GLOBAL BUSINESS AND FINANCIAL ENVIRONMENT
PART 2

Robin Matthews

Professor of International Business

Kingston University Business School London

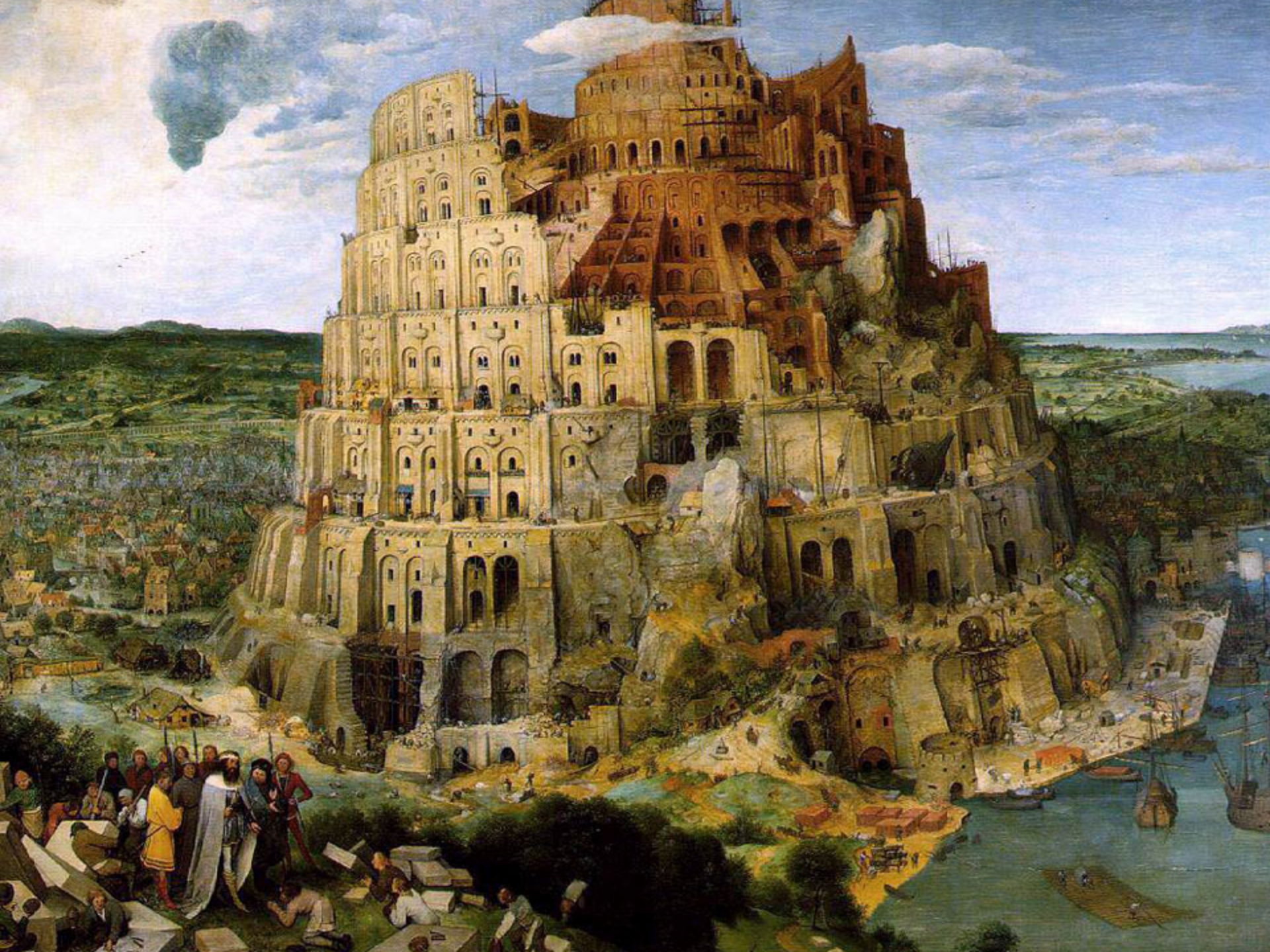
Visiting Dean

JM Keynes Professor of Management

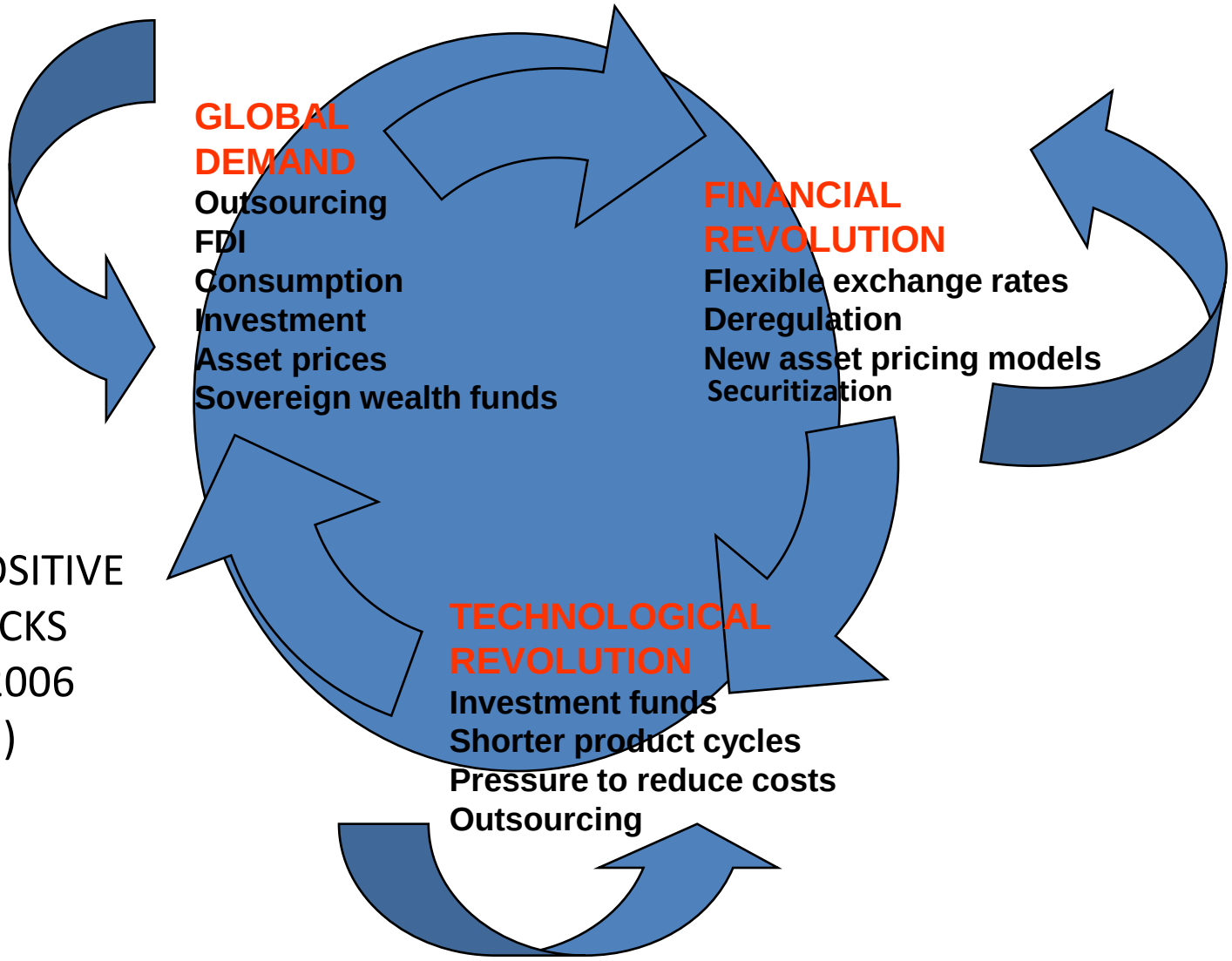
Academy of National Economy Moscow

