# Interview and Survey approach

- **Sample survey method :**
- **The total number of customers of a company is called as its population. When this number is more, it is not possible to collect information for all the customers. When only a few customers are contacted, it is called as a Sample Survey.**

# Delphi Method

Administering a series of questionnaires to panels of experts. This method gathers information from all experts and the opinion of all the experts is shared by all other experts. In case if an expert finds that his own forecast is unrealistic, after going through the opinion of other experts, there is a chance for corrections.

# Projection Approach

- In this method, the past experience is projected for the future. This can be done by tow methods :
- Correlation or regression analysis.
- Time series analysis.

Classical approach to time series analysis:
Past sales can be used to forecast future demand. Past sales are viewed from the angles of trends, various cycles of business, seasonality and then a forecast is drawn after checking the possibility of the same treads, cycles and seasonality factors.

This method is easy to use, it is based on past behavior and does not include new company, competitor or macroeconomic developments.

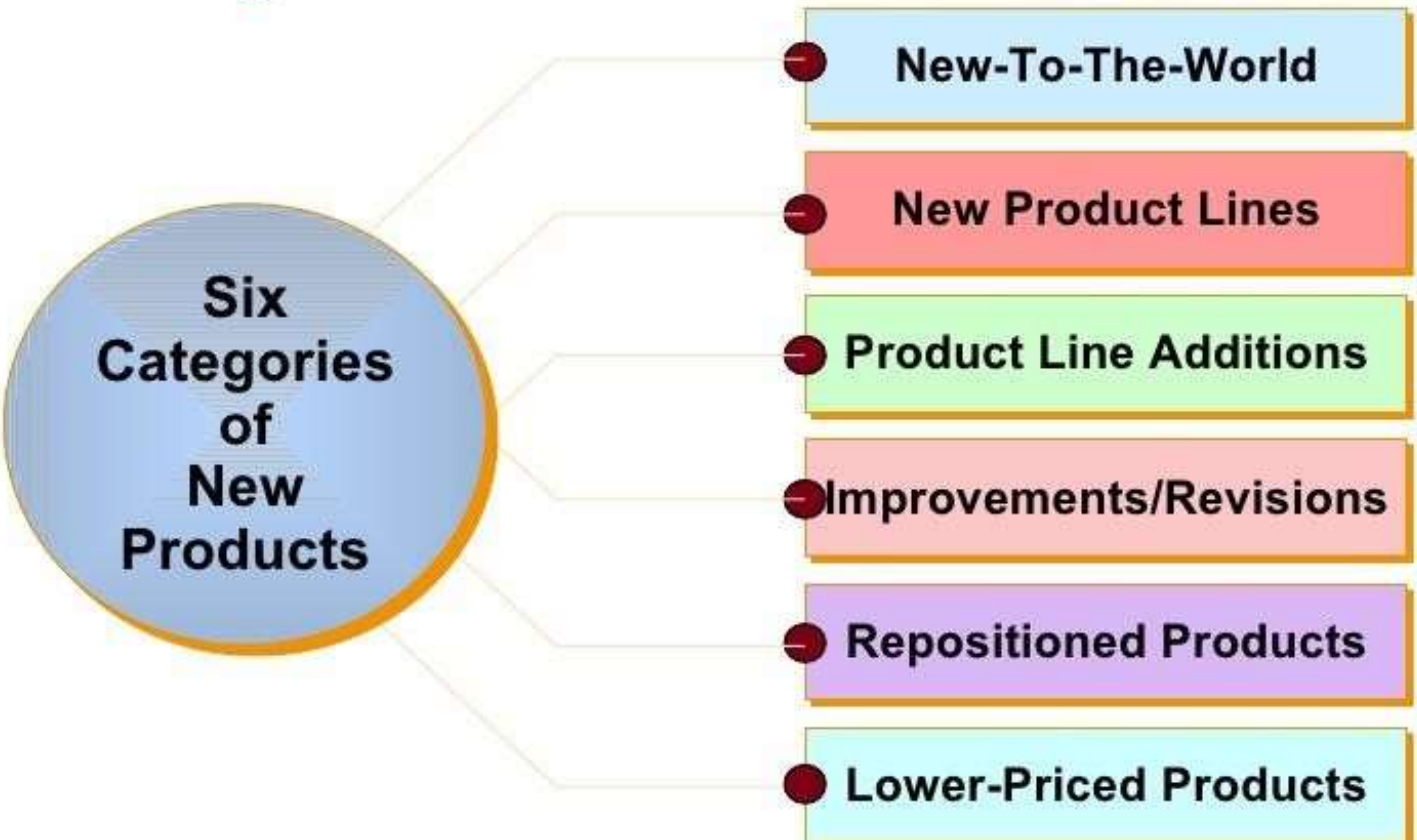
## Moving Average

Moving averages are used to allow for marketplace factors changing at different rates and at different times.

