

BUSINESS AND FINANCIAL ENVIRONMENT [1]

Part 2

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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>

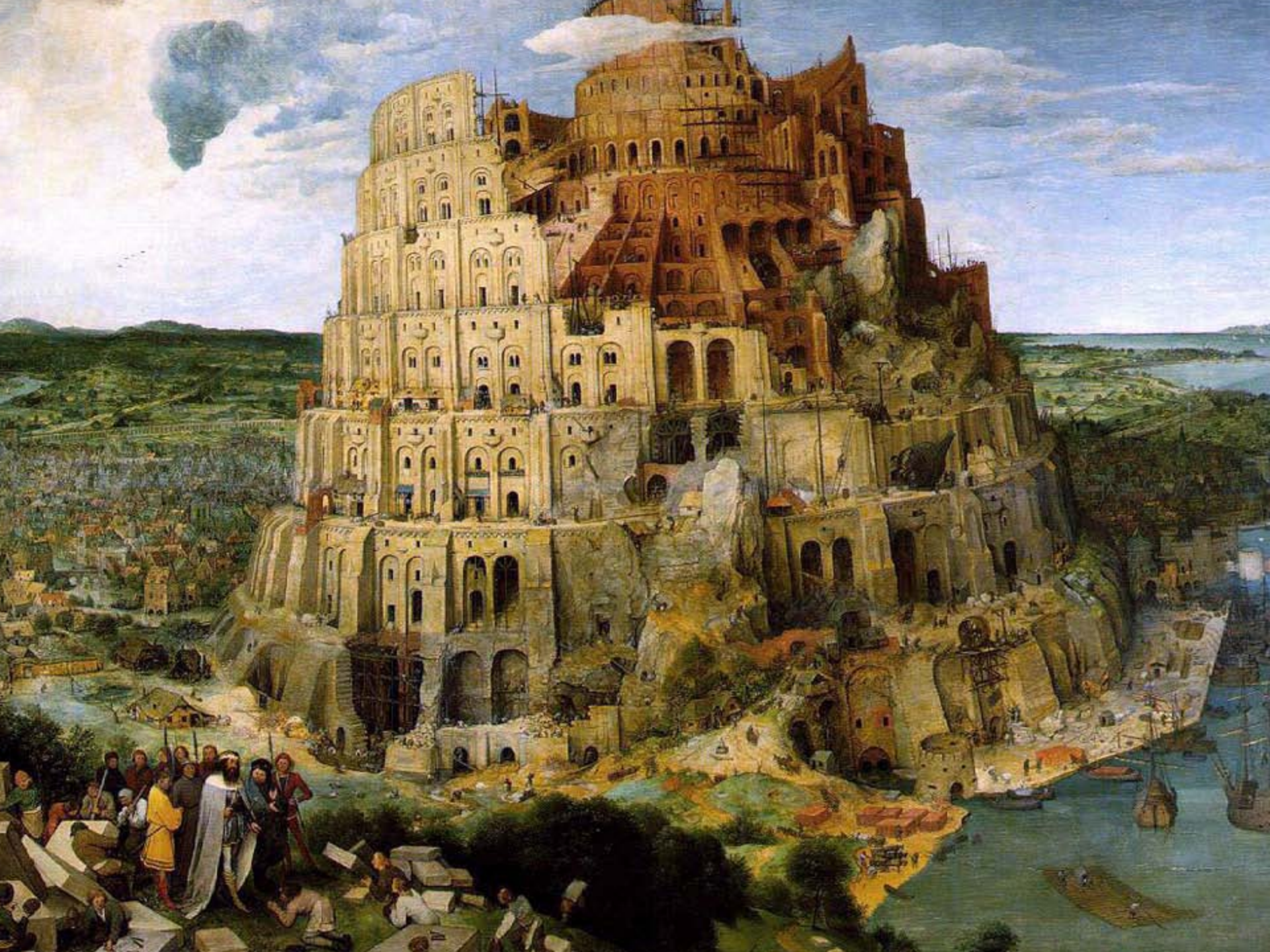
<http://www.tcib.org.uk/about.html>.

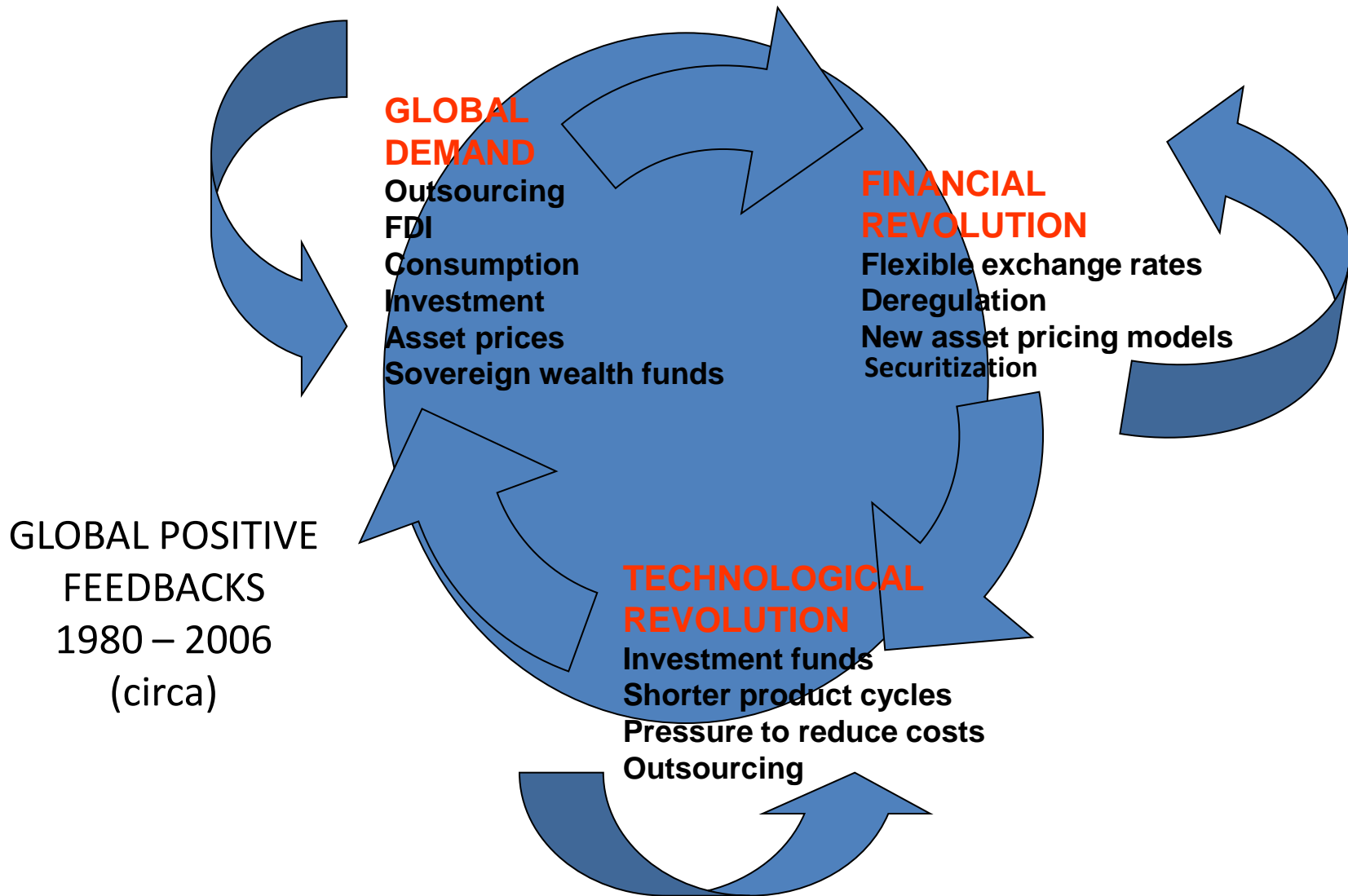
Also <http://kpp-russia.ru> and <http://www.russtrategy.ru>.