Further papers by robin Matthews can be found at
http://robindcmatthews.com
http://www.tcib.org.uk/about.html.
Also http://kpp-russia.ru and http://www.russtrategy.ru.
http://kingston.ac.uk/CIPB.php

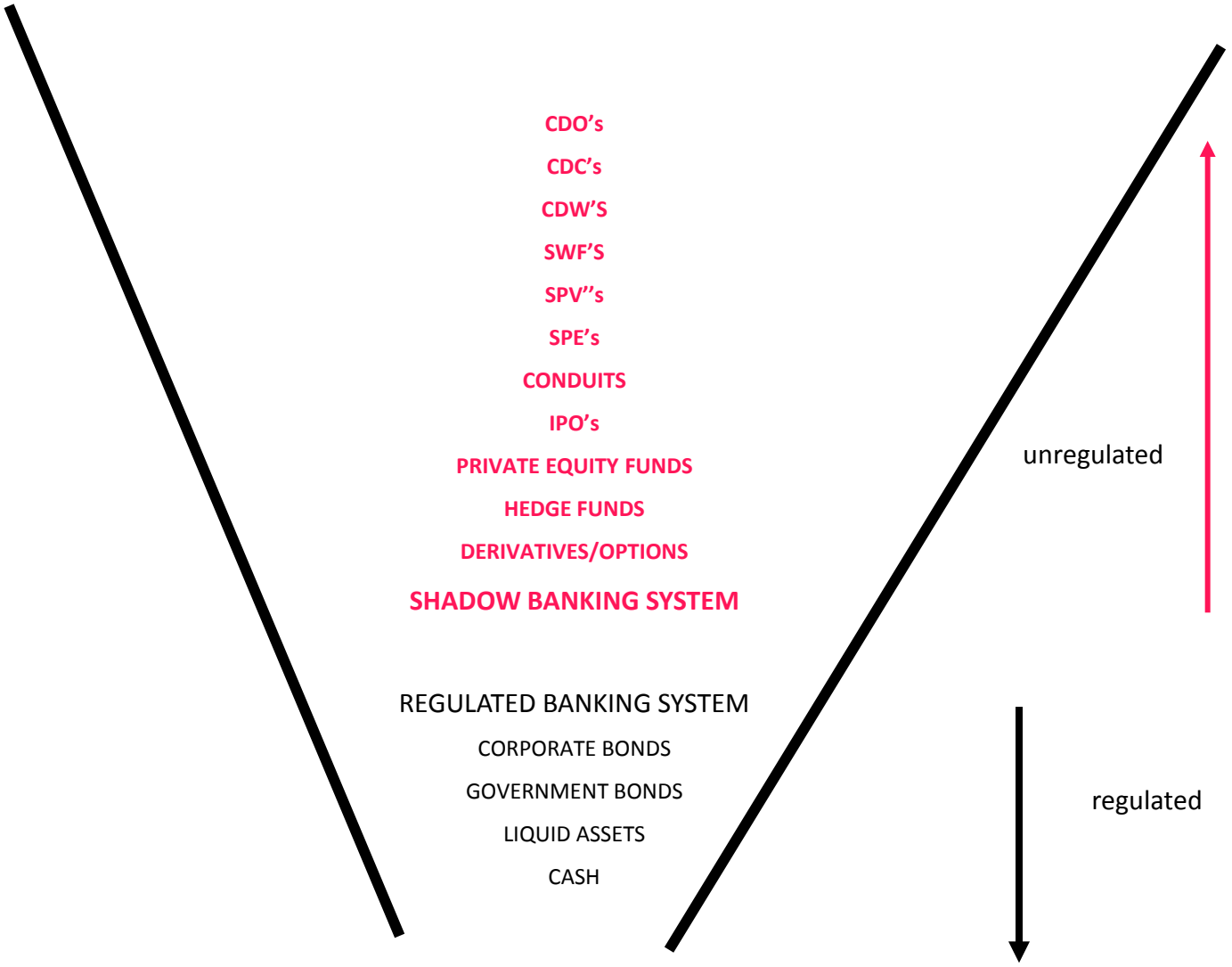
The financial tower of Babel



GLOBAL POSITIVE FEEDBACKS 1980 – 2006 (circa)