## Trend Projections – Least Squares

Eyeball fitting is simply a plot of the data with a line drawn through them that the forecaster feels most accurately fits the linear trend of the data.

# Categories of New Products



# Forecasting of New Products

- **Evolutionary method : Whenever a new product has been evolved from an existing product ( eg. Colour TV from Black & White TV ), the information of the existing product may be used for prediction of future for the new product.**
- **Substitution method : Many new goods are purchased by customers for replacing the old ones. ( Eg. LCD TV's in place of Colour TV's).**

# Forecasting of New Products

- **Growth pattern methods : To predict the demand for a new product, the growth pattern of an established related goods can be understood.**
- **Opinion polling method : This method advocates the direct questioning to the probable buyers or the influencers of sales of such products. (Eg. demand for drugs can be ascertained by asking the doctors )**

# Forecasting of New Products

- **Sample survey method : A product is first introduced in a test market ( small city having profiles of customers of metros ). Responses from these markets are taken as a base for forecasts.**
- **Indirect opinion polling : Instead of asking the probable buyers, here, the resellers are consulted.**

# What is Supply?

Supply of a commodity is the amount of that commodity which the sellers (or producers) are able and willing to offer for sale at a particular price during a certain period of time.

- Supply is always referred to in relation to price and time.
- Supply is what the seller is able and willing to offer.

# Theory of Supply

Supply refers to the quantity of the commodity which the producer is willing to sell at a particular price during a particular time period.

# SUPPLY ANALYSIS

- "Supply of o commodity is the amount of it which the sellers ( or producers) are able and willing to offer for sale at a particular price during a certain period of time."

- Supply is a relative term – related to price and time.

- SUPPLY AND STOCK

- Supply comes out of stock.
- Stock determines the potential supply.
- Stock is the outcome of production.

# Supply Function or Determinants of Supply

Supply function studies the functional relationship between supply of a commodity and its various determinants.

$$S_x = f\,(P_x, P_R, N_F, G, P_F, T, E_x, G_P)$$

**Where,**

**$S_x$ = Supply of a Commodity**

**$P_x$ = Price of the Commodity**

**$P_R$ = Price of the Related Goods**

**$N_F$ = Number of Firms**

**G = Goal of the Firm**

**$P_F$ = Price of factors of Production**

**T = Technology**

**$E_x$ = Expected Future Price**

**$G_P$ = Government Policy**

# Determinants of Supply

**Determinants of Supply: Factors That Shift the Supply Curve**

| Determinant | Examples |
|---|---|
| Change in resource prices | A decrease in the price of microchips increases the supply of computers; an increase in the price of crude oil reduces the supply of gasoline. |
| Change in technology | The development of more effective wireless technology increases the supply of cell phones. |
| Change in taxes and subsidies | An increase in the excise tax on cigarettes reduces the supply of cigarettes; a decline in subsidies to state universities reduces the supply of higher education. |
| Change in prices of other goods | An increase in the price of cucumbers decreases the supply of watermelons. |
| Change in producer expectations | An expectation of a substantial rise in future log prices decreases the supply of logs today. |
| Change in the number of suppliers | An increase in the number of tattoo parlors increases the supply of tattoos; the formation of women's professional basketball leagues increases the supply of women's professional basketball games. |

# Law of Supply

There is a direct relationship between the price of a commodity and the quantity supplied of that commodity.

$$S_x = f(P_x),\ \textit{ceteris peribus}$$

where,

$S_x$ = quantity supplied of good X

$P_x$ = price of the good X

Price

Quantity

# Assumptions of Law of Supply

* Price of related goods is constant
* Number of firms is constant.
* Technology remain unchanged.
* Price of factors of production remains same.
* There is no change in the goal of the firm.
* Expected future price remains unchanged.
* Government policy is constant

# Exceptions to the Law of Supply

- The law of supply does not apply strictly to agricultural products whose supply is governed by natural factors. If due to natural calamities, there is fall in the production of wheat, then its supply will not increase, however high the price may be.

- Supply of goods having social distinction will remain limited even if their price tends to rise.

- Seller may be willing to sell more units of a perishable commodity at a lower price.

