

COMM1100

Business Decision Making

Comprehensive Lecture Notes

UNSW Business School | T1 2022

Weeks 1, 3, 4, 5, 7, 8

Course Overview

Teaching Team

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Economics	Ms Aleksandra (Sasha) Balyanova
Corporate Responsibility	Dr Ji Mi Kim, A/Prof Josh Keller
Law	Dr Verity Greenwood

Assessment Structure

Component	Weight	Details
Tutorial Participation	10%	Weeks 2-10
Quiz 1A	10%	Friday, Week 3
Quiz 1B	10%	Friday, Week 9
Case Study Analysis	20%	Due Friday, Week 7
Final Exam	50%	48-hour take-home exam

Course Framework

COMM1100 integrates insights from three disciplines to analyse business decisions:

<p>Microeconomics Models markets and decision constraints: who buys, at what price, how much to produce, what market structure prevails.</p>	<p>Corporate Responsibility Applies ethical principles to stakeholder management. Examines normative and instrumental dimensions of decisions.</p>	<p>Law Identifies legal constraints and enablers across agreement, ownership, control, and liability.</p>
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Key Distinction: Normative decision-making asks what a business ought to do; instrumental decision-making asks what a business needs to do (to remain profitable and legally compliant). The best decisions satisfy both.

Week 1: Introduction to Business Decision Making

This week introduces the COMM1100 framework and the three lenses through which business decisions will be analysed throughout the course. The central case study is Yellowbox, a start-up business used to illustrate how economic, legal and corporate responsibility considerations intersect.

1.1 The Three Analytical Lenses

Microeconomic Insights

Economics is a social science studying situations of unlimited wants and limited means. It uses models to highlight essential features of reality and empirical work (including laboratory and field experiments) to test predictions.

Key economic questions a business must answer:

- Who are the consumers, and what is the market structure?
- What to make, how much to make, and what price to charge?
- What inputs are required to produce the good or service?
- What regulation will the firm face?

Legal Considerations

The law is a key consideration when making business decisions. Depending on the scenario, law can be a constraint or an enabler. Law intersects with most aspects of business operations.

Core legal concepts underpinning COMM1100:

Agreement	What businesses need and ought to do to ensure contracts are valid and enforceable.
Ownership	Rules concerning intellectual and physical property and what businesses can claim as theirs.
Control	The extent to which a business can direct the conduct of employees, suppliers and other parties.
Liability	The intersection of agreement, control and ownership; who bears responsibility when things go wrong.

Important: Just because the law permits an action does not mean it is a good business decision. The law sets a minimum floor, not an ethical ceiling.

Corporate Responsibility (CR) Considerations

Corporate Responsibility scholarship examines how managers apply ethical principles to business decisions. CR considerations apply to all business decisions, but some decisions raise stronger ethical concerns than others.

CR requires identifying all stakeholders affected by a decision, understanding:

- Their rights: important ways human beings are to be treated
- Their interests: what they value and wish to have satisfied
- Their motivations and relative power

1.2 Normative vs. Instrumental Approaches

These two orientations represent the fundamental tension in business decision-making:

Normative Approach	Instrumental Approach
<ul style="list-style-type: none"> • What businesses ought to do • Driven by ethical principles and stakeholder obligations • Considers broader societal and environmental impact • Long-term, values-based reasoning 	<ul style="list-style-type: none"> • What businesses need to do • Driven by profitability and legal compliance • Focused on competitive survival and shareholder returns • Short-to-medium term, market-based reasoning

1.3 Stakeholders

Effective business decision-making requires identifying who is affected by each decision. Stakeholder groups are not monolithic; individuals within a group may have different interests.

The Rainbow Diagram is a tool used in COMM1100 to map stakeholders around a central business decision, showing who is affected and to what degree. Typical stakeholders include:

- Shareholders / investors
- Managers and directors
- Employees and workers
- Consumers and customers
- Suppliers
- Government and regulators
- Local communities
- The natural environment

1.4 Week 1 Summary

Core Takeaway: Good business decisions integrate economic, legal and CR analysis. Neither pure profit-maximisation nor pure ethical reasoning alone produces the best outcomes. The best managers can hold all three lenses simultaneously.

Week 3: Normative Decision-Making

Week 3 deepens the normative framework introduced in Week 1. It covers welfare economics, corporate responsibility, stakeholder analysis using the Rainbow Diagram, ethical reasoning frameworks, and key areas of Australian law relevant to business conduct.

3.1 Welfare Economics

Welfare economics is concerned with how market activity affects the wellbeing of all members of society.

Economic Surplus

Economic surplus measures how much additional wellbeing is generated whenever something is exchanged in a market. It is calculated as total benefits minus total costs flowing from an activity.

Consumer Surplus	The difference between what a buyer was willing to pay (reservation price) and the price they actually pay. A consumer will buy the next unit as long as their marginal benefit is at least as high as the market price.
Producer Surplus	The difference between the price a seller receives and the marginal cost of producing the unit. A producer will supply the next unit as long as the market price exceeds their marginal cost.
Economic Efficiency	An outcome is more economically efficient if it yields more economic surplus. Perfectly competitive markets maximise total surplus.

Conditions for a Perfectly Competitive Market

1. Both buyers and sellers are price takers (no single agent can influence price).
2. Sellers produce homogeneous (identical) goods.
3. There is free entry and exit in the long run.

For equilibrium to be economically efficient, two additional conditions must hold:

4. There are no externalities.
5. There is full information.

Externalities

Negative Externality	Costs imposed on bystanders whose interests are not taken into account by market participants (e.g., petrol vehicles reducing air quality).
Positive Externality	Benefits conferred on bystanders not reflected in market prices (e.g., flu vaccination reducing transmission to others).
Private Information	When one party to an exchange has information the other does not. Private information can undermine market efficiency and may prevent beneficial exchange.