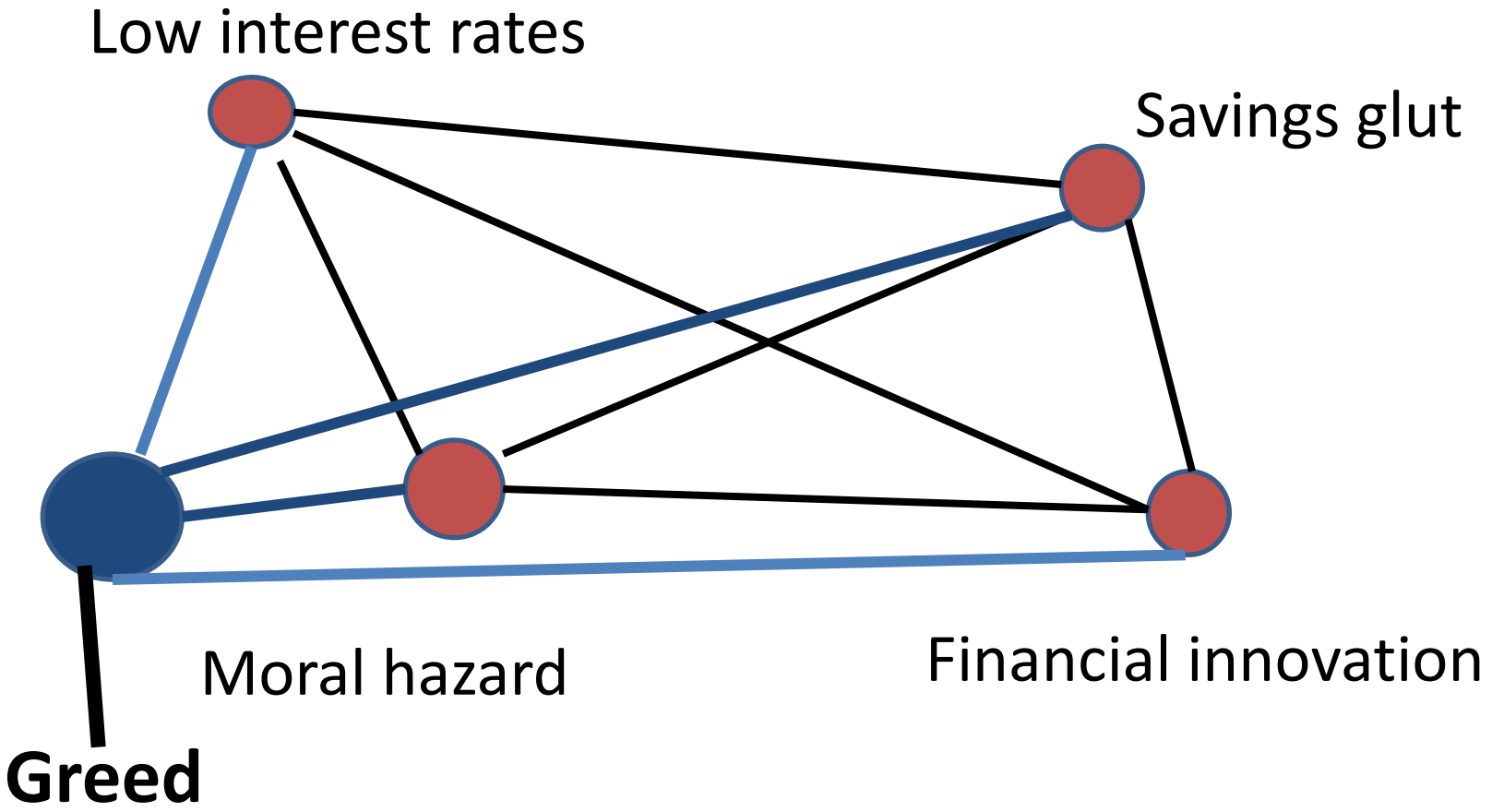
The financial tower of Babel: 21ST century