# Exceptions of Law of supply

- Closure of business
- Agricultural products
- Monopoly
- Competition
- Perishable Goods
- Rare goods
- Out of fashion goods

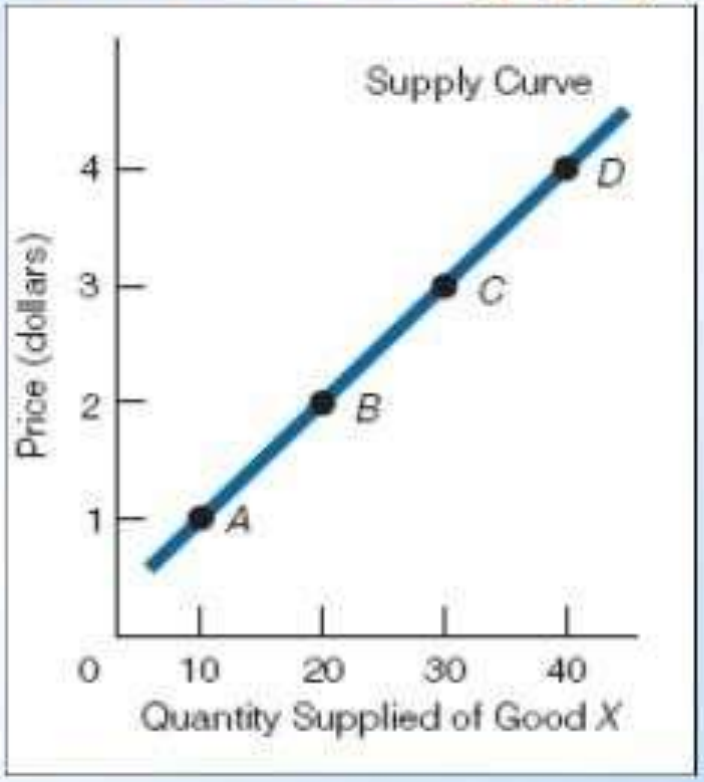
# Supply Schedule and Supply Curve

Supply Schedule : It's a tabular representation showing the different quantities of a good that the producers are willing to sell at different levels of prices during a given period of time.

| Price ($ per Kg) | Quantity Supplied of Good X | Ref Pt |
|---|---|---|
| 1 | 10 | A |
| 2 | 20 | B |
| 3 | 30 | C |
| 4 | 40 | D |

# Supply Curve

**The graphical representation of the supply schedule is supply curve.**



# Individual Supply and Market Supply

- Individual Supply :-

  It means quantity supplied of a good by an individual producer at various prices per time period.
- Market Supply :-

  It is the aggregate of the quantities supplied by all producers in the market at different prices per time period.


Any Questions


Thank
You!

# UNIT-3

## MARKET STRUCTURES AND PRICING

# Models of Competition

How businesses compete and what impact it has on me.

# What are Models of Competition?

- Def. a description of the type of market that a particular business or industry operates in.
- Also known as **Market Structure.**

# 4 Types of Models of Competition

1. Perfect Competition
2. Monopoly
3. Monopolistic Competition
4. Oligopoly

# Perfect Competition

- Def. a market structure in which a large number of firms (businesses) produce the same product.
- Only reason to choose one firm over another is the ***PRICE***

# Four Conditions for Perfect Competition

1. Many buyers and sellers

   People have lots of options to choose whom they buy from.

2. Identical Products

   There are no differences between what is sold by different suppliers. They are exactly the same!

# Four Conditions for Perfect Competition (cont.)

3. Informed Buyers and Sellers

   Buyers know the <u>prices</u> and <u>quality</u> of product sold by all venders to make the best decision

4. Free Market Entry and Exit

   Businesses can enter the market when they can make money and exit when they can't.

# What types of businesses are Perfectly Competitive?

- Farm Markets (ex. Public Market)
  - Many farmers selling their vegetables (Many buyers and sellers)
  - A carrot from farmer Brown is equal to a carrot from farmer Jones (Identical Products)
  - Buyers can compare prices and quality by walking the market (Informed Buyers/Sellers)
  - Farmers choose to bring produce or not. Inexpensive to rent a space in the market (Free Market Entry/Exit)

# Are there many perfectly competitive businesses?

- NO! All 4 of the conditions must be met for perfect competition. This is very difficult in most industries.
  - Often people can only buy from one supplier
  - Products are rarely identical
  - Buyers often do not know if a product is cheaper/better at a different supplier
  - Barriers to entry prevent free market entry

# Barriers to Entry

Def. Factors that make it difficult for new firms to enter a market.

