

Chapter 11

Page 279 Analysing data

With reference to the data, what do you think is the trend growth rate of the UK economy?

Trend rate is typically around 0.4% per quarter.

How might managers use this information?

Managers may use this to estimate likely levels of demand.

Page 280 Analysing data

How might the projections of income shown in Figure 11.3 be used by managers?

Projection of income may affect sales forecasts.

How might these projections affect planning in the different functional areas of a business?

This would affect planning for production, for staffing, for cash flows and profits and for marketing.

Page 282 Doing the business maths

1. How much has GDP changed between 2016 and 2017?

20%

2. How much has GDP changed between 2016 and 2018?

-10%

3. How much has GDP changed between 2016 and 2019?

30%

4. How much has GDP changed between 2018 and 2019?

$40/90 * 100 = 44.44\%$

Page 282 Business insight

How do you think improving productivity increases a country's income?

Greater productivity means more output per hour or person. More output generates more income.

Page 283 Doing the business maths

Complete the table.

Country A : percentage change 20%

Country B: percentage change 10%

Country C: percentage change 5%

Page 283: Quick Check

a. If GDP increases, demand for necessities will fall. FALSE

b. If GDP increases, demand for inferior goods will fall. TRUE

- c. GDP measures the number of goods produced in an economy in a year. FALSE
- d. If GDP increases, demand for luxury goods will fall. FALSE

Page 284 Doing the business maths

Calculate the rate of inflation using the table.

	Weighted index
A	1060
B	3210
C	1010
D	2750
E	1950
	9980
Weighted index	99.8

Page 285 Doing the business maths

- 1 prices still rising but by less as inflation has fallen
- 2 prices still rising but by less as inflation has fallen
- 3 inflation is negative so prices have actually fallen

Page 287 Doing the business maths

1. What is happening to inflation between years 2 and 3?

Year 1 real income rises

2. What is happening to prices between years 2 and 3?

Year 2 no change in real income

3. What is happening to prices between years 3 and 4?

Year 3 real income falls

Page 287 11.2 Quick check

- a. Inflation measures the standard of living. FALSE
- b. A fall in inflation means prices are falling. FALSE
- c. Inflation is measured by a weighted index. TRUE
- d. If nominal wages increase faster than inflation, real wages increase. TRUE

Page 287 Analysing the data

1. In 2008 inflation reached over 5 per cent. What does this mean is happening to prices?

Prices are rising by over 5% in that year

2. In 2015 inflation was 0 per cent. What does this mean is happening to prices?

Prices are not changing

Page 289 Quick check

For each of the following statements, say whether it is true or false.

- a. Inflation may occur if demand is too low. YES if cost push but not because of low demand
- b. Inflation may be caused by higher costs. TRUE

- c. Inflation is a measure of economic growth. FALSE
d. Deflation occurs when inflation is negative. TRUE

Page 289 Business insight

a. Comment on the impact of the changes in earnings and prices on real earnings.

For some periods of time earnings are growing slower than price meaning real earnings are falling.

b. Why do you think earnings were not keeping pace with inflation in 2017?

Weak bargaining power e.g., lack of business confidence and lack of household confidence in the economy; employees may not have wanted to risk their jobs by trying to push earnings higher. Managers may have been reluctant to pay more due to the need to control costs.

c. What might be the implications for business of an increase in real earnings?

Higher real earnings can increase costs and could reduce profit margins. However, it may lead to more demand in the economy.

Page 292 Doing the business maths

Complete the table. Comment on the absolute level of borrowing and the gearing of each business relative to the others.

- Business A 20%
- Business B 10%
- Business C 80%

Page 292 Business insight

1. Why would Carillion's managers want fast growth?

Fast growth may bring bonuses and good for CV

2. Why would they have borrowed to grow?

Wanted to grow fast and may not have the funds internally

3. Why does debt add risk to growth?

Due to interest payments

Page 293 Doing the business maths

Calculate the gearing for the business to complete the table.

2014 62%
2015 61%
2016 62%
2017 53%

Comment on your findings.

Gearing reduced in final year.

What do you think would determine if Diageo's gearing was too high or too low?

The "right" level of gearing depends on the interest payments, the way the money was used and the returns generated from the investment.

Page 295 Analysing the data

Discuss the significance of the data above for UK and local businesses.

Unemployment rates will affect demand and the availability of labour and labour costs.

Page 296 Quick check

- a. High unemployment may be caused by less demand. TRUE
- b. High unemployment may be caused by higher wages. TRUE
- c. Lower government spending is likely to reduce unemployment. FALSE
- d. Unemployment may be reduced by more training. TRUE

Page 297 Quick check

- a. the standard of living. FALSE
- b. the cost of living. . FALSE
- c. the value of one currency in terms of another. TRUE
- d. the level of national income. FALSE

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Complete the table

11.8 DOING THE BUSINESS MATHS			
Complete the table.			
	Time period 1	Time period 2	Time period 3
Exchange rate	£1 = \$1	£1 = \$2	£1 = \$0.90
Price of £100 UK item in US\$			
Comment		The pound is worth more in dollars than last period. All other things being equal, this makes UK goods more expensive in dollars. UK exports are likely to suffer.	The pound is worth less in dollars than in period 1. All other things being equal, this makes UK goods less expensive in dollars. UK exports are likely to increase.
Price of US \$45 good when bought in pounds			
Comment		The pound is worth more in dollars than last period. All other things being equal, this makes US goods cheaper in pounds, i.e. more competitive. UK imports from the US are likely to increase, and UK costs from US products are lower.	The pound is worth less in dollars than in period 1. All other things being equal, this makes US goods more expensive in pounds, i.e. less competitive. UK imports cost more.

Question
What can managers do about exchange rate changes?

	Time 1	2	3
Price of £100 item:	\$100	\$200	\$90
Price of \$45 item:	£45	£22.50	£50

Page 300 Quick check

- a. A strong pound means that the pound has fallen in value against other currencies. FALSE
- b. A strong pound means that the pound has risen in value against other currencies. TRUE

c. A strong pound increases the price of exports in terms of foreign currencies, other factors unchanged. TRUE

d. A strong pound increases the UK price of exports, other factors unchanged. FALSE