Johannesburg Polytechnic
CIMA Certificate in Business Accounting

Fundamentals of Business Economics

Syllabus outline

The syllabus comprises:
Topic and Study Weighting
A - The Goals and Decisions of Organisations 20%
B - The Market System and the Competitive Process 30%
C - The Financial System 20%
D - The Macroeconomic Context of Business 30%

Learning aims

This syllabus aims to test student's ability to:

- Distinguish the differing goals of organisations and identify how these differing goals affect the decisions made by managers;
- Illustrate how market economies function and identify the reasons for and impacts of government involvement in economic activities;
- Identify the role of financial institutions and markets in the provision of short and long term finance to individuals, businesses and governmental organisations;
- Identify how macroeconomic variables and government economic policies affect the organisation.

Assessment strategy

There will be a computer based assessment of 2 hours duration, comprising 75 compulsory questions, each with one or more parts.
A variety of objective test question styles and types will be used within the assessment.

Learning outcomes and indicative syllabus content

A. The Goals and Decisions of Organisations – 20%
Learning outcomes

On completion of their studies students should be able to:

- distinguish the goals of profit seeking organisations, not-for-profit organisations and governmental organisations;
- compute the point of profit maximisation for a single product firm in the short run;
- distinguish the likely behaviour of a firm's unit costs in the short run and long run;
- illustrate the effects of long run cost behaviour on prices, the size of the organisation and the number of competitors in the industry;
- explain shareholder wealth, the variables affecting shareholder wealth, and its application in management decision making;
- identify stakeholders and their likely impact on the goals of not-for-profit organisations and the decisions of the management of not-for-profit organisations;
- distinguish between the potential objectives of management and those of shareholders, and the effects of this principal-agent problem on decisions concerning price, output and growth of the firm.
- describe the main mechanisms to improve corporate governance in profit seeking organisations.

Indicative syllabus content

- The forms of ownership of organisations by which we mean public, private and mutual, and their goals.
- Graphical treatment of short run cost and revenue behaviour as output increases (total revenue and total cost curves) and identification of point of short-run profit maximisation using graphical techniques and from data.
- Long run cost behaviour and the impact of economies and diseconomies of scale.
- Concept of returns to shareholder investment in the short run (ROCE and EPS) and long run (NPV of free cash flows) leading to the need for firms to provide rates of return to shareholders at least equal to the firm's cost of capital.
- Calculation of impact on the value of shares of a change to a company's forecast cash flows or required rate. Note: Calculations required will be either perpetual annuity valuations with constant annual free cash flows, or NPV calculations with variable cash flows over three years.
- Types of not-for-profit organisations (NPOs) and the status of economic considerations as constraints rather than primary objectives in the long run.
- Role of stakeholders in setting goals and influencing decisions in not-for-profit organisations (NPOs) and potential ways of resolving differing stakeholder demands.
- The principal-agent problem, its likely effect on decision-making in profit seeking and not-for-profit organisations (NPOs), and the concepts of scrutiny and corporate governance.

B. The Market System and the Competitive Process – 30%
Learning outcomes

On completion of their studies students should be able to:

- identify the equilibrium price in a product or factor markets likely to result from specified changes in conditions of demand or supply;
- calculate the price elasticity of demand and the price elasticity of supply;
- identify the effects of price elasticity of demand on a firm's revenues following a change in prices;
- explain market concentration and the factors giving rise to differing levels of concentration between markets;
- explain market failures, their effects on prices, efficiency of market operation and economic welfare, and the likely responses of government to these;
- distinguish the nature of competition in different market structures;
- identify the impacts of the different forms of competition on prices and profitability.

Indicative syllabus content

- The price mechanism: determinants of supply and demand and their interaction to form and change equilibrium price.
- The price elasticity of demand and its effect on firms' revenues and pricing decisions.
- The price elasticity of supply and its impact on prices, supply and buyers' expenditure.
- Business integration: mergers, vertical integration and conglomerates.
- Calculation of market concentration and its impact on efficiency, innovation and competitive behaviour.
- Impact of monopolies and collusive practices on prices and output and role of competition policy in regulating this.
- Factors causing instability of prices in primary goods markets (i.e. periodic and short run inelasticity of supply, the cobweb or hog cycle) and the implications of this for producer incomes, industry stability and supply and government policies to combat this (e.g. deficiency payments, set-aside, subsidies).
- Impact of minimum price (minimum wages) and maximum price policies in goods and factor markets.
- Positive and negative externalities in goods markets and government policies to deal with these (including indirect taxes, subsidies, polluter pays policies and regulation).

- Public assurance of access to public goods, healthcare, education and housing.
- Public versus private provision of services (nationalisation, privatisation, contracting out, public private partnerships).