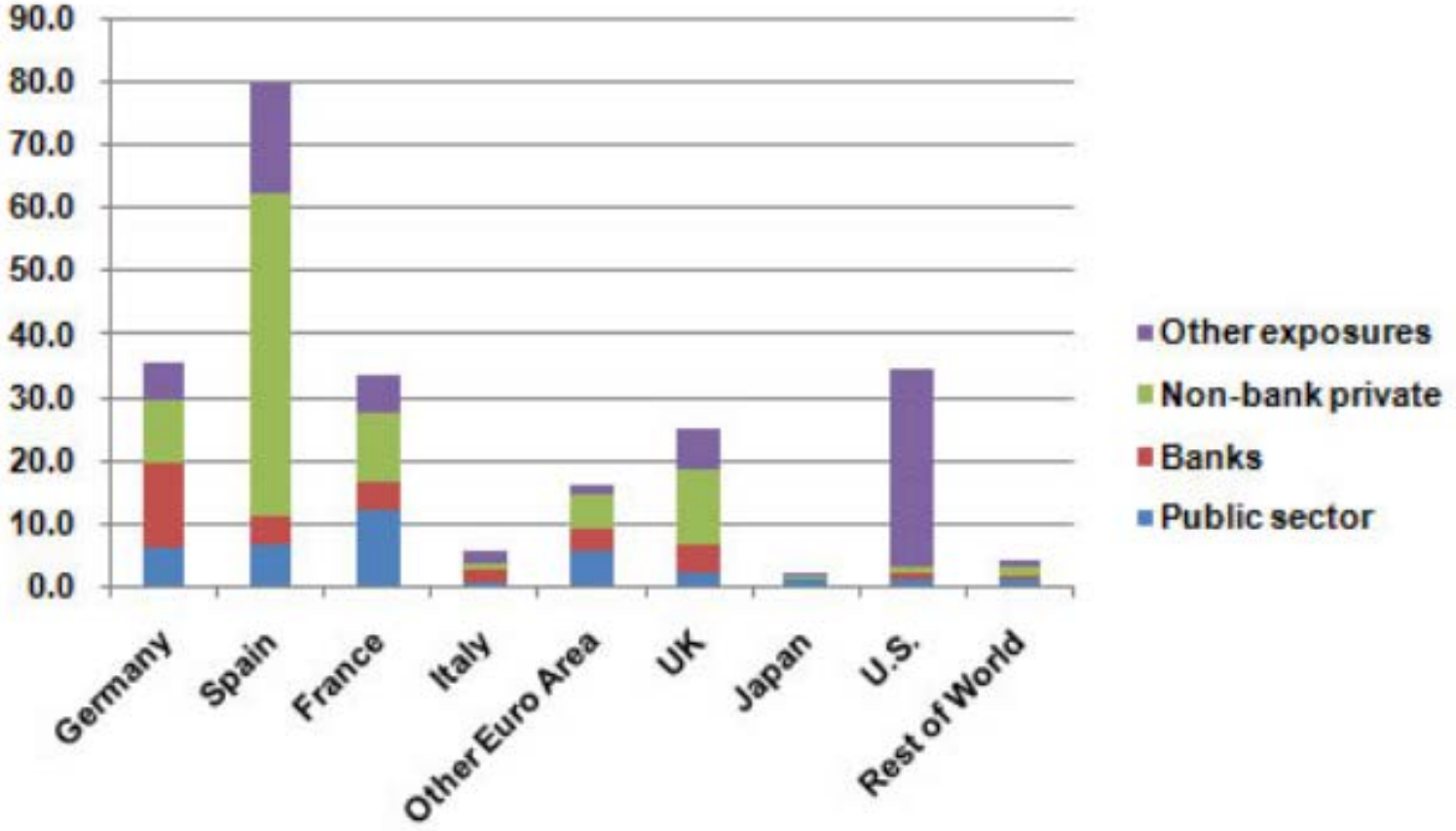


Causes of crises

- Low interest rates
- Savings glut
- Financial innovation
- Moral hazard
- None of the above
- All of the above
- Samudaya (the second noble truth: thirst)

Causes of the crisis?



