

"This is Mulhearn and Vane at their best ...a very good book with lots of features that students will enjoy."

Carol Doyle, Glasgow Caledonian University, UK

APPLYING ECONOMICS TO BUSINESS

Bank lending in the aftermath of the credit crunch

Because banks are an important source of capital, particularly for small and medium-sized firms, tighter credit conditions in the wake of the recent world-wide recession are a cause for concern.

Chart 1 shows that since the first quarter of 2009, gross lending by the major UK financial institutions has been outpaced by the repayment of debt by businesses.

Chart 2 suggests that there may indeed be cause for concern here as lending to small and medium-sized (SME) businesses turned negative in 2009, to be followed in 2010 by a deeper contraction in lending to small businesses in particular.

Source: www.bankofengland.com, London, Oct 2010 and Jan 2012.

Boxes help students understand the economic underpinnings of current business issues

THE BALANCE OF PAYMENTS AND EXCHANGE RATES

where it sells just under 70 per cent of its exports (see Figure 14.14). It almost certainly needs to implement unpopular microeconomic policies to help to raise labour market competitiveness. Crudely, this means Spanish people working harder, longer and more cheaply than they do now, and for a number of years. The euro makes austerity Spain's way forward. It also demonstrates what happens to balance of payments problems inside a monetary union: they are transformed into regional problems. In this case the problem region is the whole Spanish economy.

ESTONIA! WELCOME TO THE TITANIC

Estonia joined the euro area on 1 January 2011 but not all Estonians were happy about it.

In response to this design deficiency, in 2010 the EU established a European Financial Stability Facility (EFSF), which provides a €750bn fund on which euro members can draw should their fiscal positions become threatened. At the time of writing, Greece and Ireland have both been forced to accept EU assistance as their governments ran out of cash. This kind of federal apparatus through which pooled resources can be used to aid members as they move down the slow road of adjustment-by-austerity are a belated recognition of some fundamental flaws in the euro's architecture.

Memorable images add value to the text

100 ECONOMICS FOR BUSINESS

distance learning and teaching is both possible and increasingly attractive, especially in economies where the costs of higher education are rising sharply. These trends and possibilities suggest that people need to very carefully think through their choices in education and training to ensure that they acquire human capital that will both pay off and endure. In particular, it may be unwise to invest in skills that don't absolutely require immediate personal contact with your customers.

Before we leave the subject of human capital, we need to consider one last issue that goes back to the problems of imperfect market information and adverse selection we introduced in Chapter 2. We look again at information asymmetries in a specifically labour market context in the 'Applying economics to business' box.

Satirical cartoons further engage the reader

REFLECTING ON ECONOMICS

Why I became an economist

The five people mentioned in this box have all won the Nobel Prize in economics.

Amartya Sen was born in India. As a child he witnessed the harrowing Bengal famine in which 3 million people died. This shocking number was estimated later in his professional life by Sen himself. He has also written about seeing a Muslim man murdered because he was looking for work in the 'wrong' neighbourhood. This made Sen think about extreme poverty and the risks it forced people to take. When asked years later why he chose to study economics, Sen replied, 'For someone from India, it is not a difficult question to answer. The economic problems engulf us.'

the world that meant economics: 'Mintees was advised to read Keynes's *General Theory* (one of the most famous of all books in economics) and later wrote, 'That may not have been the best advice, but it did me no great harm and one day I hope to finish it.'

Robert Merton, a financial economist, remembers that: 'As early as for 9 years of age, I developed an interest in money and finance. I created fictitious banks... At 10 or 11 I drew up an 'X' list of stocks, and bought my engineering and mathematics but dropped out of a PhD programme to take up economics because he thought it a force for social progress and even more because he felt an intuitive connection with the subject. Right through college he continued to play the stock market, rising early to put in a couple of hours before attending classes.'

Nobel-Prize winning economics is incorporated and related to business throughout the text

ONE THING YOU SHOULD READ

Roddy Doyle's *The Van*, pp. 216–31

This is a funny book, as in laugh-out-loud funny. Its central character is Jimmy Sr. and the story is of his loose partnership in a burger van with his friend Bimbo. Their business is launched in working-class Dublin against the backdrop of the 1990 World Cup, when Ireland reached the quarter-finals.