<http://kingston.ac.uk/CIPB.php>

Roots of the great recession

It always happens again





CHANGING IDEOLOGY

- **Privatization**

- belief that the state ownership is inefficient
- Economic *shock therapy*

- **Deregulation**

- Reliance on self regulation
- Condoning shadow banks and falsification

- **Monetarism**

- Policies based on interest rates
- rational expectations theory
- supply side economics

- **Nationalization**

- USSRUK
- USSRUSA
- Bail outs

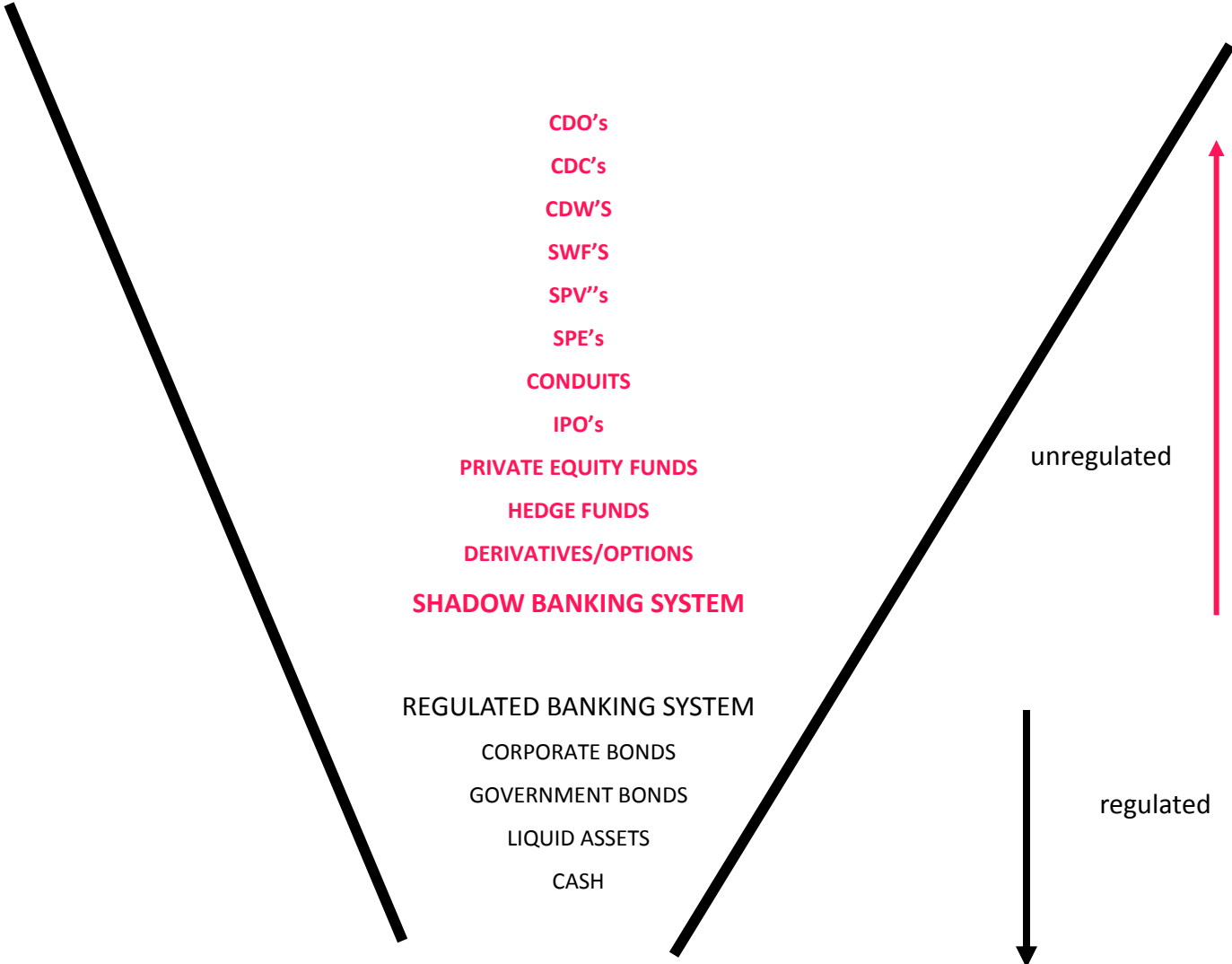
- **Regulation**

- Awaiting policy decisions

- **Keynesianism**

- fiscal policy
- deficit finance
- demand side economics

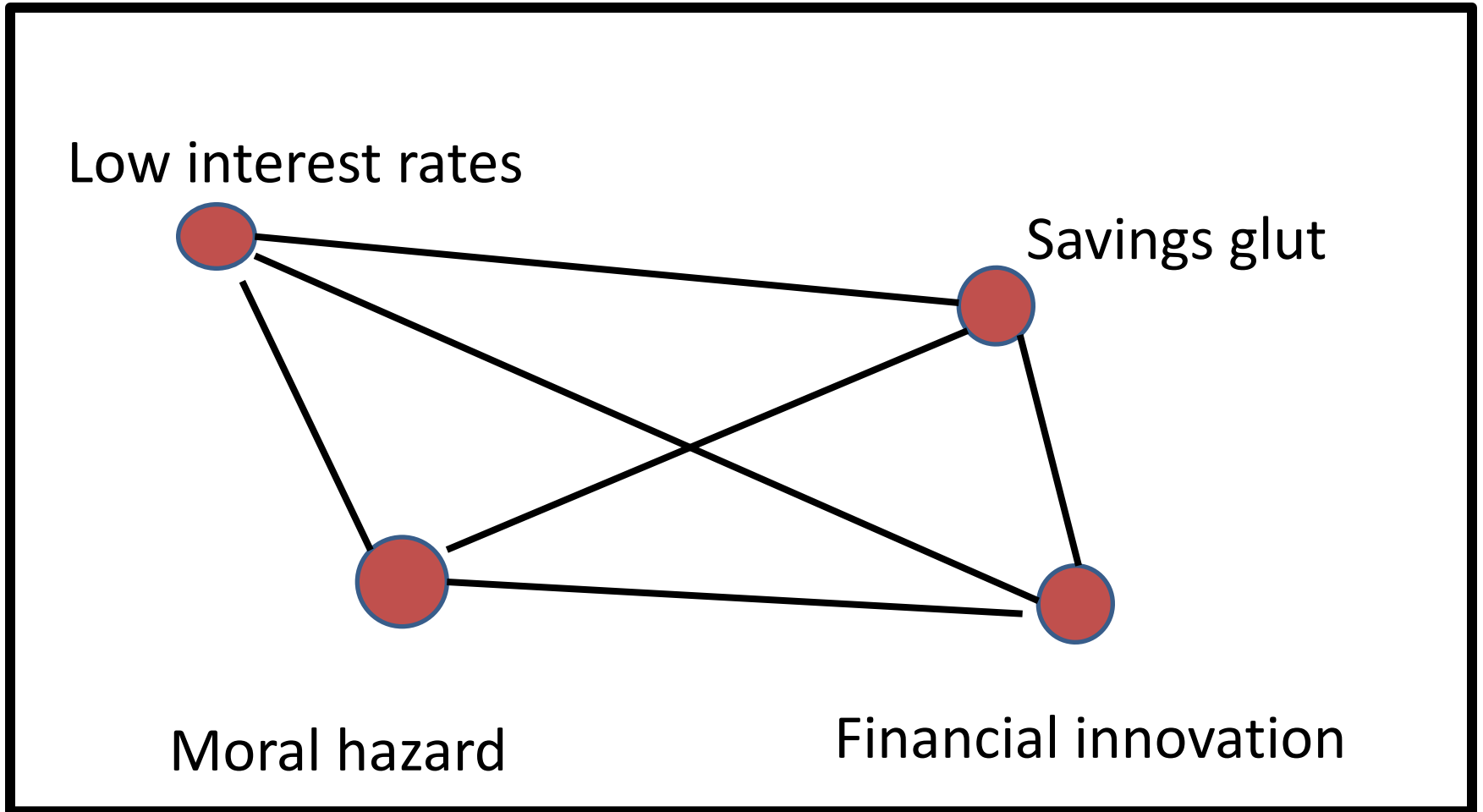
The financial tower of Babel: 21ST century



