Academic Misconduct, , see Calendar K.5*

<http://www.ucalgary.ca/pubs/calendar/current/k-5.html>

**Academic Accommodations:**

The student accommodation policy can be found at: [ucalgary.ca/access/accommodations/policy](http://ucalgary.ca/access/accommodations/policy).

Students needing an accommodation because of a disability or medical condition should communicate this need to Student Accessibility Services in accordance with the Procedure for Accommodations for Students with Disabilities [ucalgary.ca/policies/files/policies/student-accommodation-policy](http://ucalgary.ca/policies/files/policies/student-accommodation-policy).

Students needing an Accommodation based on a Protected Ground other than disability should communicate this need, preferably in writing, to the course instructor.

**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

Office: SS 803, 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! Drop in at SS102, 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] or visit them in the MacKimmie Library Block.
- Online writing resources are available at <http://www.ucalgary.ca/ssc/resources/writing-support>.

**Evacuation Assembly Point:**

In case of an emergency evacuation during class, students must gather at the designated assembly point nearest to the classroom. The assembly point for this classroom is the Professional Faculties Food Court.

**Safewalk:**

The Safewalk program provides volunteers to walk students safely to their destination anywhere on campus. This service is free and available 24 hrs/day, 365 days a year. **Call 403-220-5333.**

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

Personal information is collected in accordance with FOIP. For more information, see <http://www.ucalgary.ca/legalservices/foip/foip-hia>.

**Internet and Electronic Communication Device information:**

The use of cell phones for any purpose in class is prohibited. Computers and tablets may be used for note-taking only.

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