CONCURRENT EVALUATION FOR ECONOMIC ANALYSIS FOR BUSINESS DECISIONS

SEMISTER I ECONOMIC ANALYSIS FOR BUSINESS DECISIONS (103)

FACULTY NAME: Dr. Varsha Goyal

Important Instructions:

1. The subject is evaluated on the basis of three components

Sr. No.	Parameter / Component	Marks	Date of Exam/Submission
1	Case Study	50	10th March 2022
2	Situation Analysis	50	20th March 2022
3	Exam	50	

2. Assignments to be mailed and to be submitted in person.
3. Student Name, Contact number, email-id, Specialization, Component must be clearly mentioned.

COMPONENT 1:

Case Study

Instructions: 1. Do read the case carefully so as to understand the underlying problem

2. The answer to the question should include your views, take or stand on the issue in your own words, with a solution to the problem from your perspective, supported with valid justification based on the topics covered in the subject syllabus.

Case 1

The country's most famous retailer Marks & Spencer's big store in London's Kensington High Street has just had a re-fit. Instead of the usual drab M&S interior, it is now Californian shopping mall meets modernist chrome and creamy marble floors. Roomy walkways and designer displays have replaced dreary row after row of clothes racks. By the end of the year M&S will have 26 such stores around Britain – the first visible sign that the company is making a serious effort to pull out of the nose-dive it has been in for the past two years. Things have become so bad that M&S, until recently a national icon, is in danger of becoming a national joke. It does not help that its advertisements featuring plump naked women on mountains – the first-ever TV ads the company has produced – have met with an embarrassed titter; nor that, last week, the BBC's Watchdog programme savaged M&S for overcharging and poor quality in its range of garments for the fuller figure. As the attacks grow in intensity, so do the doubts about M&S's ability to protect its core value: a reputation for better quality that justified a slight price premium – at least in basic items, such as underwear. It is a long time since any self-respecting teenager went willingly into an M&S store to buy clothes. Now even parents have learned to say no. Shoppers in their thirties and forties used to dress like their parents. Now many of them want to dress like their kids. M&S's makeover comes not a moment too soon. Compared with the jazzy store layouts of rivals such as Gap or Hennes & Mauritz, M&S shops look like a hangover from a bygone era. The makeover aims to bring it into the present. People tended to join M&S straight from college and work their way slowly up the ranks. Few senior appointments were made from outside the company. This meant that the company rested on its laurels, harking back to 'innovations' such as machine-washable pullovers and chilled food. Worse, M&S missed out on the retailing revolution that began in the mid-1980s, when the likes of Gap and Next shook up the industry with attractive displays and marketing gimmicks. Their supply chains were overhauled to provide what customers were actually buying – a surprisingly radical idea at the time. M&S, by contrast, continued with an outdated business model. It clung to its 'Buy British' policy and it based its buying decisions too rigidly on its own buyers' guesses about what ranges of clothes would sell, rather than reacting quickly to results from the tills. Meanwhile, its competitors were putting together global purchasing networks that were not only more responsive, but were not locked into high costs linked to the strength of sterling. In clothing, moreover, M&S faces problems that cannot be solved simply by improving its fashion judgments. Research indicates that overall demand for clothing has at best stabilized and may be set to decline. This is because changing demographics mean that an ever-higher share of consumer spending is being done by the affluent over-45s. They are less inclined than youngsters to spend a high proportion of their disposable income on clothes. The results of M&S's rigid management approach were not confined to clothes. The company got an enormous boost 30 years ago when it spotted a gap in the food market, and started selling fancy convenience foods. Its success in this area capitalized on the fact that, compared with clothes, food generates high revenues per square metre of floor space. While food takes up 15% of the floor space in M&S's stores, it accounts for around 40% of sales. But the company gradually lost its advantage as mainstream food chains copied its formula. M&S's share of the British grocery market is under 3% and falling, compared with around 18% for its biggest supermarket rival, Tesco. M&S has been unable to respond to this competitive challenge. In fact, rather than leading the way, it has been copying rivals' features by introducing in-house bakeries, delicatessens and meat counters. Food sales have been sluggish, and operating margins have fallen as a result of the extra space and staff needed for these services. Operating profits from food fell from £247m in 1997 to £137m in 1999, while sales stayed flat. Perhaps the most egregious example of the company's insularity was the way it held out for more than 20 years against the use of credit cards, launching its own store card instead. This was the cornerstone of a new financial-services division, also selling personal loans, insurance and unit-trust investments. When, in April this year, M&S eventually bowed to the inevitable and began accepting credit cards, it stumbled yet again. It had to give away around 3% of its revenues from card transactions to the card companies, but failed to generate a big enough increase in sales to offset this. Worse, it had to slash the interest rate on its own card, undermining the core of its own finance business. And this at a time when the credit-card business was already becoming more competitive, with new entrants offering rates as low as 5%. If shrunk to its profitable core, M&S may become an attractive target for another big retailer. At the moment, however, while its food division may be attractive to the likes of Tesco, the clothing side represents a daunting challenge. Why take the risk now, when the brand may be damaged beyond repair?