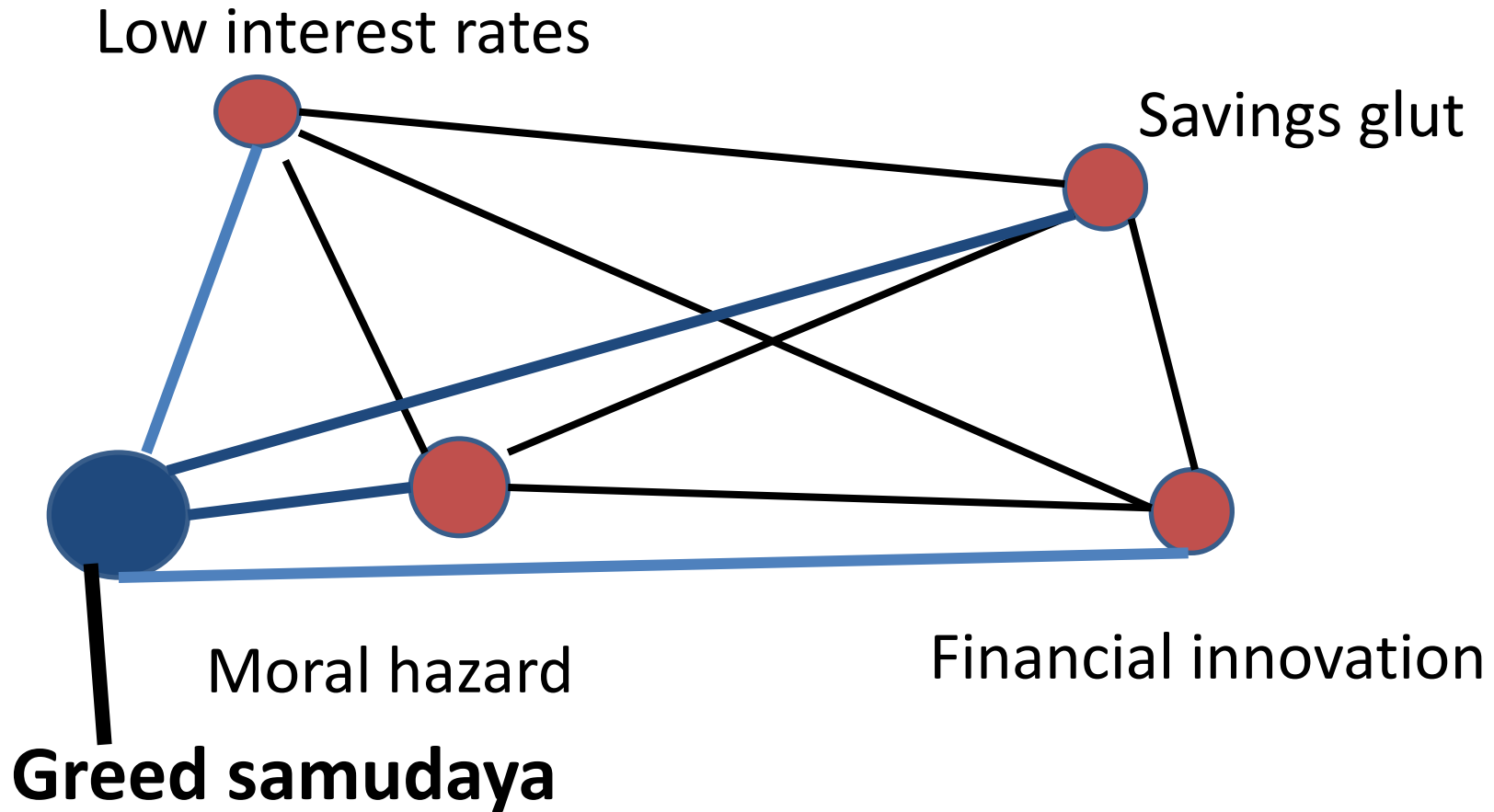
Causes of crises

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

interdependence



interdependence



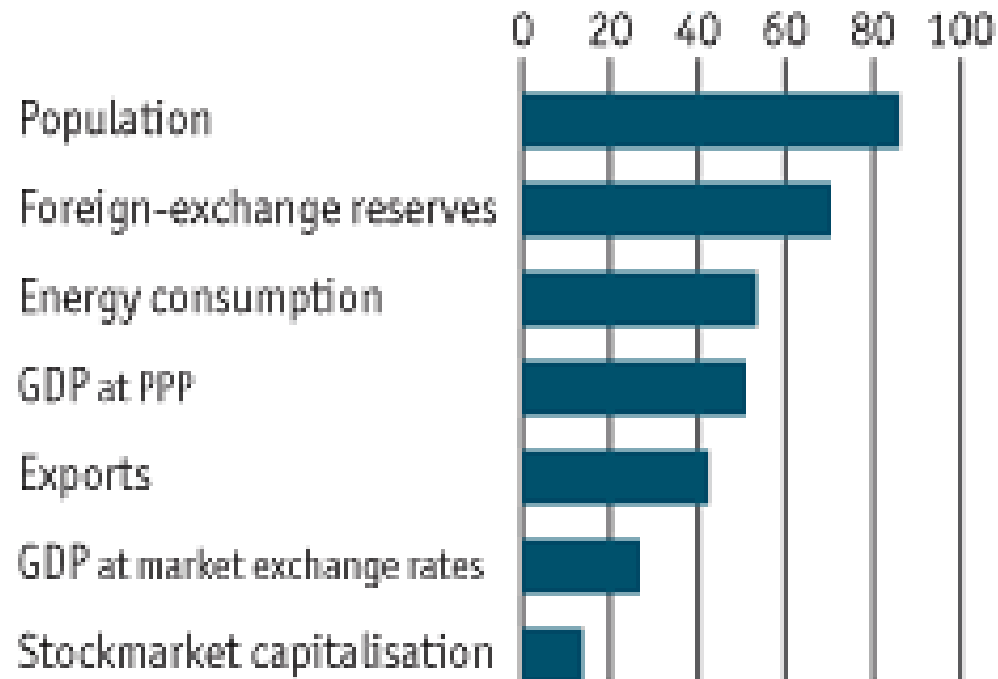
Emerging nations

Back to the past

Why they matter

1

Emerging economies as % of world total, 2005