- **Start-up Costs**

The expenses that a new business must pay before the first product reaches the customer.

Ex. Rent, machines, product, labor, etc.

- **Technology**

Some markets require a high degree of technological know-how. As a result, new entrepreneurs cannot easily enter these markets.

Ex. Software and Pharmaceutical companies

# Monopoly

- Def. a market dominated by a single seller.
- They form when barriers prevent competitors from entering the market. This is often because of the high costs to supply a product.
- They take advantage of their monopoly power and charge high prices.
- In the United States most monopolies are illegal.

# Examples of Monopolies

- During the late 1800s and early 1900s Standard Oil and Carnegie Steel
- From the late 1800s to the 1980s AT&T (also known as Bell Telephone) had a monopoly on phone service
- Microsoft has been accused and convicted in court for having monopolistic characteristics

# Natural Monopolies

- Some monopolies are allowed by the government to exist. Natural Monopolies are markets that run best when one firm provides all of the supply.
- Ex. Monroe County Water Authority
- RG&E used to be a natural monopoly, but recently has opened to competition by sharing power lines.

# Government Monopolies

- Patents: Licenses that give inventors the exclusive right to sell their product for a certain period of time.
- Industrial Monopolies: Rare cases where the government allows an industry to restrict the number of firms in the market. Ex. Major League Baseball.

# Monopolistic Competition

- Def. Many companies compete in an open market to sell products that are ***<u>similar</u>***, but not identical.

# Four conditions of Monopolistic Competition

1. Many Firms

   Mono. Comp. do not have high start-up costs and so have more firms.

2. Few Artificial Barriers to Entry

   Barriers to entry are relatively low.

# Four conditions of Monopolistic Competition

3. Slight Control over Price

   Firms have some freedom to raise prices because each firm's goods are a little different from everyone else's

4. Differentiated Products

   Firms have some control over selling price because they can differentiate, or distinguish, their products from other products in the market.

# What types of businesses are Monopolistically Competitive?

- Lots! Most markets exist in this model.
- Ex. Soft Drinks
  - Coke, Pepsi, RC, WPop, etc. (many firms)
  - Relatively inexpensive to produce, don’t need huge factories, chemicals, etc. (Few artificial barriers to entry)
  - Coke is a little more expensive than WPop (Slight control over price)
  - Some people like Coke more than Pepsi, etc. (Differentiated Products)

# So, how do Firms in Monopolistic Competition get customers?

- Through **Nonprice Competition**: a way to attract customers through style, service or location, but not a lower price.

# 4 types of Nonprice Competition

1. Characteristics of Goods

   Firms distinguish products through size, color, shape, texture or taste

   Ex. Coke vs. Pepsi, Lemon Pepsi, Vanilla Coke

2. Location of Sale

   A convenience store in the middle of the desert differentiates by selling it miles from competitors

# 4 types of Nonprice Competition (cont.)

3. Service Level

   Some sellers can charge higher prices because they offer customers a higher level of service

   Ex. Fancy sit-down restaurant vs. McDonalds

4. Advertising Image

   Advertising creates apparent differences between products in the marketplace.

   Ex. Jordans vs. Carmelo Anthony’s shoes

# Monopolistic vs. Perfect Competition

| | Perfect Competition | Monopolistic Competition |
|---|---|---|
| Prices | Lower, firms have no control | Higher, firms have some control |
| Profits | Lower | Higher in short term, but must work hard to keep ahead of rivals |
| Cost and Variety | Low costs, no variety (identical products) | Higher costs for differentiation, wide variety |

# Oligopoly

- Def. A market dominated by a few, large profitable firms

# How do Oligopolies work?

- Collusion:

  An agreement among members of an oligopoly to set prices and production levels.

- Price Fixing:

  An agreement among firms to sell at the same or similar prices.

- Both are Illegal in the U.S.

- Cartels:An association by producers established to coordinate prices and production.

  Ex. OPEC: Organization of Petroleum Exporting Countries controls the oil supply and manipulates prices of gasoline.

  Ex. DeBeers controls 80% of world's diamonds, keeps prices high by limiting supply.

# Market Power

Def. The ability of a company to control prices and output

Markets dominated by one or a few firms (monopoly or oligopoly) have higher prices and lower output. (great market power)

Markets with many sellers (monopolistic and perfect competition) have lower prices and higher output. (little or no market power)

# Predatory Pricing

- Def. Setting the market price below cost levels for short term to drive out competitors. Firms in Monopolistic and perfect competition do this to gain market power.
- Ex. My pizza shop sells slices for $0.50 each, even though it costs me $0.75 to make. I am losing money ($-0.25), but it drives the competition out of business, so I can raise the price later.