Questions:

Q.1 Identify the main factors affecting the demand for M&S products.

Q.2 Analyze the weaknesses and threats on the demand side of M&S, What strategy you suggest to the M&S for improving the demand of it product.

Case 2

OPEC has surprised the markets with an output cut of 900,000 barrels per day, to take effect at the beginning of November. Observers had expected the oil producers' cartel to hold its quotas steady because production in Iraq has been hit by sabotage. Before the regular meeting of the Organization of Petroleum Exporting Countries (OPEC) in Vienna on Wednesday September 24th, most of the drama was provided by Hugo Chavez, the Venezuelan president, who opined that the Iraq representative should not have been at the get-together because he was an illegitimate stooge of American occupiers. If that is so, Ibrahim Bahr al-Uloum behaved very oddly. His bullish predictions that Iraq could produce at least 3.5m barrels per day (bpd) by 2005 seem to have been among the factors that persuaded the ten members of OPEC's quota system to approve a surprise production cut of 900,000 bpd, to 24.5m bpd. The effect of the cut was to send oil prices sharply higher. Equities in America retreated on fears that a higher oil price could stymie the incipient economic recovery: the Dow Jones Industrial Average of 30 leading shares fell by 1.57% that day. In their official communiqué, OPEC's oil ministers pointed to their expectation of a 'contra-seasonal stock build-up' at the end of this year and the beginning of next year. Normally, oil stocks decline over the winter in the northern hemisphere, thanks to heavy use of heating oil. But this year, demand for oil, according to OPEC, will grow merely at its 'normal, seasonal' level, despite an improving world economy. OPEC expects supply to grow faster than demand, thanks to continued increases in production from Iraq and non-OPEC countries (of which Russia, the world's second-biggest oil exporter, is the most important). OPEC expects this supply–demand mismatch to translate into a stock increase of 600,000 bpd in the final quarter of this year. This contrasts with an estimated stock reduction of 500,000 bpd in the final quarter of 2001, and 1m bpd in the last quarter of 2002. Larry Goldstein, president of the Petroleum Industry Research Foundation, believes OPEC has got its sums wrong. In remarks to the Wall Street Journal, he said he thought stocks would be flat over the coming three months. Although the communiqué´ did not explicitly say so, OPEC members are keen to keep worldwide oil stocks below their ten-year average. That would give the cartel more power to determine the price. American oil stocks have been creeping up again after hitting 26-year lows earlier this year. America's energy secretary, Spencer Abraham, was clearly disappointed by OPEC's move, saying: 'Sustained global economic growth requires abundant supplies of energy. The US believes oil prices should be set by market forces in order to ensure adequate supplies.' America's opposition Democrats have been even more outspoken. Last month, they publicly rebuked Saudi Arabia, OPEC's (and the world's) leading producer, for reducing exports in August, thus causing an unpopular rise in American petrol prices. Some observers are also speculating that OPEC may be sneakily trying to shift its price target above the current Rs.22–28 range (per barrel, for a basket of Middle Eastern crudes, which tend to trade a couple of dollars below West Texas crude). After all, the oil price has been well within that range for the past few months. Why cut production when current supply levels are achieving their aim? In fact, the oil price has stayed higher than many expected: it was widely expected to fall well belowRs.20 per barrel after the end of the Iraq war. However, unrest in Nigeria, a big producer, and the continuing attacks on Iraq's oil facilities put paid to that. OPEC's fears about non-OPEC production may be well-founded. After decades of communism, the industry in Russia is ramping up output: so far this year, it has been pumping an average of 800,000 bpd more than last year. Oil and gas are the country's biggest exports, earning hard currency that is seen as a key ingredient of economic revival. Moreover, the oil industry is in private hands, so even if the government in Moscow wanted to put a lid on production, it has less influence over its oil companies than OPEC governments have over theirs. The president of OPEC, Abdullah bin Hamad al-Attiyah, told the Wall Street Journal that the cartel would not cut production below 24m bpd unless big oil exporters outside OPEC, including Mexico and Norway as well as Russia, were prepared to cut production too. OPEC's stance on Iraq is very different. Here, the cartel seems to be taking an overly rosy view. Iraq says it is currently producing around 1.8m bpd, well below the 2.5m bpd that it was pumping before the country was invaded in the spring (and even that was well below its potential, owing to years of sanctions). Moreover, exports, which are a crucial source of revenue for reconstruction, are still running at only about 500,000 bpd, compared with 2 m bpd before the war. These have been seriously disrupted, and continue to be threatened by sabotage. Currently, oil is being exported mainly through the north: the southern ports on the Gulf coast are operating far below capacity. For those who take OPEC's optimistic view of Iraqi production at face value, the cartel's move should not have come as a surprise. But the sharp reaction from oil markets and stock markets suggests it did. Many speculators had sold oil in the futures market, or 'shorted' it, expecting the price to fall in the short term – they clearly weren't expecting a big cut in output quotas any time soon. According to the Commodity Futures Trading Commission, the American regulator for commodity futures markets, the increase in short positions over September was equivalent to 470,000 barrels of oil. OPEC's decision led to a scramble to 'cover' such positions by buying oil. Whether prices stay higher will depend on two key factors. Will OPEC members stick to their new quotas? (They have a history of cheating.) And will Iraqi militants continue to destroy their own country's wells and pipelines?