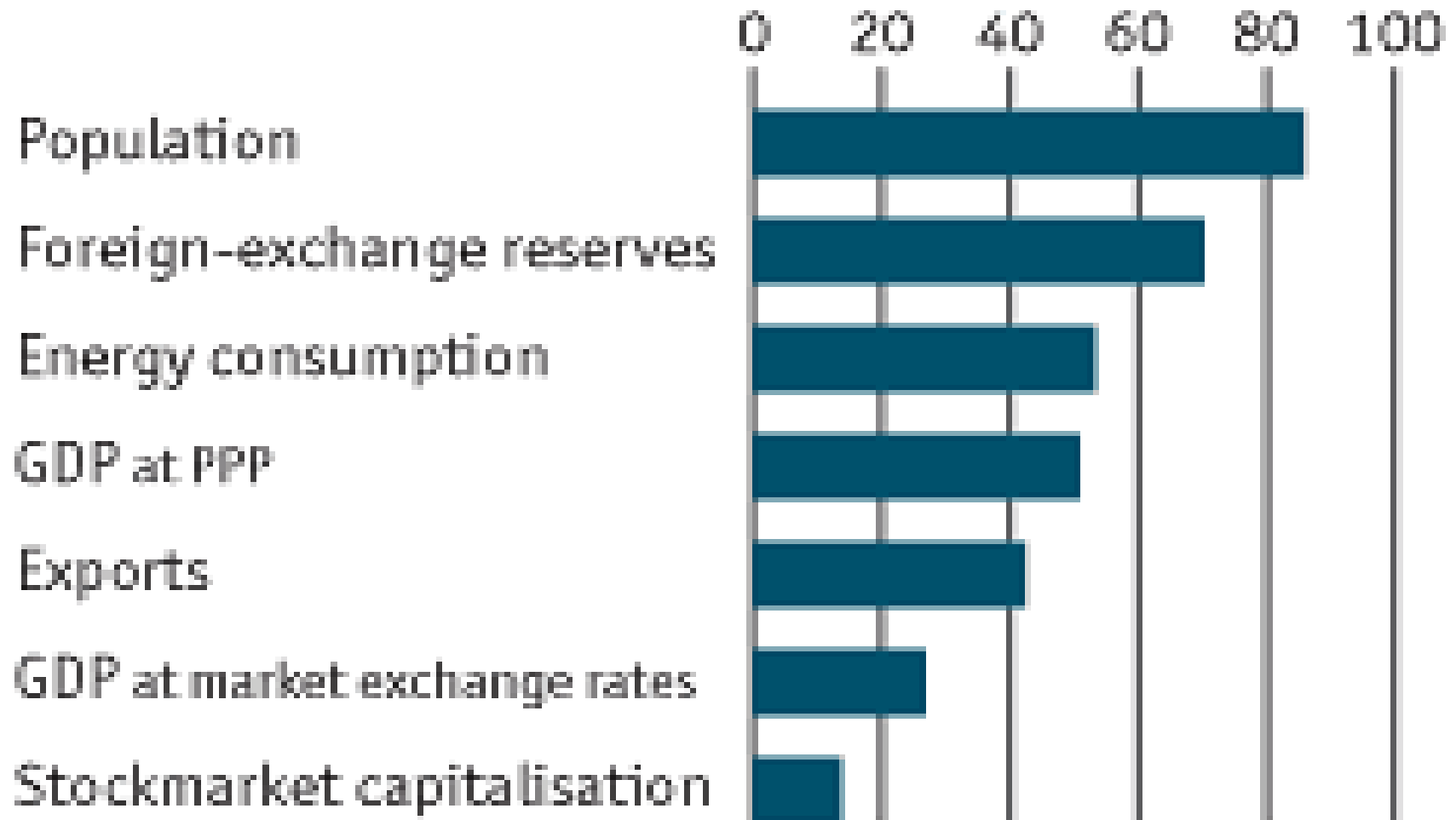


Sources: IMF; MSCI; BP

Economist Sept 17 2006

Why they matter

Emerging economies as % of world total, 2005

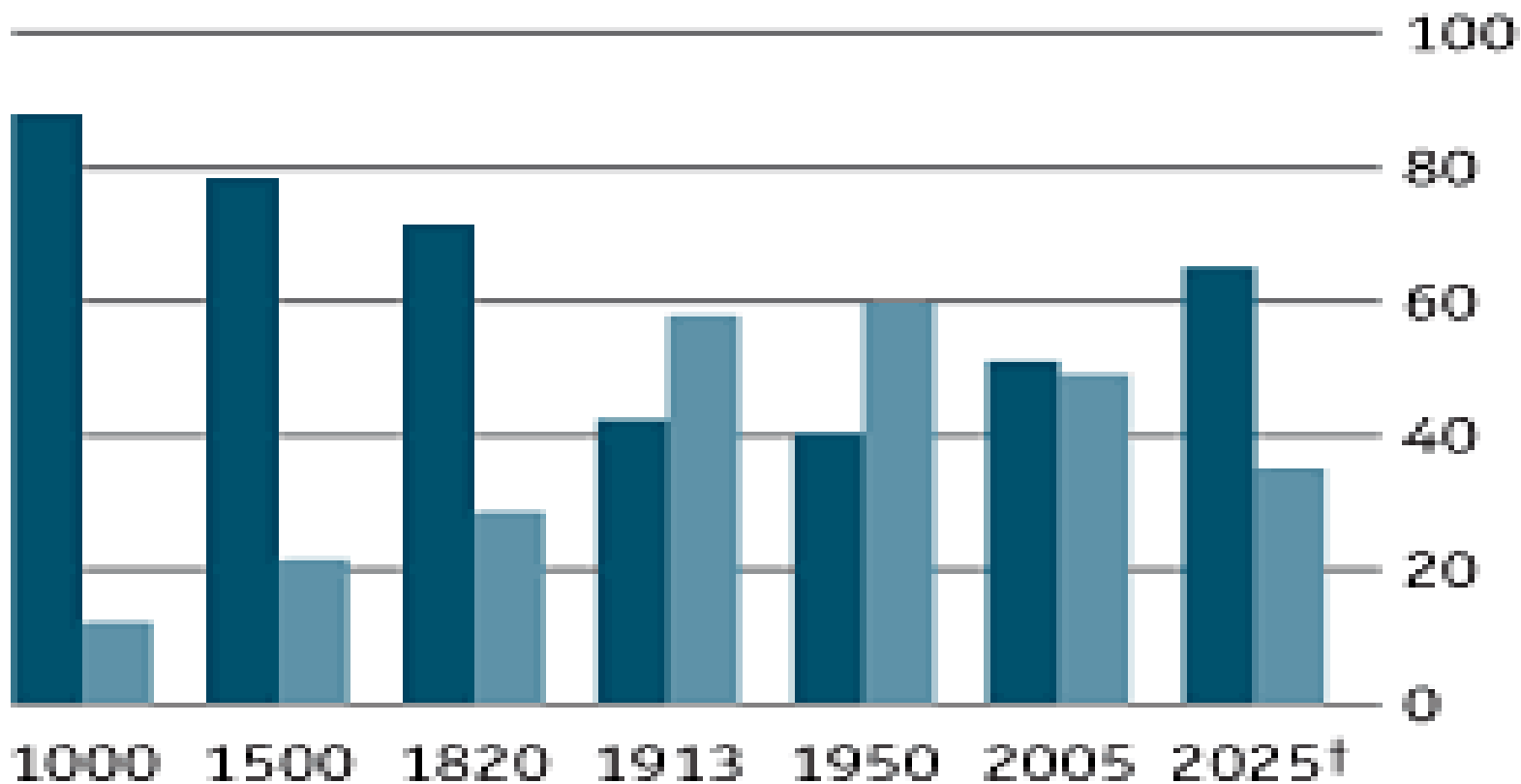


Sources: IMF; MSCI; BP

Re-emerging

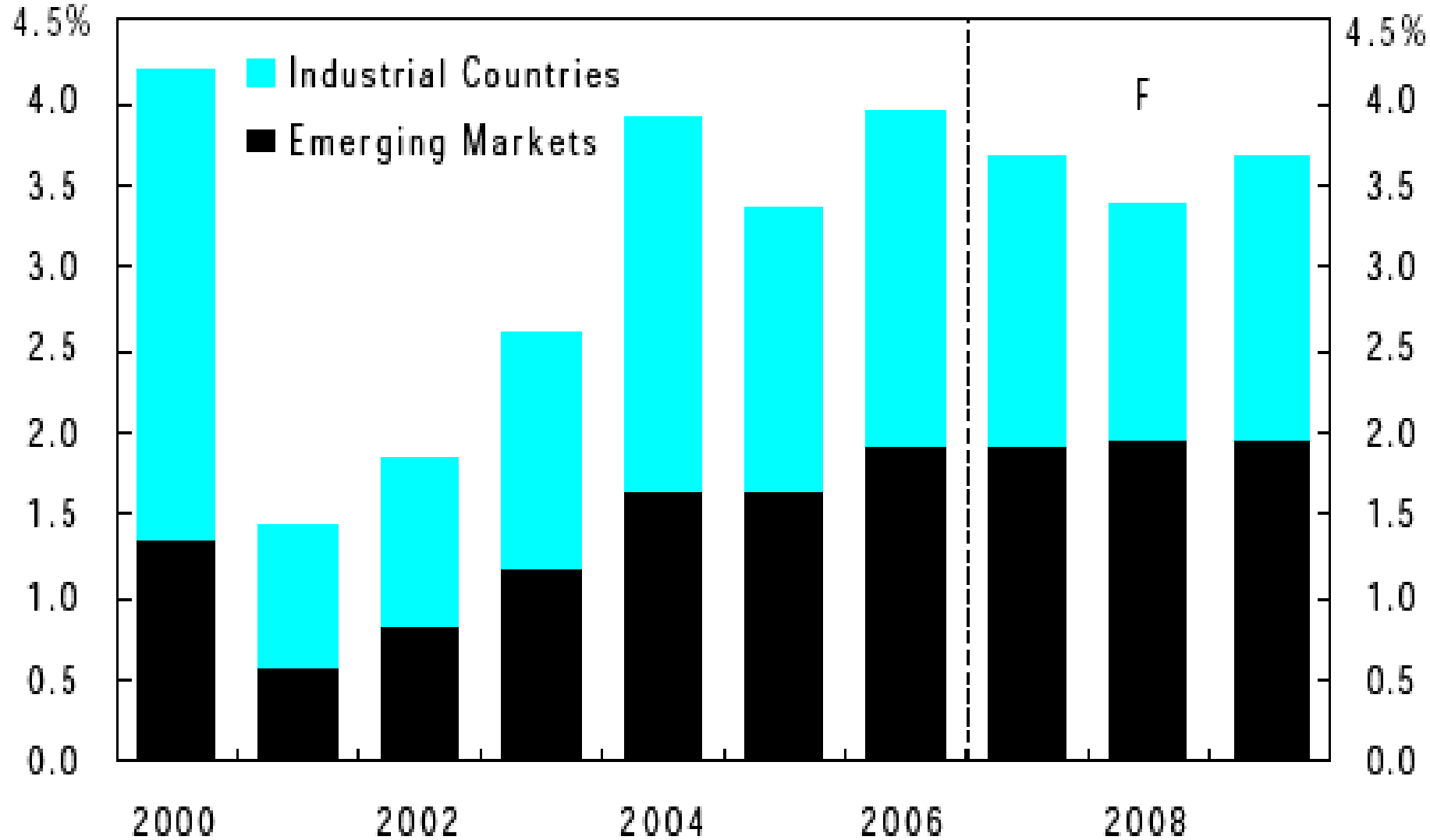