# Government and Competition

- The Government keeps firms from controlling prices and supply of important goods. **Antitrust laws** are laws that encourage competition and break up monopolies/oligopolies in the marketplace

# 4 forms of Anti-trust Laws

1. Regulating Business Practices

   Government can intervene if a firm has too much market power

2. Breaking Up Monopolies

   Antitrust laws have been used to break up monopolies (ex. Standard Oil, AT&T)

# Antitrust Laws (cont)

3. Blocking Mergers

   A **merger** is a combination of two or more companies into one firm. The government can block this if it decreases competition

4. Preserving Incentives

   In 1997, new guidelines on mergers were introduced allowing companies to merge if they show benefits to consumers.

# Deregulation

- Def. The removal of some government controls over a market. It is used to promote competition.
- Deregulation allows more competition in a market, lowers prices and increases variety (benefits), but often can lead to layoffs and business closings (negatives) in the short term because of the change.
- Ex. Airline Deregulation in the early 1980s. New, smaller, cheaper airlines emerged, but the older, larger airlines are having trouble competing and have had to cut back on flights, employees, and benefits (in-flight meals etc.)

# UNIT-4
# Financial Accounting

- Accounting is---
  - A system by which assumed responsibility is validated
- Accounting may validate—
  - Internal responsibility to one’s own self
  - External responsibility to people other than one’s own self
- Financial Accounting –
  - Primarily validates responsibility externally

# Financial Statements The Means of External Reporting

- Balance Sheet--
  - Investing and Financing Activities are the first order of business
  - Defined by the basic accounting equation
  - That is, Assets = Liabilities + Owners' Equity
- Increases and (or) decreases on each side of the = sign must balance
- Algebraic Equation: A = L + OE; can be rearranged to A – L = OE or Net Assets; also known as net worth or equity

# Income Statement

- Also called the Statement of Operations—
  - Operating activities (day-to-day) operations by which the business attempts to make a profit
- Revenues and gains represent inflows of resources (assets)
- Expenses and losses represent outflows of assets or increases in liabilities
- The net difference is either Net Income or Net Loss for a specific period of time
- Net Income increases owners' equity and net losses decrease owners' equity

# Cash Flow Statement

- Identifies cash flows during the period—
  - Operating Activity Inflows (Outflows)
  - Investing Activity Inflows (Outflows)
  - Financing Activity Inflows (Outflows)
- Sum of above three is net increase (decrease) in cash for the period
- Net increase (decrease) for period is then added (subtracted) to the beginning balance to give the ending balance

# Owners' Equity Statement

- Must be either a separate financial statement or disclosed in the Notes to the Financial Statements
- Depends on type of entity—
  - Sole proprietorship or partnership
    - Capital account for each owner
  - Corporation—(Illustrated in this chapter)
    - Contributed Capital (capital from sources other than profit seeking activities)
    - Retained Earnings—Represents all profits current and past that have not been returned to owners in the form of dividends

# Owners’ Equity Statement, Cont’d

- If no activity during the period in contributed capital accounts—
  – Just the Retained Earnings Statement
    - Beginning Balance plus (+) Net Income for the period, or minus (-) Net Loss; Minus (-) Dividends Declared during the period (example on p. 17 in your text)
    - Note: Dividends are not expenses so they do not go on the income statement
- If activity in Contributed Capital Accounts, then a complete Owners’ Equity Statement must be prepared, similar to p 766

# Articulation of Financial Statements Exhibit 1.6 page 17 in Text

Income Statement

| | |
|---|---|
| Revenue | $37436 |
| Expenses | 34136 |
| Net Income | $ 3300 |

Retained Earnings Statement

| | |
|---|---|
| Beg Bal | $6805 |
| Net Income | 3300 |
| Dividends | -1000 |
| End Balance | $9105 |

Balance Sheet

| | |
|---|---|
| Cash | $ 4895 |
| Other Assets | 22366 |
| Total Assets | $27261 |
| Liabilities | $16156 |
| Contributed Capital | 2000 |
| Retained Earnings | 9105 |
| Total Liab & OE | $27261 |

Cash Flow Statement

| | |
|---|---|
| Change in Cash | $ ( 156) |
| Beg Balance | 5051 |
| End Balance | $ 4895 |