EC4004
Economics for Business
# 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 |  |
OBJECTIVES

- Case Study guidelines
- Week 4;
- Dot.com bubble case study or Worgl Experiment 1932-1933
  - Good Discussion...............
**Dot.com Bubble Case Study**

**Questions:**

1. Can you see any similarities in the Dot-Com case study and the housing bubble recently experienced in Ireland?

2. Explain in your own terms how the actions of investors affect the price of stocks. Use examples of a stock market crash mentioned in the timeline above.

3. In what way did the low interest rate set by the Federal Reserve affect the stock market during this period? How were companies which made almost no profit able to continue to operate?
DOT.COM BUBBLE CASE STUDY

4. Explain the above quote from George Santayana in relation to market crashes. How can your understanding of the quote be used to avoid future bubbles/crashes occurring?

5. Compare and contrast the Dot-Com bubble to the Dutch tulip speculation in 1634 (http://en.wikisource.org/wiki/The_Tulip_Mania ) Can different commodities almost 400 years apart have any similarities? What does this suggest to you?
Question 1

- Rising Prices
- Over optimistic
- Based on false accounting
- Low interest rates & high borrowing
- Others?
QUESTION 2

- Herd mentality?
- Momentum
- Lockup agreements
- What example comes to mind?
Question 3

- Low interest rate = low cost of borrowing
- Cheap money (sound familiar)

- Able to survive on this cheap money and the expectation of future growth
QUESTION 4

- Business cycles
- Memory fades.
- Generations pass
- Human failings
- ???
QUESTION 5

- Booms and recessions
- Cycles

Figure 1.1: Irish Business Cycle: 1950 - 2010

Average Growth Rate (%) 1950’s
Wörgl Experiment 1932-1933

**QUESTIONS:**
1. Using a definition for ‘money’, explain why it was possible for the town of Wörgl to introduce a local currency in conjunction with the national currency.
2. A depreciating currency discourages hoarding. Outline some of the reasons why people hoard money.
3. Do you believe that had the Wörgl experiment expanded, the effects of the Great Crash of 1929 would have been eroded in Austria? What are the reasons for your answers?
4. Using scrip money counteracted the deflationary policy of the government? Explain what government deflationary policy is.

5. Many other cases of scrip are distributed on a voluntary basis, why did the government decide to pay public sector wages in the local currency rather than allow people to voluntarily buy them? What did they stand to gain from doing this?

6. The success of the Wörgl case was the acceptance by the local government of the local currency to pay taxes, rents, wages etc. Show how this worked using a simple circular flow diagram.

7. Do you feel that an experiment of this kind would work in today’s economic climate? Explain your answer and any changes that could be made?
**QUESTION 1**

- Money is defined as something that acts as a unit of account, a store of value, and a medium of exchange.

- It was pegged to the main currency.
**Question 2**

- Depreciating currency
- A decrease in the value of a currency with respect to other currencies. This means that the depreciated currency is worth fewer units of some other currency.

- Future spending
- Rainy day
- Lack of optimism
- Consumption
QUESTION 3

- Scrip is a certificate or receipt that represents something of value but has no intrinsic value.
- Discussion.....
A macroeconomic policy intended for the reduction of the aggregate demand in the economy. This is resorted to when there is a significant increase in inflation necessitating an action to dampen the rate of economic activity. Deflationary policies may either be a deflationary fiscal policy or a deflationary monetary policy.

Deflationary policy is designed to reduce domestic demand and could cause unemployment.

Use sometimes if there is an external deficit, deflationary policies should be pursued to whatever extent may be needed to eliminate the deficit.
QUESTION 5

- It was certain to be in circulation
- 50% of public wage had to be spent
- Increase in spending and intake of taxes
QUESTION 6

The Circular Flow of Income and Expenditure.
QUESTION 7

- Discussion?????