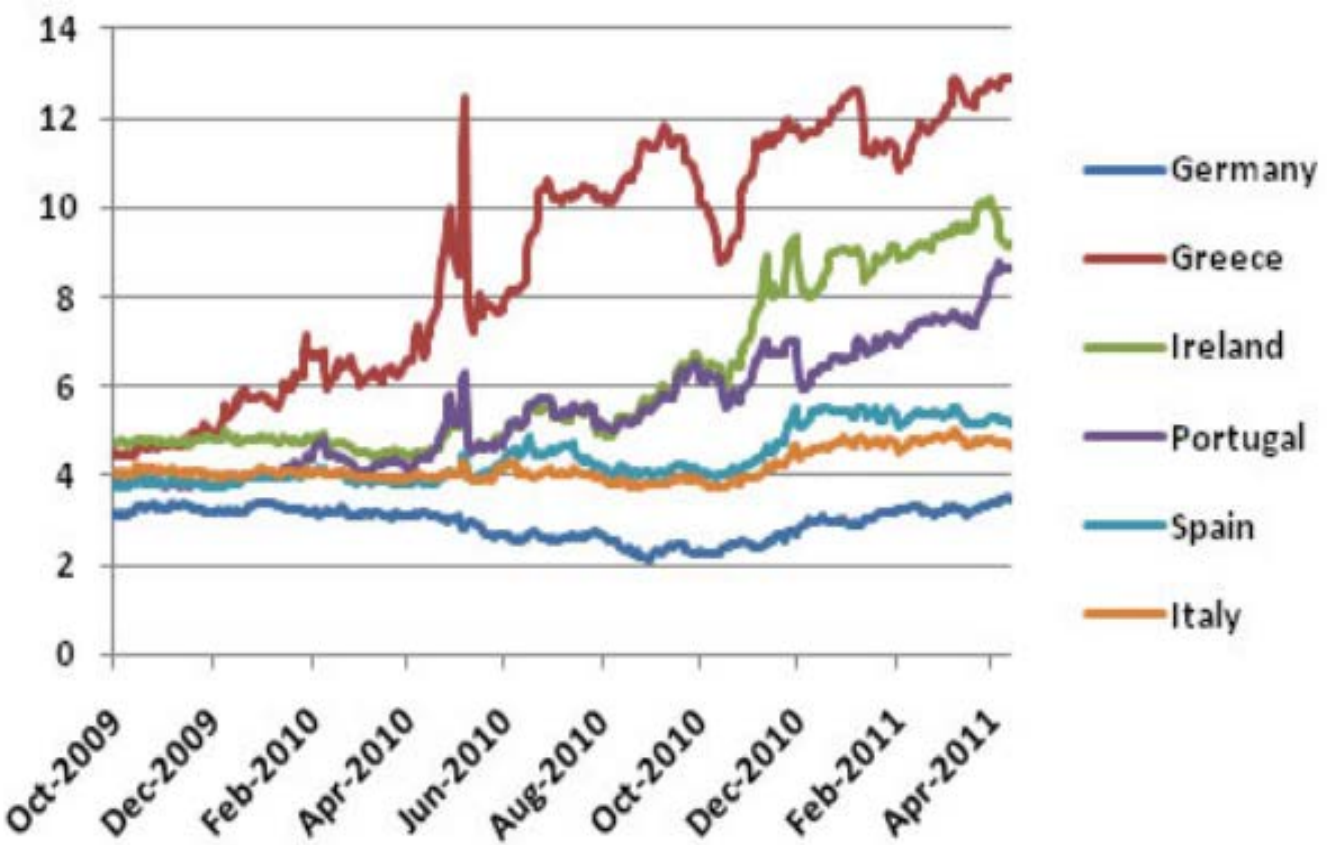


Note: Ultimate risk basis except Germany

Source: BIS, Q3 2010

Exposure to Greek debt

Source rge monitor



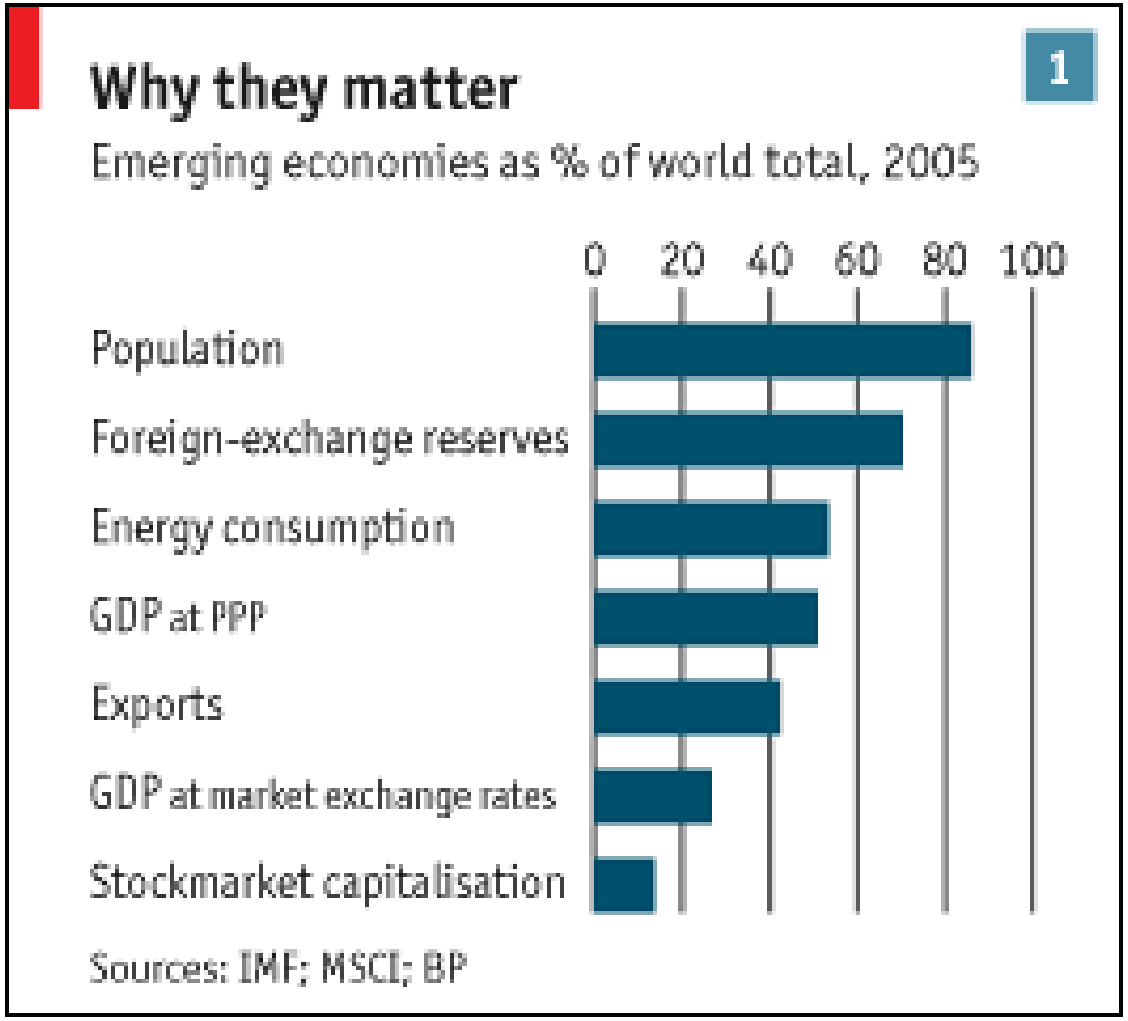
Source: Bloomberg

Long term bond yields july 2011

Source rge monitor

