EC4004
Economics for Business
OBJECTIVES

- Case Study guidelines

- Week 3;
  - Demand & Supply or Banking Crisis
  - Good Discussion................
CASE STUDY GUIDELINES

- There will be 7 weeks of two case studies, choose one case study each week & submit in tutorial.
  - If you submit nothing or make a pathetic attempt (1 liners) you will get nada (0 marks)
  - If you submit a decent attempt & contribute to discussion you will get half available marks (5 marks)
  - If you submit an excellent response & significantly contribute to discussion you will get all available marks (10 marks)
- We will take your 5 best weeks if and only if you have submitted 7 case studies (100% attendance).
- You are required to hand up a typed response to all the questions at the end of the tutorial.
**TUTORIAL OUTLINE**

<table>
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<th>Week 1</th>
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| Week 2 | ~Tutorials Begin~  
Outline of tutorials, case study guidelines, book review guidelines, referencing. |
| Week 3 | **Demand & Supply; Wii Console Case Study or Banking Crisis Resolution** |
| Week 4 | Dot.com bubble case study or Worgl Experiment 1932-1933 |
| Week 5 | QE; Sweden 1990s or Currency Crisis 1992 |
| Week 6 | ~**Book Reviews Due**~  
Arbitrage – Free Lunch or Savings; South Korea 1950-2000 |
| Week 7 | ~**Book Reviews Feedback**~  
Argentina 1890s or Bank Collapse Great Britain 1772 |
| Week 8 | Hyperinflation Yugoslavia 1992-1994 or Unemployment Trinidad & Tobago |
| Week 9 | Fiscal Policy Canada or Income Inequality Armenia |
| Week 10 | Sample Exam Paper |
| Week 11 |  |
DEMAND & SUPPLY: WII CONSOLE

1. Would the demand for the Wii console be relatively inelastic or relatively elastic? State why.

2. Would the supply for the Wii console be relatively inelastic or relatively elastic? State why.

3. Draw the demand and supply curves as you have described them.
ELASTICITY OF DEMAND

**Elastic**
- Flat Demand Curve
- Big Effect on Qd
- Luxury
- Many substitutes
- Narrow definition

**Inelastic**
- Steep Demand Curve
- Small effect on Qd
- Necessity
- Few substitutes
- Wide definition
QUESTION 1
10 MARKS

Elastic

- Flat Demand Curve
- Big Effect
- Luxury
- Many substitutes
- Narrow definition

Inelastic

- Steep Demand Curve
- Small effect
- Necessity
- Many substitutes
- Wide definition
ELASTICITY OF SUPPLY

Elastic

- Flat Supply Curve
- Big Effect on Qs
- Flexibility of sellers
- Long run

Inelastic

- Steep Supply Curve
- Small effect on Qs
- Low Flexibility
- Short run
QUESTION 2

DISCUSSION.....

Elastic
- Flat Supply Curve
- Big Effect on Qs
- Flexibility of sellers
- Long run

Inelastic
- Steep Supply Curve
- Small effect on Qs
- Low Flexibility
- Short run
QUESTION 3

Demand Curve

- Elastic

Supply Curve

- Inelastic
QUESTION 4

○ Was the severe shortage for over two years an old marketing ploy called intentional scarcity, in which a company purposely keeps its hot product in short supply to build buzz. Or was it simply bad planning on Nintendo's part? What did this mean for households? What were the implications for Nintendo?
SHORTAGE

- If the market price is (less) below the equilibrium price, the quantity demanded exceeds the quantity supplied, then there is a shortage in the market.
### Question 5

#### Discussion Discussion Discussion

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<th>Increase in Total Revenue</th>
<th>Decrease in Total Revenue</th>
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<tr>
<td><strong>Increase in Price</strong></td>
<td>INELASTIC DEMAND</td>
<td>ELASTIC DEMAND</td>
</tr>
<tr>
<td><strong>Decrease in Price</strong></td>
<td>ELASTIC DEMAND</td>
<td>INELASTIC DEMAND</td>
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CASE STUDY 2
BANKING CRISIS IN IRELAND

1. What is a subprime mortgage? How did the Fed add to the problem? Who do you think was most at fault?
2. What marked the beginning of the crisis in the US? Was it when Bear Stearns collapsed or when Lehman Brothers went bankrupt?
3. Explain what you think is meant by the term ‘mutual distrust’. What impact did it have on the credit market?
4. Was the Irish crisis precipitated by the US crisis? Would the Irish Banking Crisis have occurred if Lehman Brothers hadn’t failed? Explain your answer.
“There is no consensus on the exact definition of a subprime mortgage loan. The term subprime can be used to describe certain characteristics of the borrower (e.g., a FICO credit score less than 660); lender (e.g., specialization in high-cost loans); security of which the loan can become a part (e.g., high projected default rate for the pool of underlying loans); or mortgage contract type (e.g., no money down and no documentation provided). The common element across definitions of a subprime loan is a high default risk.” (Demyanyk, & Van Hemert, 2011; 1848)
QUESTION 1

- **Sub-prime Mortgage**

“There is no consensus on the exact definition of a subprime mortgage loan. The term subprime can be used to describe certain characteristics of the borrower (e.g., a FICO credit score less than 660); lender (e.g., specialization in high-cost loans); security of which the loan can become a part (e.g., high projected default rate for the pool of underlying loans); or mortgage contract type (e.g., no money down and no documentation provided). The common element across all definitions of a subprime loan is a high default risk.” (Demyanyk, Y & Van Hemert, 2011; 1848)

Was it when Bear Stearns collapsed or when Lehman Brothers went bankrupt?
QUESTION 2
BEGINNING OF THE CRISIS

Was it when Bear Stearns collapsed or when Lehman Brothers went bankrupt?

Bear Stearns bailout

J.P. Morgan and N.Y. Fed provide funds to troubled Wall St. broker

Was it when Bear Stearns collapsed or when Lehman Brothers went bankrupt?
‘Mutual Distrust’ – What? Why?

“However, by late 2007, these localized signs of distress turned into a global event, with losses spreading to banks in Europe (such as U.K. mortgage lender Northern Rock), and distress was no longer limited to financial institutions with exposure to the U.S. subprime mortgage market. The credit crisis resulted in mutual distrust amongst large banks operating in the global market for interbank loans which meant credit was hard to come by for many banks.”

Case Study page 1 - background
QUESTION 4

“The drying up of liquidity exposed the fragility of the Irish financial sector.” (Connor et al., 2010; 5)

- Banking Sector
- Domestic Property
- Construction Sector
- Interbank Euro borrowing markets

**Question 5**

**NAMA**
- National Asset Management Agency
- NAMA components; banking sector: hoped to break-even/make a profit
- Irish banking intervention is relatively much larger than the TARP

**TARP**
- Troubled Assets Relief Program
- TARP components; banking sector: profit, AIG, assistance to homeowners and assistance to the US automobile industry: losses
- Significant bank failures
- Small intervention relative to the size of economy
There is indeed no such thing as a free lunch
Bad growth is not the same as good growth
Financial leverage is indeed risky
When it matters, the risk will be greater than you think it is
Risk management requires judgment