C. The Financial System – 20%
Learning outcomes

On completion of their studies students should be able to:

- identify the factors leading to liquidity surpluses and deficits in the short, medium and long run in households, firms and governments;
- explain the role of various financial assets, markets and institutions in assisting organisations to manage their liquidity position and to provide an economic return to holders of liquidity;
- explain the role of insurance markets in the facilitation of the economic transfer and bearing of risk for households, firms and governments;
- explain the role of the foreign exchange market and the factors influencing it, in setting exchange rates and in helping organisations finance international trade and investment;
- explain the role of national and international governmental organisations in regulating and influencing the financial system, and the likely impact of their policy instruments on businesses.

Indicative syllabus content

- The causes of short-term, medium term and long term lack of synchronisation between payments and receipts in households (i.e. month to month cash flow, short-term saving and borrowing, and longer term property purchases and pensions provision).
- The causes of short-term, medium term and long term lack of synchronisation between payments and receipts in firms (i.e. month to month cash flow management, finance of working capital and short-term assets and long term permanent capital).
- The causes of short-term, medium term and long term lack of synchronisation between payments and receipts in governmental organisations (i.e. month to month cash flow management, finance of public projects and long term management of the national debt).
- The principal contracts and assets issued by financial institutions and borrowers to attract liquidity in the short, medium and long term (e.g. credit agreements, mortgages, bills of exchange, bonds, certificates of deposit and equities).
- The roles and functions of financial intermediaries and the principal institutions and markets in the financial system.
- The influence of commercial banks on the supply of liquidity to the financial system through their activities in credit creation.
- Yield on financial instruments (i.e. bill rate, running yield on bonds, net dividend yield on equity), relation between rates, role of risk, the yield curve.
- Influence of central banks on yield rates through market activity and as providers of liquidity to the financial system.
- Principal insurance contracts available and basic operation of insurance markets including terminology (e.g. broking, underwriting, reinsurance).
- The role of foreign exchange markets in facilitating international trade and in determining the exchange rate.
- Effect of exchange rates on the international competitiveness of firms, including elementary foreign exchange translation calculations.
- Credit and foreign exchange risks of international trading firms and the use of letters of credit, export credit guarantees and exchange rate hedging to manage these risks.
- Influences on exchange rates: interest rates, inflation rates, trade balance, currency speculation.

- Governmental and international policies on exchange rates (i.e. exchange rate management, fixed and floating rate systems, single currency zones) and the implications of these policies for international business.

D. The Macroeconomic Context of Business – 30%
Learning outcomes

On completion of their studies students should be able to:

- explain macroeconomic phenomena, including growth, inflation, unemployment, demand management and supply-side policies;
- explain the main measures and indicators of a country's economic performance and the problems of using these to assess the wealth and commercial potential of a country;
- explain the stages of the trade cycle, its causes and consequences, and discuss the business impacts of potential policy responses of government to each stage;
- explain the main principles of public finance (i.e. deficit financing, forms of taxation) and macroeconomic policy;
- explain the concept of the balance of payments and its implications for business and for government policy;
- identify the main elements of national policy with respect to trade, including protectionism, trade agreements and trading blocks;
- identify the conditions and policies necessary for economic growth in traditional, industrial and post-industrial societies, and the potential consequences of such growth;
- explain the concept and consequences of globalisation for businesses and national economies;
- identify the major institutions promoting global trade and development, and their respective roles.

Indicative syllabus content

- National Income Accounting identity and the three approaches to calculation and presentation of national income (Output, Expenditure and Income).
- Interpretation of national income accounting information for purposes of time series or cross sectional evaluation of economic performance.
- The circular flow of income and the main injections and withdrawals.
- Illustration of changes to equilibrium level of national income using aggregate demand and supply analysis.
- Government macroeconomic policy goals (low unemployment, inflation, external equilibrium and growth) and the effects on business of the government's pursuit of these.
- Types and consequences of unemployment, inflation and balance of payments deficits.
- The trade cycle and the implications for unemployment, inflation and trade balance of each stage (recession, depression, recovery, boom).
- Government policy for each stage of the business cycle and the implications of each policy for business.
- The central government budget and forms of direct and indirect taxation. Incidence of taxation (progressive, regressive) and potential impact of high taxation on incentives and avoidance.
- Fiscal, monetary and supply side policies, including relative merits of each.
- Layout of balance of payments accounts and the causes and effects of fundamental imbalances in the balance of payments.
- Arguments for and against free trade and policies to encourage free trade (e.g. bi-lateral trade agreements, multi-lateral agreements, free trade areas, economic communities and economic unions), and protectionist instruments (tariffs, quotas, administrative controls, embargoes)
- Principal institutions encouraging international trade (e.g. WTO/GATT, EU, G8)
- Nature of globalisation and factors driving it (e.g. improved communications, political realignments, growth of global industries and institutions, cost differentials).
- Impacts of globalisation (e.g. industrial relocation, emergence of growth markets, enhanced competition, cross-national business alliances and mergers, widening economic divisions between countries)
- Role of major institutions (e.g. World Bank, International Monetary Fund, European Bank) in fostering international development and economic stabilisation.