Share of global GDP*, %

■ Emerging economies
■ Developed economies



*At purchasing-power parity †The Economist forecasts
Sources: OECD, Angus Maddison; IMF

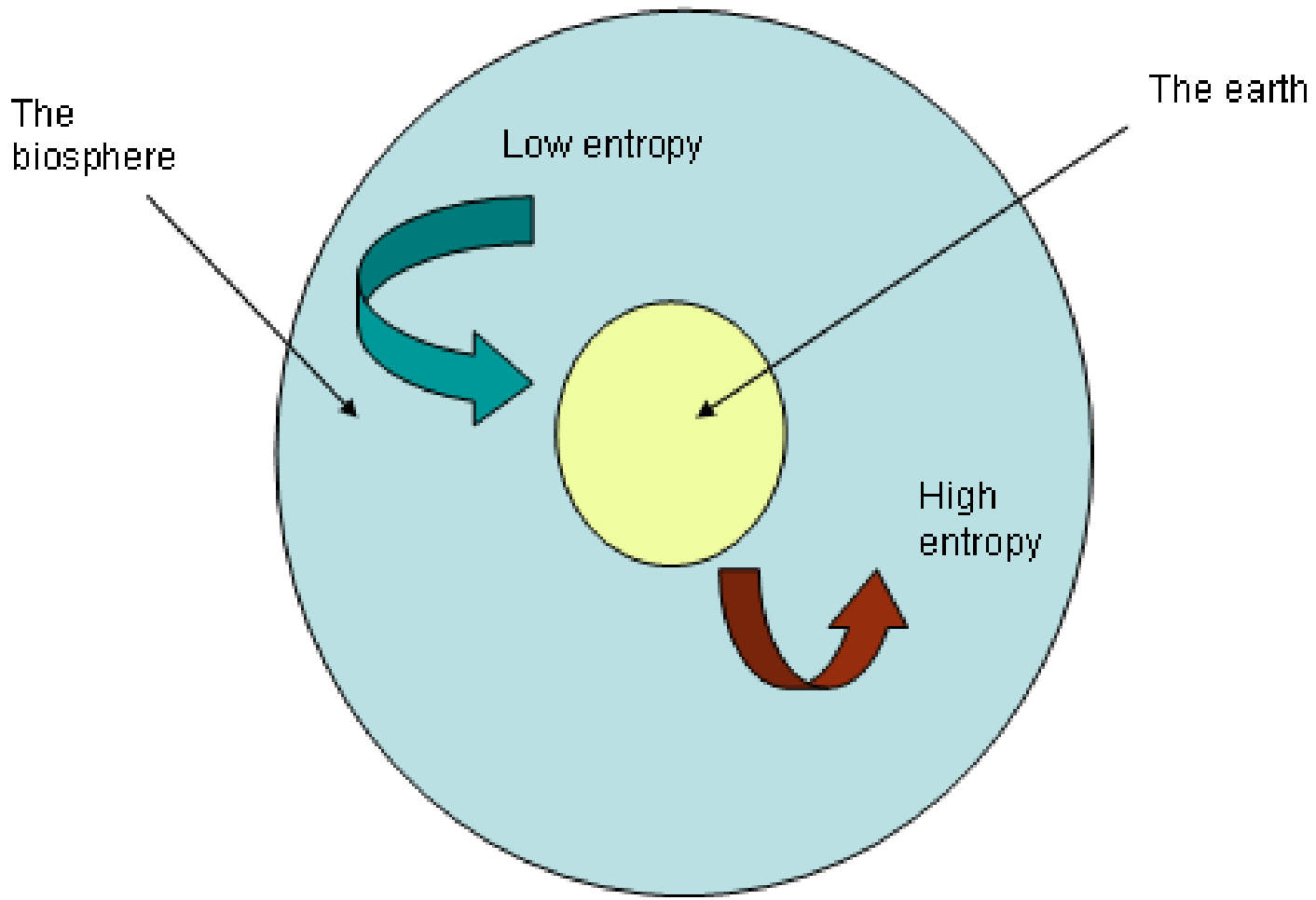
Figure 4. Global – Contributions to Global Growth (Percentage Points)



Sources: IMF and Citi.