Emerging nations

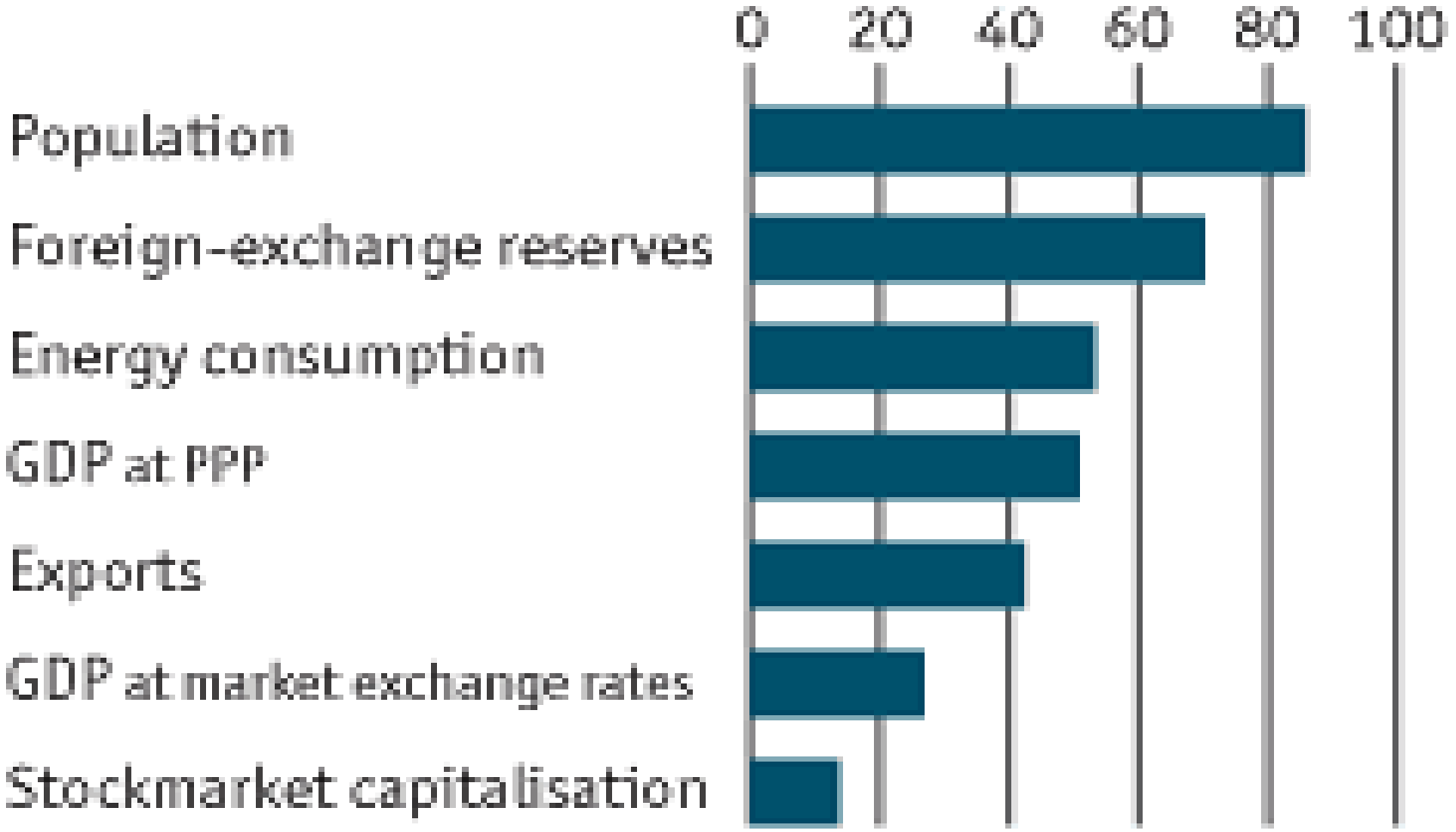
Back to the past



Economist Sept 17 2006

Why they matter

Emerging economies as % of world total, 2005

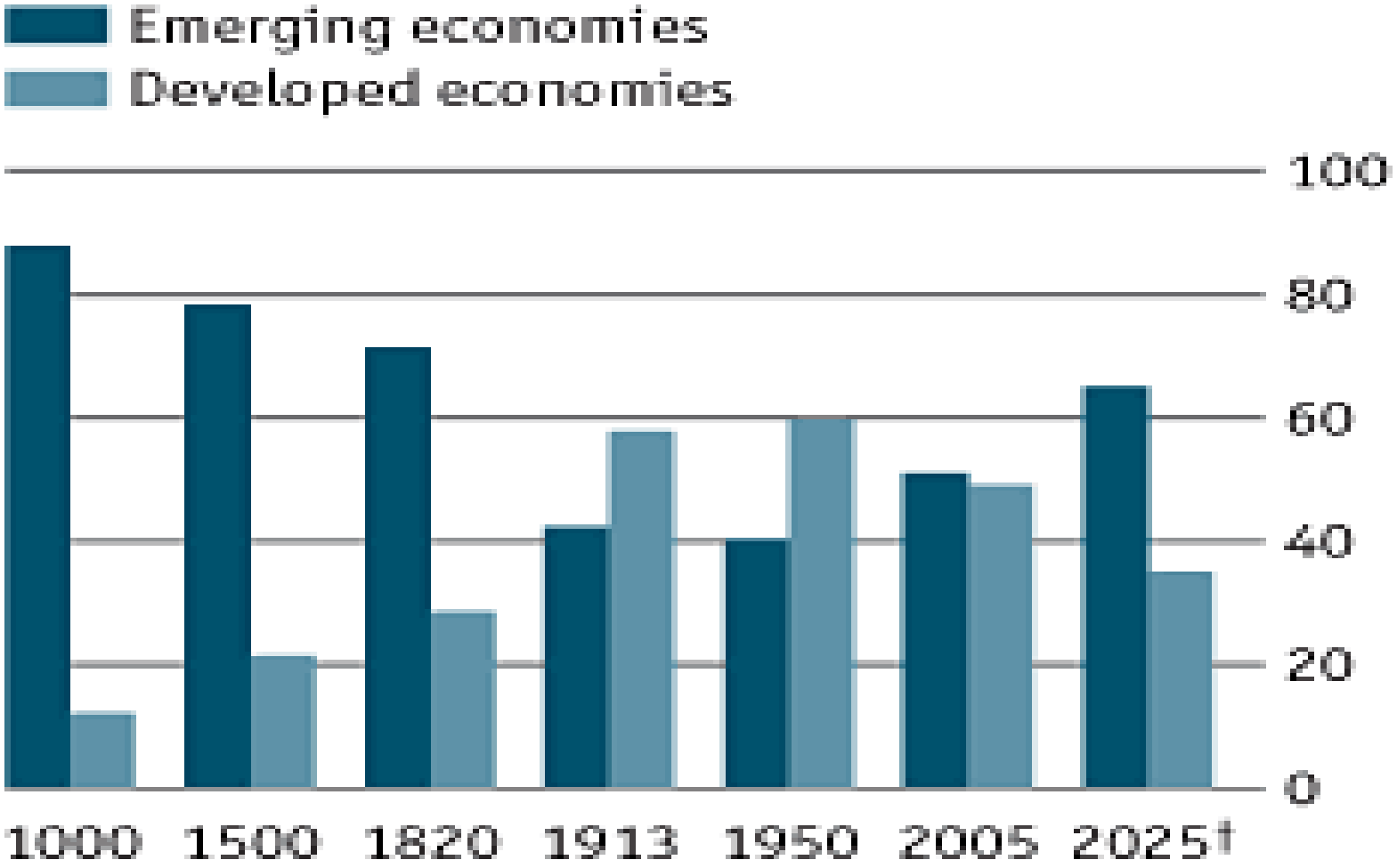


Sources: IMF; MSCI; BP

2

Re-emerging

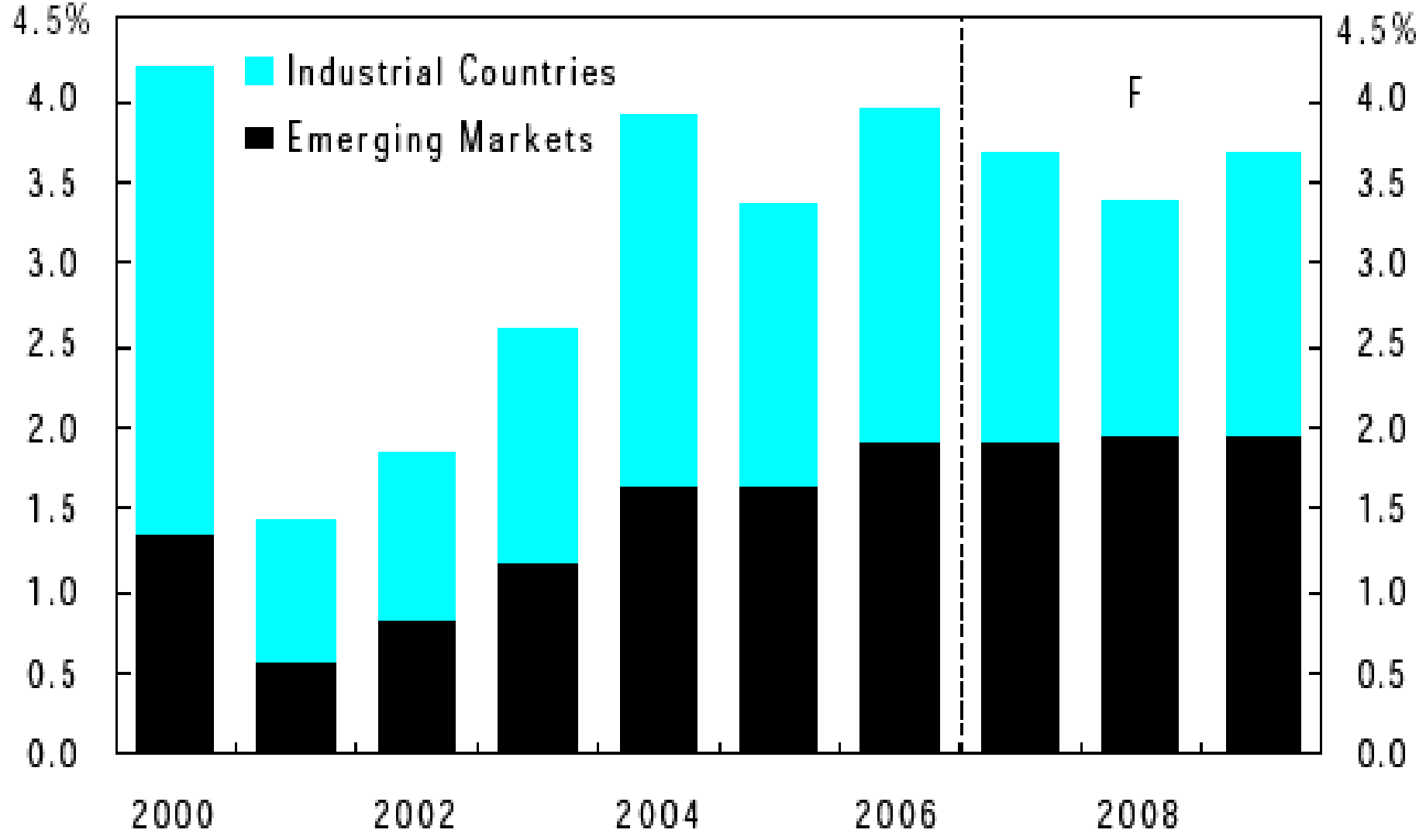
