

Today

- ▶ Understand the key economic objectives of governments
- ▶ Explain the nature and cause of economic growth
- ▶ Analyse the business cycle and its impact on business strategies



Economics Basics

Just as individuals have moods (cheerful, grumpy etc.), there are often prevailing atmospheres in groups or organisations.



Economics Basics

If we extend this to the whole community of stakeholders there are variations in the 'climate' of how *optimistic* or *pessimistic* the majority of them feel.



Economics Basics

When the climate is optimistic, people are more willing to borrow and spend, leading to a higher demand for a company's products.



Economics Basics

When the mood is more pessimistic, people are more careful and they spend less, borrow less and try to pay off some of their debts instead of spending on luxuries.



Macro-Economic Objectives



Economic Growth

Economic growth is an increase in the value of goods and services produced by an economy over time

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Measuring Economic Growth


GDP

Gross Domestic Product
The value of goods and services produced by an economy over a specific period

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Included in GDP...

This covers household spending on goods and services



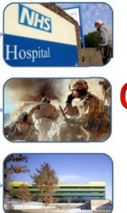
Consumption

This covers investment spending on capital projects




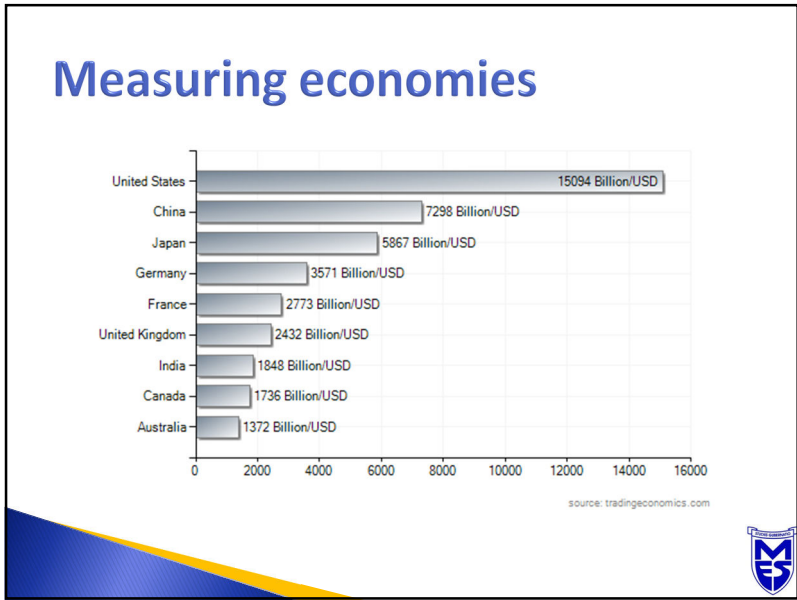
Investment

This involves the spending by government on goods and services



Government Spending

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Why is economic growth important?

For a country/citizens?

- More jobs = wealth = afford 'nice' things, lower cost of living
- Infrastructure (gov. spending)
- Wider range of products/services
- Quality of life

For a business/government?

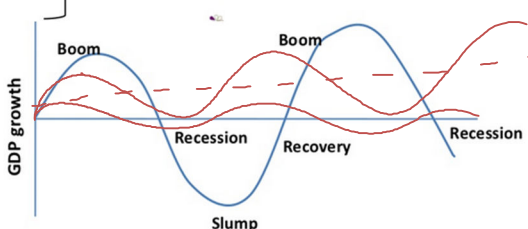

- Lower unemployment – lower costs, and more tax
- More spending on services/public sector
- Business investment – expansion, projects, R&D etc.

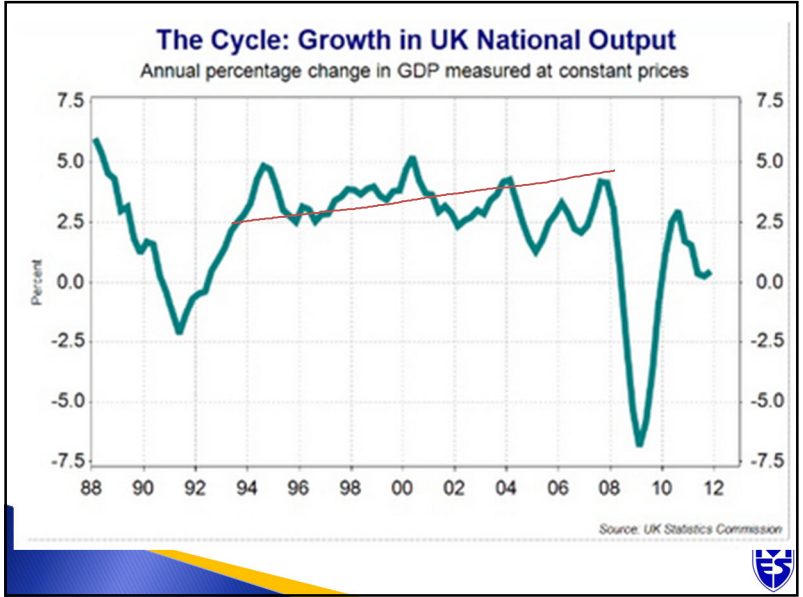


The Business Cycle

- The sequence of slump, recovery, boom and recession
- The regular pattern of "ups and downs" in the economy
- Measured by changes in GDP from one quarter to the next

Sometimes also called the "economic cycle"



Business Cycle Stages

Boom	High levels of consumer spending, business confidence, profits and investment. Prices and costs also tend to rise faster. Unemployment tends to be low
Recession	Falling levels of consumer spending and confidence mean lower profits for businesses – which start to cut back on investment. Spare capacity increases + rising unemployment
Slump / depression	Very weak consumer spending and business investment; many business failures; rapidly rising unemployment; prices may start falling
Recovery	Things start to get better; consumers begin to increase spending; businesses feel a little more confident and start to invest again; but it takes time for unemployment to stop growing

Recession winners and losers



Losses of \$1bn since 2008 and 5,000 job losses in the UK



Three profits warnings and then a complete collapse in the share price after sharp drop in bookings.

Is recession bad for all businesses?

Recession winners and losers



Domino's UK sales and profits doubled in the last 5 years



Attendance at cinemas in the UK has risen every year since 2006



A dramatic increase in the promotion of scrap-gold sales on UK TV



Poundland has doubled the number of its stores since 2007

Recession Opportunities

- ▶ Land and property may become cheaper
- ▶ Demand for 'inferior' (non-luxury) goods increases
- ▶ Improved relations between employers and employees to increase efficiency as risk of job losses increases
- ▶ Harder decisions (closures, redundancies, retrenchment) lead to increased business efficiency

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'De Smit', page 115 part 3