Questions:

Q.1 OPEC currently produces about 38 per cent of the world output of oil. Assuming the short-term price elasticity of demand is 0:28 estimate the effect of the output cut on the current price, stating any assumptions in your calculations.
Q.2 Explain the effect of other non-OPEC producer on the cartel’s output decisions.

COMPONENT 2:

Situation Analysis

Instructions: 1. The situation is expected to be understood and analyzed properly before writing a report.

2. The report should include following points:

(A) Identification of issue (what exactly is to be addressed)

(B) Development of Problem Statement (narrate the exact problems underlying the situation)

(C) Draft a shared / broad vision (explain the prevailing conditions and a bigger picture of the situation, the circumstances, repercussions etc.)

(D) Desk / Literature Review (refer some articles, research papers, reviews, opinions, columns written by experts on the topic, published in various media)

(E) Review & Organize Data (take a review of the quantitative/ statistical/ qualitative data collected, organize the most relevant data)

(F) Analysis & Findings (do analyze the data, draw inferences, form opinion, give solution to the situation from your point of view and summarize the findings)

3. Write separate reports for each situation after doing analysis.

Situation 1

India's unemployment rate rose sharply to 9.1 per cent in December 2021, highest since the beginning of India's recovery from the lockdown in June. Evaluate the employment status in India, Pre Covid and current situation. Also explain government measures to curb employment problem.

Situation 2

'Profit is the maximum value a company can distribute during the year and still expect to be worth as much at the end of the year as it was at the beginning.' Analyze this situation, and comment on its value in measuring profit for decision-making.

Situation 3

Explain the determination of the optimal price and output combination in a situation of monopolistic competition. Use the resulting equilibrium to illustrate the statement that 'production inefficiency is a necessary price to pay for product variety'. Comment on this statement.

COMPONENENT 3:

Exam

Exam based on the syllabus of all 5 units