

Identifying long term trends slp

Business



FedEx Corporation FedEx Corporation (Forbes, Balance Sheet Value as at
31stDecember Market value as of 09 March Costof Capital

Short term debt

Long term debt 1

Long term debt 2

Long term debt 3

Preferred shares

Common Equity

428, 000

91. 79

16. 75%

\$428, 000

\$1, 251, 000

\$1, 367, 000

\$1, 667, 000

\$2, 557, 000

\$15, 917, 000

As company expansion into other regions remains a critical decision to Fedex Corporation, the financial managers should take decisive steps to ensure success because the expansion process is not risk free. In there expansion to Canada finance managers need to consider several economic variables including interest rates, inflation rate, unemployment rates, exchange rate, real gross domestic product, and the level of stock market as a way of assessing the markets future conditions while establishing there business in the region.

Fedex corporation may not have sufficient funds to fully invest there

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business in Canada, and as a result the financial managers may decide to source some funds from a financial institution. However, these funds will be associated with an interest rate set by the lender. During inflation period, the interest rates will tend to be higher, this will affect the amount of interest that will accrue to the loan borrowed (Mankiw, 2012). Financial managers of Fedex corporation should therefore, consider interest applicable before deciding where to source their funds. As an economic variable, the stock market affects FedEx Corporation, Canada's expansion program. This is because the stock market index based on Canada's stock exchange gives a prediction of the expected future value of stock prices. In case, there is a high value index FedEx Corporation should continue to carry out its expansion to Canada because the financial managers expect high profits as a result, of rapid economic growth accompanied by low levels of unemployment.

Financial managers need to also determine the rate of inflation in Canada before carrying out their investment. If inflation is high it then means that consumers prices will be high, and in turn will affect how they spend their money (Mankiw, 2012). If inflation is high FedEx Corporation will fix the prices of their services high, and as a result, consumers will not use the services because they cannot afford it. During inflation, it is extremely difficult for FedEx to determine how much income to generate, this is because it is difficult to determine the demand for their services at the higher prices (Mankiw, 2012). In addition, the financial managers of FedEx Corporation should focus on the trends of the real gross domestic product as it gives a measure of what the economy produces goods and services besides giving an accurate measure of changes in the price levels.

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In addition, the financial managers of FedEx Corporation should take into consideration the changes in Canada's unemployment rate. With both cyclical and frictional unemployment affecting the customer's disposable income, there is a need to familiarize with Canada's unemployment rate. More importantly, the financial manager of FedEx Corporation should find out Canada's unemployment rate, as it depicts the productivity of the country's workforce that affects the economy (Baumol & Blinder, 2012). Just as FedEx Corporation intends to expand into Canada the expected changes in the exchange rate are more likely to affect the expected profits. More significantly, the financial managers should take into consideration the difference between the nominal exchange rate and the real exchange rate (Baumol & Blinder, 2012). If the domestic currency is expected to appreciate, the financial managers of FedEx Corporation should undertake the global expansion program. This is because the exported services offered by them will be cheap as compared to domestic made goods thus, boosting its production.

In conclusion, it is essential for the financial managers of FedEx Corporation to consider the effects of the economic variables on the expansion plan. This is because the economic variables affect the economic growth and environment in terms of the growth expansion strategy. Because the focus, of FedEx Corporation is to set high levels of profits it should take decisive steps to ensure success because the expansion process has minimal risks.

References

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