One business problem for Jimmy Sr. is that, although he and Bimbo are informal partners in the van, it was Bimbo who actually bought it, filthy and engine-less, with some of the redundancy money he'd been paid when he lost his job. Jimmy Sr. and Bimbo make a success of things for a while – selling burgers and chips outside their local pub, the Hikers – but Jimmy Sr. becomes worried about the enterprising ideas to generate more business that Bimbo's wife, Maggie, keeps dropping on them. Some of these he and Bimbo resist; others they go along with. But a principal-agent issue quickly begins to emerge, with Bimbo and Maggie on one side and Jimmy Sr. on the other.

Finally, a warning – if you're offended by swearing, you might want to skip this one.

The extract begins 'Maggie had a great head for ideas' and has a flyer for 'Bimbo's Burgers'. After reading it think about the following questions.

- How well does Herbert Simon's view of the decision-making process in firms capture the essence of the relationships between Bimbo, Jimmy Sr. and Maggie in their management of the burger van?
- Jimmy Sr. conspires with Bimbo to puncture Maggie's plan for them to offer early-morning breakfasts to commuters. How might Maggie as principal try to ensure that her strategy was properly carried out?
- Can you find some examples that show Jimmy Sr.'s awareness that he's becoming an agent?
- Jimmy Sr. tries and fails to resolve his emerging status as an agent; how does he do this and why, in the end, do you think he fails?

In each chapter students are deliberately referred to one engaging example from a novel, interview or video, as opposed to other textbooks

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"Well written, clear and easy to follow"

Fiona Carmichael, University of Birmingham, UK

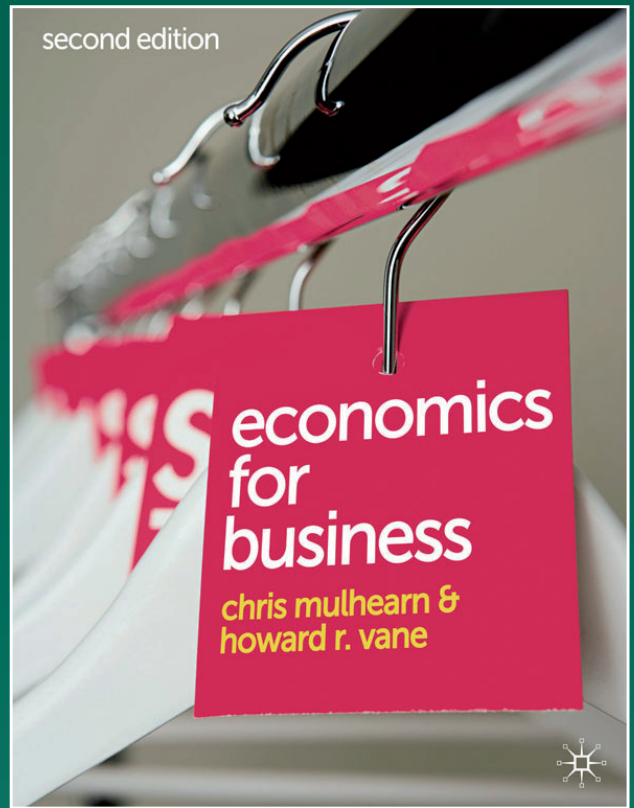
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"Mulhearn and Vane do an outstanding job of bringing the subject of economics to life."

Thomas Coskeran, Durham University, UK

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Economics for Business directly addresses the needs of business students. Enriched throughout by economic-historical context, it is an introductory text full of examples, enabling students to grasp economic theory and understand its relevance in real-world business scenarios.

You will find this book:



» **Engaging** – Deploys a clear, quirky and witty style which students will find highly approachable

» **Cutting-edge** – Discusses all key areas – including topical issues such as behavioural economics, the credit crunch and the Euro

» **Well-balanced** – Students will make connections between economic theory and the real world due to the effective integration of up-to-date case studies and examples

» **Thought-provoking** – Encourages students to think critically, practically and universally via various pedagogical features including 'Reflecting on Economics', 'Applying Economics to Business' and the 'One Thing You Should Read'

» **Refreshing** – Combined with the authentic approach to writing, the design invites the reader in with satirical cartoons and crisp photos and figures