

Economics for Managers

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Today's Agenda

- Assignment 3: 60 minutes
- International Business Environment: 60 minutes
- Financial System (introduction): 60 minutes

The GDP growth during January to March 2019 slowed down to 5.8%. Looking at economic activity in the period April to June 2019, it is safe to say that the GDP growth would have slowed down further.

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$

Growth during Apr to Jun (in %) 2018 2019

PRIVATE
CONSUMPTION



Domestic car sales

-23.3

18



Domestic two-wheeler sales

-11.7

15.9



Domestic tractor sales

-14.1

25.7



Number of unsold homes*

Not available

7

Bank retail loans

17.9

16.6



Volume growth of FMCG companies**

12

5



Non-oil non-gold non-silver imports

-5.3

6.3



INVESTMENT



Domestic commercial vehicles sales

-9.5

51.6



Bank lending to industry

0.9

6.5



Revenue-earning rail freight

6.4

2.7



Final consumption of finished steel

8.8

6.6



New investment projects
announced (value)

-79.5

13.2



Investment projects completed (value)

-48

49.1



G

GOVERNMENT EXPENDITURE

Gross tax revenue

1.4

22.1



X-M

NET EXPORTS

Net exports

-1.2

14.7



International Business Environment

- Case Study:
 - Brexit & How Japanese Companies Are Navigating Its Uncertainties

International Business Environment

1. What are the risks involved in international business?
2. Why do you think Japanese companies have been investing in UK/EU?
3. What kind of uncertainty would Brexit bring for Japanese companies?
4. What do host governments offer to attract investments?
5. Why are banks regulated and most other businesses are not?

International Business Environment

1. Risks involved in international business

- Understanding the local market
- Understanding the local regulations/ business practices
- Change in regulations
- Change in value of currency
- Geo-political risks
- Financing arrangements

International Business Environment

- Why do you think Japanese companies have been investing in UK/EU?
 - Larger market and closer to end customer
 - Sluggish domestic economy demand in Japan
- What kind of uncertainty would Brexit bring for Japanese companies?
 - UK no longer part of Free-Trade Agreement with Japan
 - New FTA to be signed
 - Currency of invoicing- why would GBP weaken?
 - Banking arrangements required in different countries now
- What do host governments offer to attract investments?
 - Tax breaks, grants?
- Why are banks regulated and most other businesses are not?

International Business Environment

- Current INR-USD is at 70. Which direction will it go:
 - If India has higher inflation than that in USA?
 - If India has higher real interest rates than that in USA?
 - If India's demand for hi-tech machinery from USA is more than USA's demand for Indian t-shirts?
 - If there is less political stability in India than in the USA?
 - If India's Government has more debt than it had 5 years ago?

International Business Environment

- Current INR-USD is at 70. Which direction will it go:
 - If India has higher inflation than that in USA? (more than 70)
 - If India has higher real interest rates than that in USA? (less than 70)
 - If India's demand for hi-tech machinery from USA is more than USA's demand for Indian t-shirts? (more than 70)
 - If there is less political stability in India than in the USA? (more than 70)
 - If India's Government has more debt than it had 5 years ago? (more than 70)

International Business Environment

- Why do countries trade at all?

The Financial System

- <https://www.youtube.com/watch?v=PHe0bXAIuk0&t=984s>

Typical Balance-Sheet of a non-financial firm

Assets		Liabilities	
Item	Amount	Item	Amount
Receivables from buyers	30	Payables to Suppliers	20
Machinery/ Building etc	50	Short-term Borrowing	20
		Long-term Borrowing	20
Cash/ Near-cash	20	Owner's Capital + Reserves	40
Total	100	Total	100

Typical Balance-Sheet of a Bank

Assets		Liabilities	
Item	Amount	Item	Amount
Loans	73	Deposits	90
Investments	21		
		Short-term Borrowing	2
Building	2	Long-term Borrowing	3
Cash/ Near-cash	4	Owner's Capital + Reserves	5
Total	100	Total	100

Light Readings

Sales & Marketing and the Macroeconomy:

- Spending More on Ads to Overcome a Slump (case of Firehouse Subs)
- What sales teams should do to prepare for the next recession
- What companies should do to prepare for a recession

Inflation:

- Inflation is on the way back in the rich world, and that is good news

Light Readings (cont.)

Behavioural Economics:

- Why COOs should think like Behavioural Economists
- Want to perfect your company's service? Use Behavioural Science

General:

- What the hell happened at GE?
- Alibaba and the future of business
- How retailers use personalized prices to test what you are willing to pay (consumer demand)