Share of global GDP*, %



*At purchasing-power parity †*The Economist* forecasts

Sources: OECD, Angus Maddison; IMF

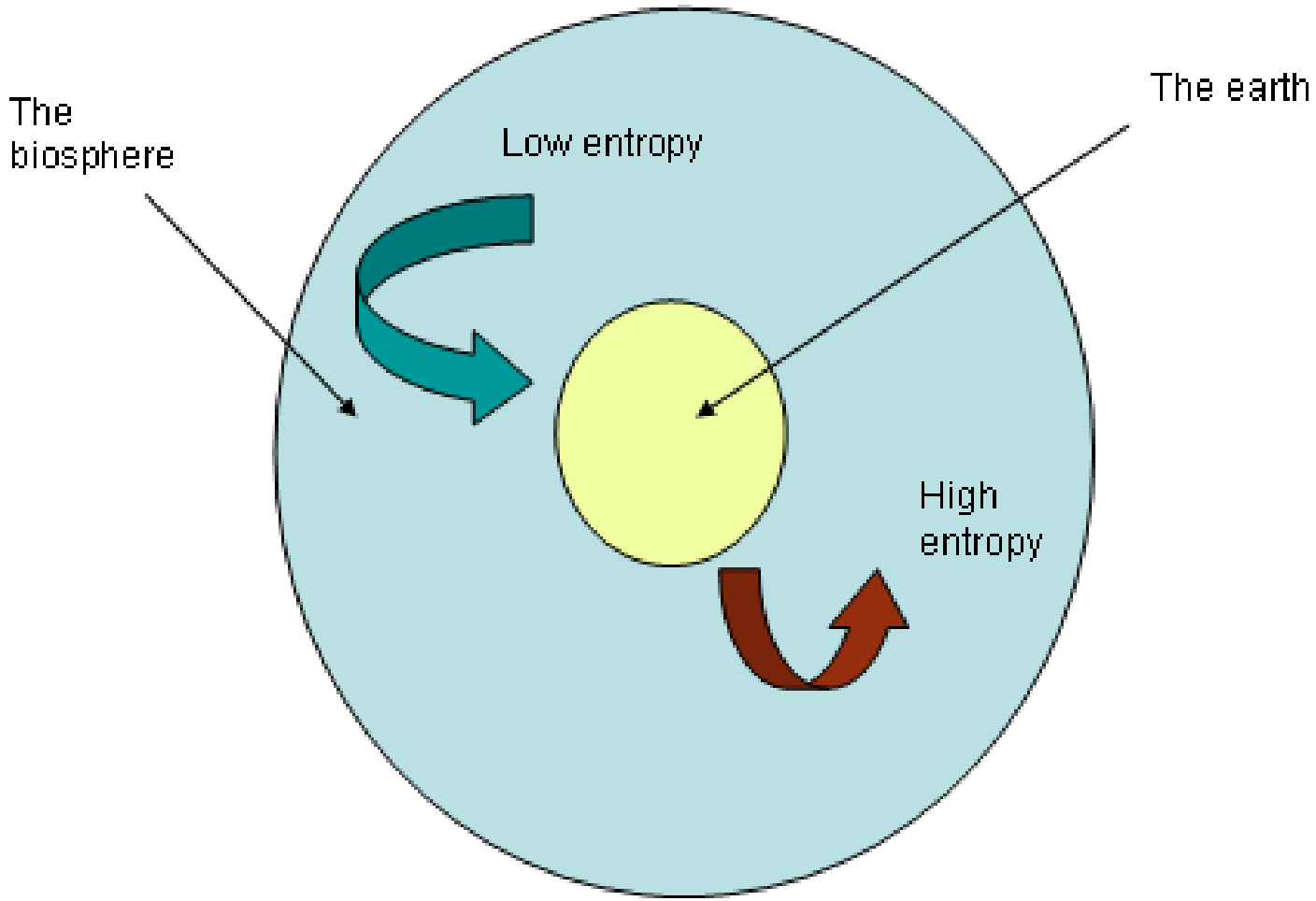
Figure 4. Global – Contributions to Global Growth (Percentage Points)



Sources: IMF and Citi.