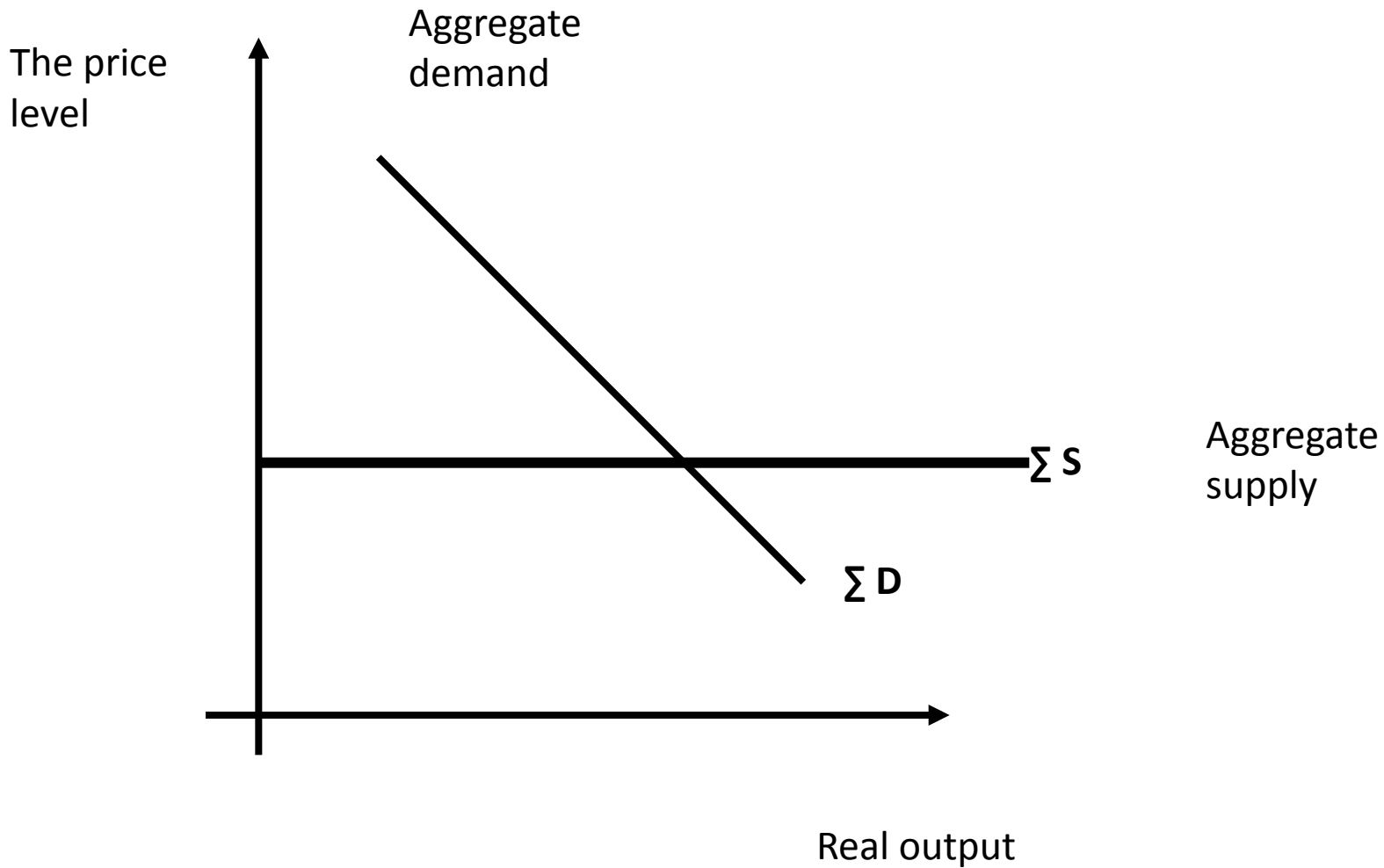
The environment

Gaia or exploitation

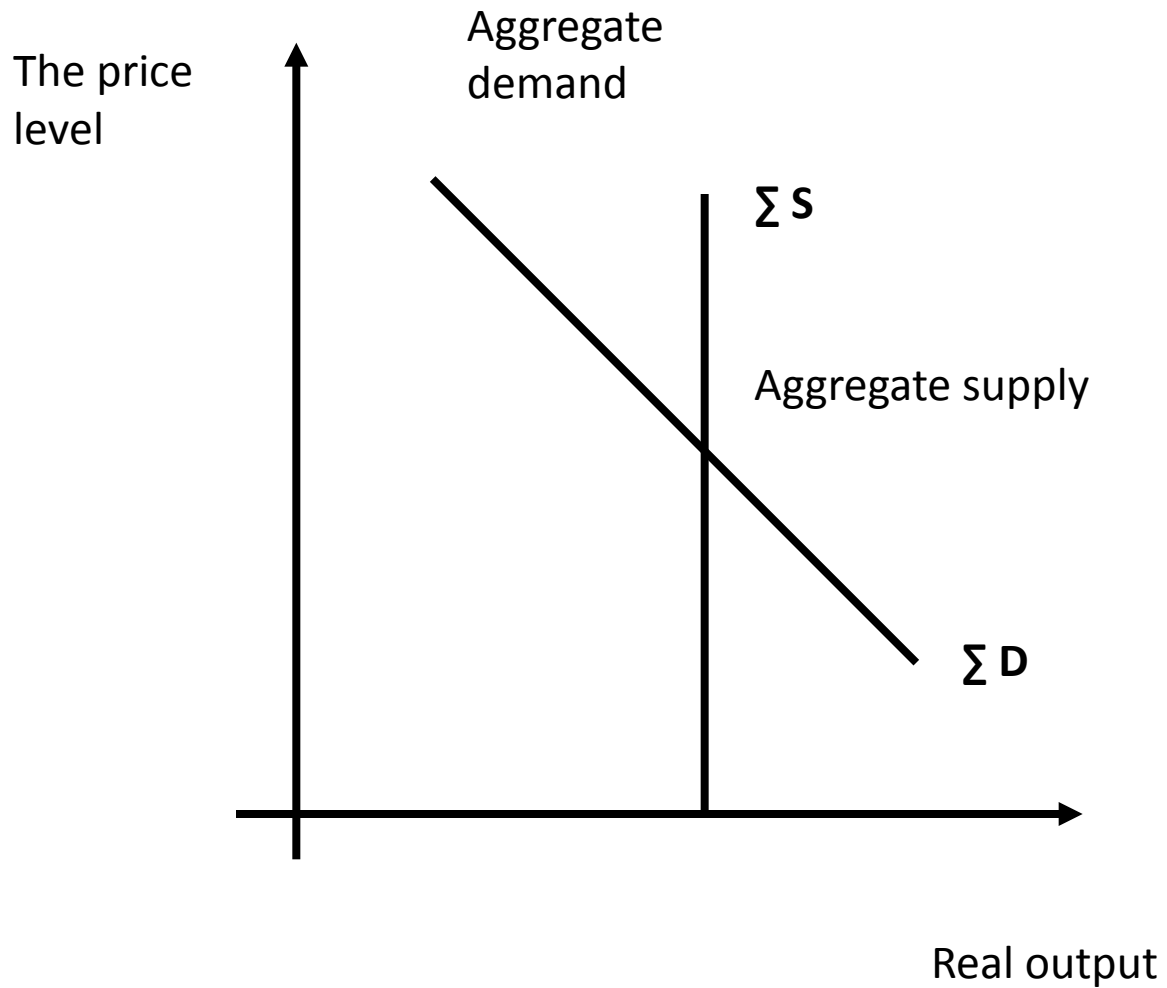


Cryptic models

Keynesian and monetarist



Keynesian case with liquidity trap



The pure classical case
Reagonomics and crowding out

Keynes: sources of unemployment

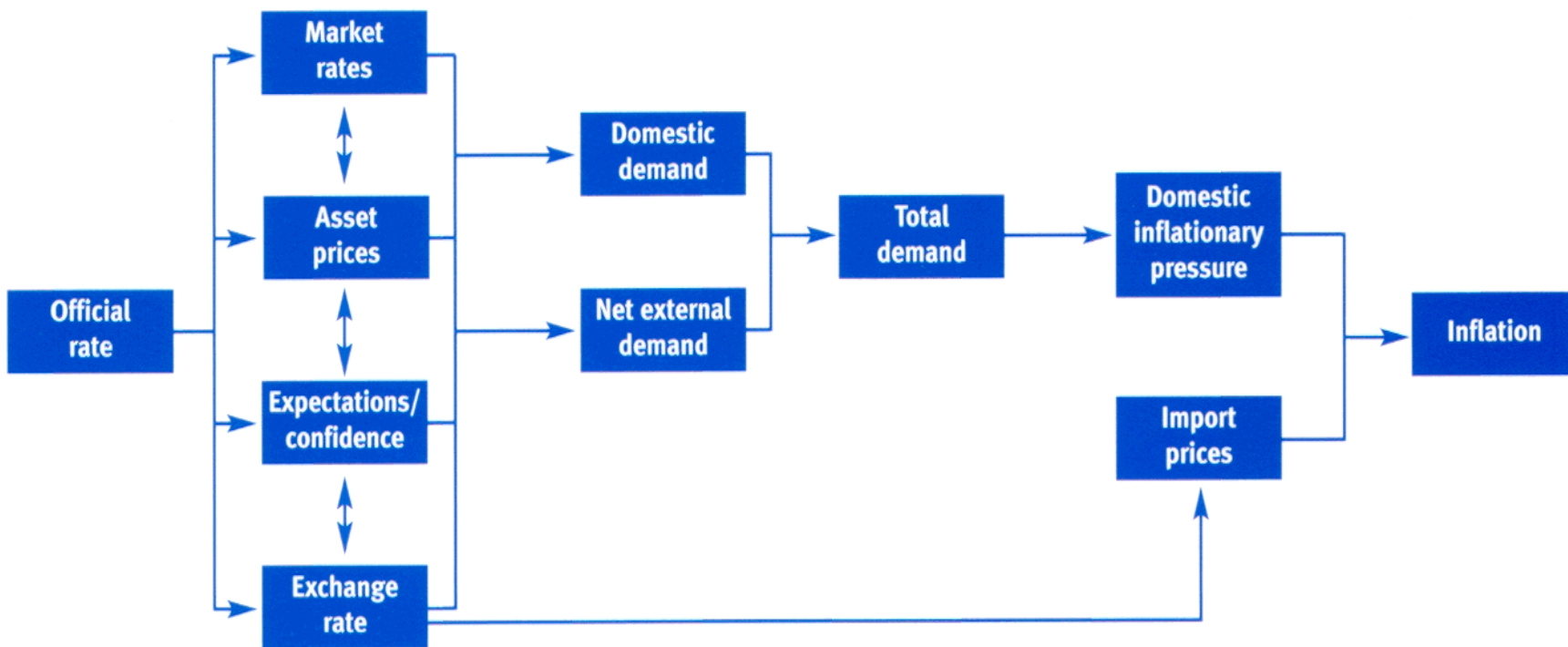
- **The liquidity trap**
- **Inconsistency between savings and investment**
- **Rigid money wages**

- The multiplier
- The marginal propensity to consume
- The importance of aggregate demand

GLOBAL GRAMMAR: MACROECONOMIC POLICY

- ***Business Cycles***
 - o Fiscal policy (G-T)
 - o Monetary policy (interest rates)
- ***Global Kronos Capitalism: Policies***
 - IMF
 - WTO
 - World Bank and
 - EU policy

Figure 1: From interest rates to inflation – the transmission mechanism of monetary policy



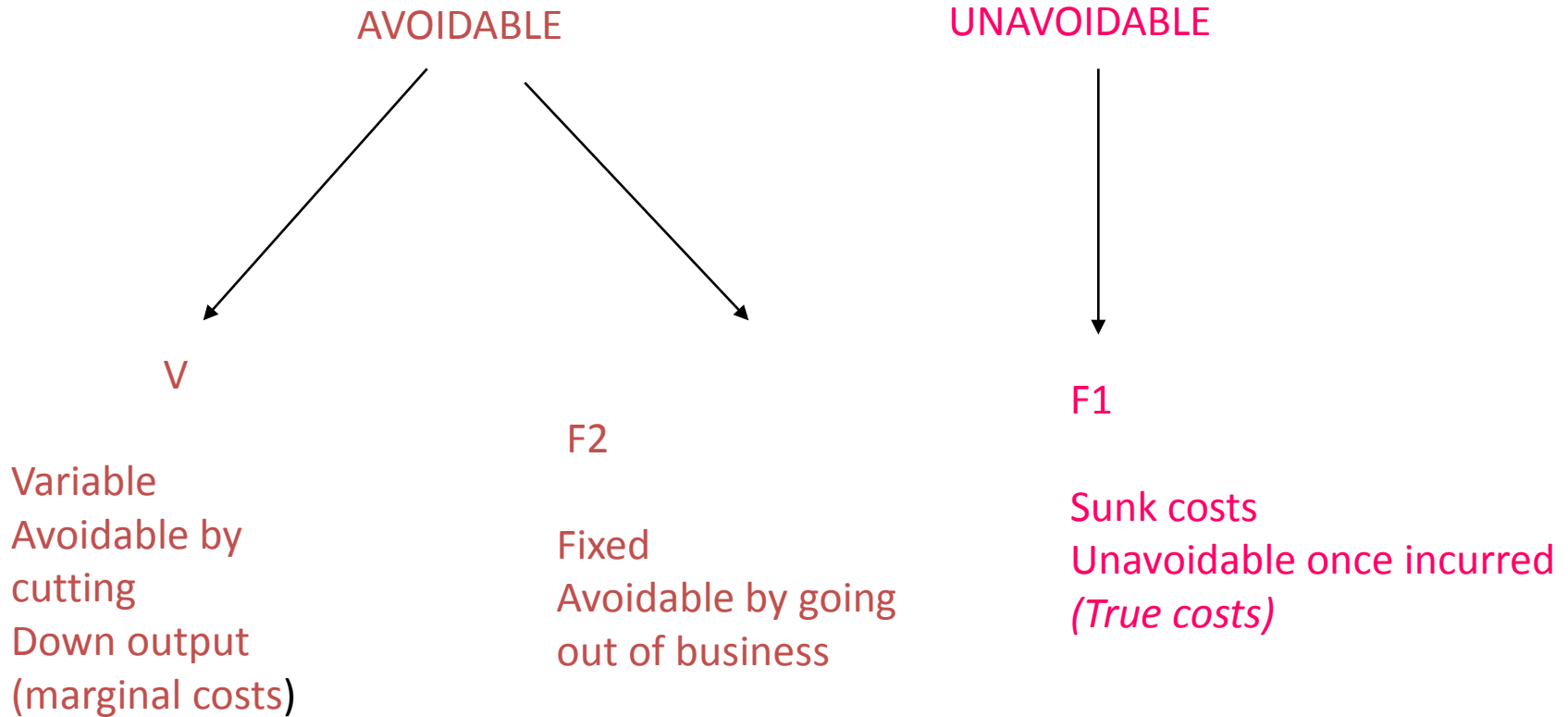
Some microeconomics

Costs

Revenues

Risk

costs



Scale and scope economies

- Leveraging
- Outsourcing
- Restructuring

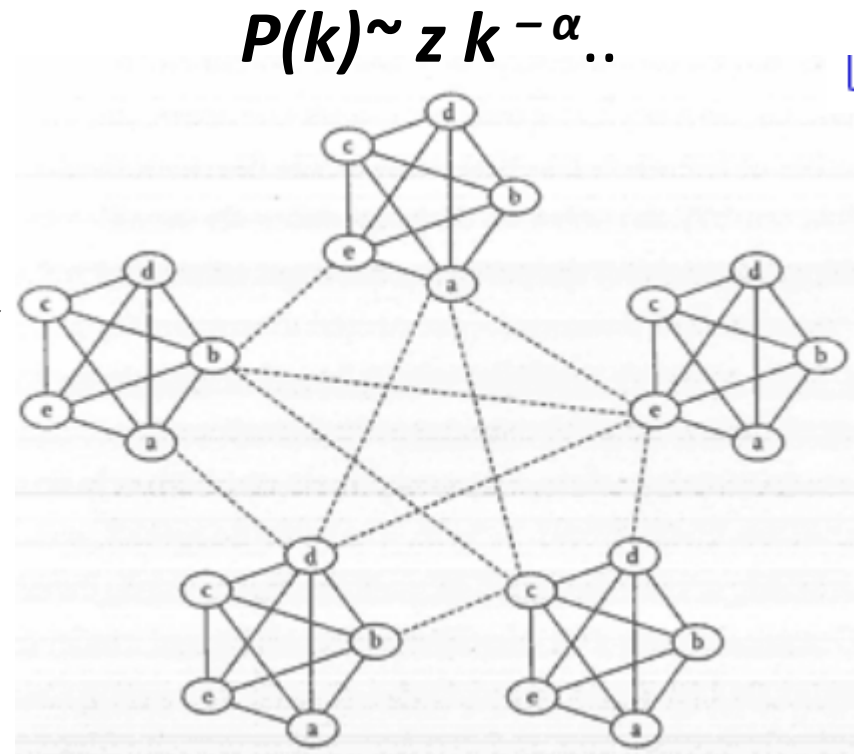
Marketing

segmentation

Networks: default state

Small world: highly clustered, short path lengths

- Degree of a node is the number of edges (k) connecting it to other nodes.
- High degree nodes have many connections (high k); low degree nodes have few (low k)
- $P(k)$ probability of degree k follows a power law
- $P(k) \sim z k^{-\alpha}..$



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 $E_p > 1$	Sales Revenue RISES	Sales Revenue FALLS
Inelastic $E_p < 1$	Sales Revenue FALLS	Sales Revenue RISES