The environment

Gaia or exploitation


The
biosphere
Low entropy
The earth
High
entropy

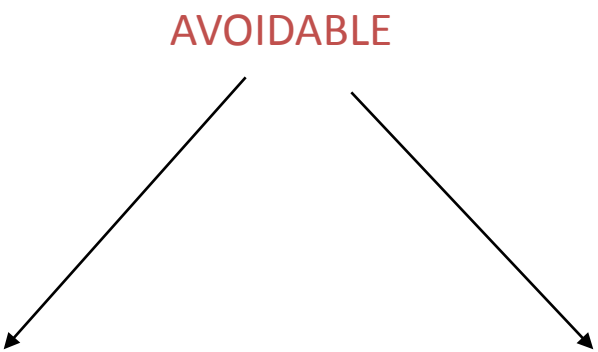
Some microeconomics

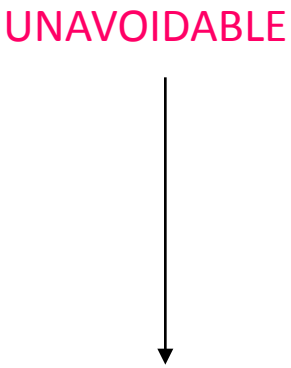
Costs

Revenues

Risk

costs





V

Variable
Avoidable by cutting
Down output
(marginal costs)

F2

Fixed
Avoidable by going out of business

F1

Sunk costs
Unavoidable once incurred
(True costs)

Scale and scope economies

- Leveraging
- Outsourcing
- Restructuring

Marketing

segmentation

Elasticity (price)

- % change in quantity bought/% change in price
- Defined as an absolute value
- Varies along demand curve
- E> 1 implies price reduction increases sales revenue
- E < 1 implies price reduction decreases sales revenue

	Effect on sales revenue of price reduction	Effect on sales revenue of a price increase
Elastic Ep >1	Sales Revenue RISES	Sales Revenue FALLS
Inelastic Ep <1	Sales Revenue FALLS	Sales Revenue RISES

ELASTICITIES

E_P = | E_P | = price elasticity

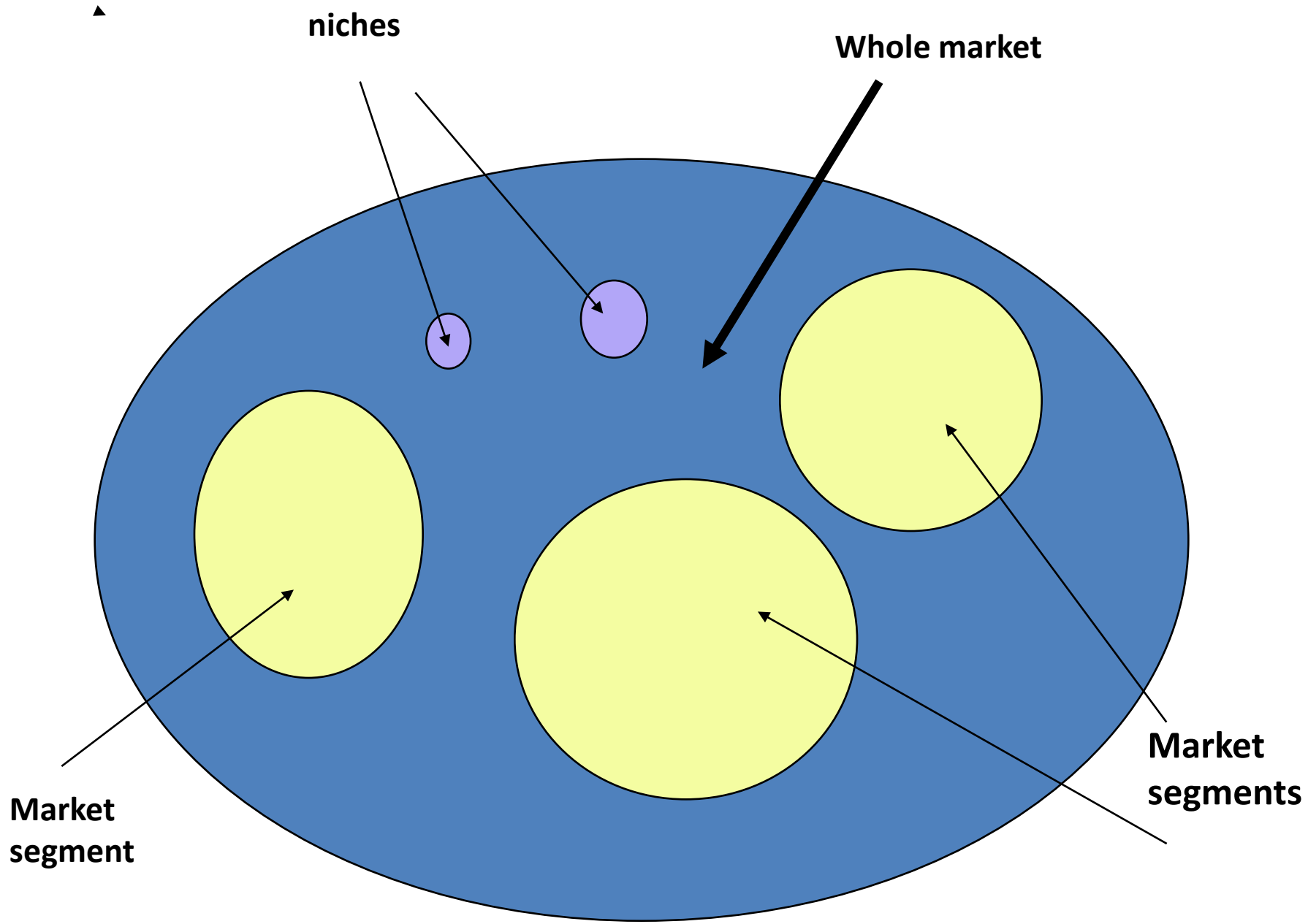
E_y = income elasticity

$$E_P = \frac{\%change\ in\ quantity\ demanded}{\%change\ in\ price}$$

$$E_{y=} \frac{\%change\ in\ quantity\ demanded}{\%change\ in\ income}$$

$$E_P = \frac{p}{q}\frac{dq}{dp}$$

$$E_{y=} \frac{y}{q}\frac{dq}{dy}$$


niches
Whole market
Market segment
Market segments

$$Em = \sum siEi$$

$$(i = 1,2,....m)$$

- where Em denotes the elasticity of the market as a whole Ei denotes the elasticity of the segment i, Ei denotes the elasticity of the segment i and si denotes the share of the segment in total expenditure on the good.

Elasticity of demand for the market as a whole (for a particular product X)	equals	**the sum of the elasticity of each of the segments of the market multiplied by the share of that segment in total expenditure on the market.**