ELASTICITIES

$E_p = |E_p| =$ price elasticity

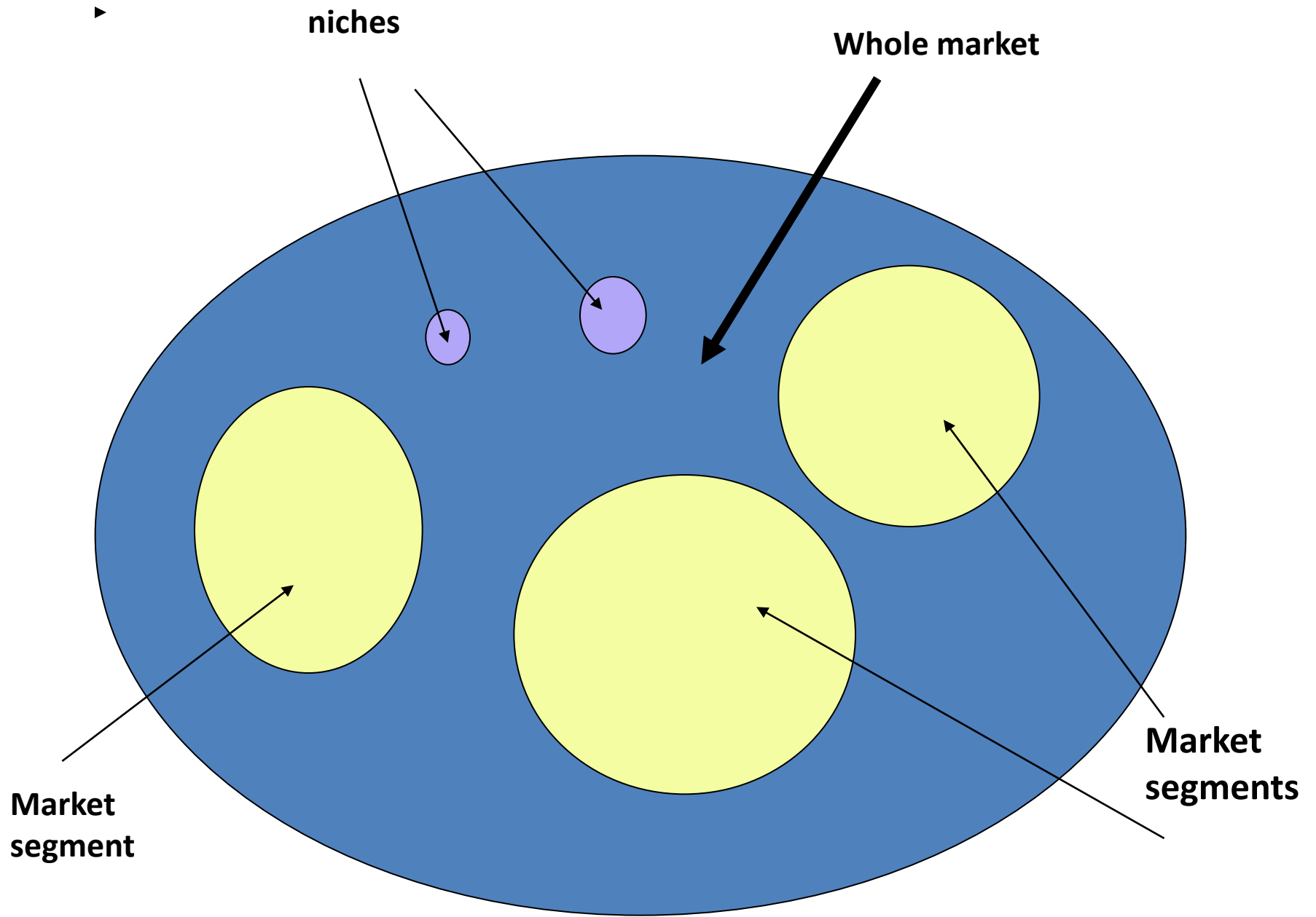
$E_y =$ income elasticity

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

$$E_y = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$$

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

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



$$E_m = \sum s_i E_i$$

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

- where E_m denotes the elasticity of the market as a whole E_i denotes the elasticity of the segment i , E_i denotes the elasticity of the segment i and s_i 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)

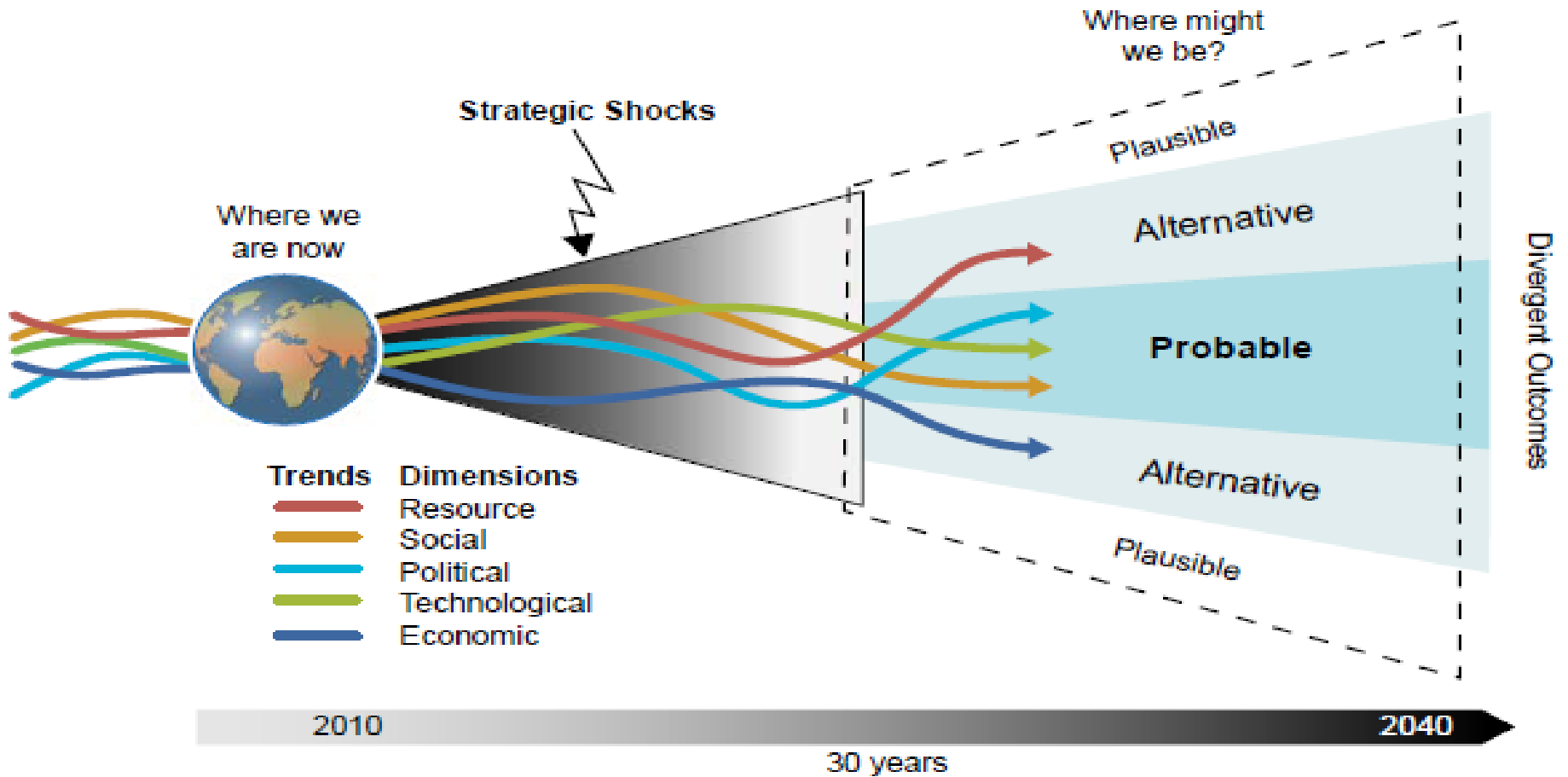
equals

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.

The future trajectory

scenarios

Strategic Trends: Trend Analysis



http://www.mod.uk_Global_Strategic_Trends_Out_to_2040

Assessment of Probability

Description

Will

Likely/Probably

May/Possibly

Unlikely/Improbable

Associated Probability Range

Greater than 90%

Between 60% and 90%

Between 10% and 60%

Less than 10%

http://www.mod.uk_Global_Strategic_Trends_Out_to_2040