

Good essay about micro-economics

[Business](#), [Company](#)



Answer 1)

Today, individuals are turning conscious related to their health and the food companies are cashing on this opportunity rigorously by launching low-calorie foods. Hence, for a company that is not only launching low-calorie but also microwavable food, a good product pricing can surely assist it in gaining a significant demand and market share. However, since the market is monopolistic and different companies are infiltrating the market to gain their share of the normal profits, it is really important for the managers to adopt the pricing strategy that at the time of increasing prices ensures that the demand remains inelastic to the extent possible. Below discussed are such strategies, which the managers can consider when planning for their pricing strategy to keep the demand elastic:

i) Close check on the competitor's pricing strategy

Being operating in the monopolistic industry, the company should keep a close check on the pricing strategy of their competitor. As already discussed, since the company will be facing enough competition from other firms in the industry, any pricing strategy that is framed without considering as what price the competing firm is charging, will be of no use as any price higher than that of the competing firm will turn the demand elastic and at the time when prices are anticipated to rise, customers may only go for low-cost option available.

Hence, the managers should frame the pricing strategy that is at least equal to the price than what is being charged by the competitors as this will ensure that even at the time of inflated price, it will be the customer who will decide its demand as the price of the firm will be equal to that of its competitor. In

addition, if the company had already developed a brand or customer loyalty, such pricing strategy will strongly ensure inelastic demand for the firm.

ii) Understanding the price-mechanism

Since the equilibrium price is established at the point of intersection of demand and supply of the product, the managers should forecast as at the time of inflated prices, what will be the change in the supply of the product and the corresponding demand, and should then settle for the equilibrium price at that point based on the forecasted model.

In this way, the company will not only be fixing a rational price for the consumers that will assist them in ensuring inelastic demand for their product.

iii) Penetration Strategy

This is another strategy which the managers can follow to ensure low demand elasticity of the product. Under this strategy, the company can benefit by penetrating into the market share of the competitors and gain the market share but at the cost of reduced prices. Hence, even at the time of increasing prices, if the company can afford to offer high-quality product at lower price, this will establish customer loyalty as by offering high-quality product at lower cost, the customers will be hooked to buy additional products from the company long into the future, thus reducing the demand elasticity.

iv) Portfolio Approach:

The managers of the company can also follow the portfolio approach as using the same will help them relating the pricing strategy with the broader goals of the consumers for the product of the company as quantity, quality,

etc. This will also be effective in ensuring low demand elasticity from the consumers.

Answer 2)

Any policy action by the government on the production or employment forces will have a substantial effect on the company. The same is discussed below:

Effect of government policy on the production

Being a policy maker, the federal government has the authority to change the tax regime on the production activity popularly known as 'Excise Tax'. Hence, any such action will have an effect on the supply of the product. For instance, if government increases the excise tax rate, this will increase the cost of the production of a firm and will negatively affect the supply, vice-versa.

Effect of Government policy on employment

Federal State Governments has the authority to impose wage ceiling and wage floors as and when they deem fit. Hence, any such action will have a consequence on the employment market. For Instance, if the state government imposes a wage ceiling above the equilibrium rate, this will lead to unemployment as the employers may not be ready to employ labor at those rates.

Effect of Government policies on the company

i) As discussed before, if the government increases the tax rate on production inputs, this will affect the company substantially where it may

have to continue the same supply at reduced profit margins, vice-versa.

ii) Being operated in the food industry, the company will also have to adhere to various food safety rules endowed by the government. Hence, if the government turns more strict and employs more regulations, this can negatively affect the company in terms of cost being spend on adhering to new rules.

Answer 3)

No, since the low-calorie microwavable food industry is a monopolistic industry, we believe that the market structure itself will ensure the fairness for the consumers. In other words, since no firm will have a monopoly holding over the supply or pricing of the product, it will not be possible for any of them to restrict the supply and reduce market efficiency. Hence, since there is neither lack of competition nor presence of externality in the market, there is no point of government intervention.

Below discussed are some of the possible situations when the Government may intervene:

- Lack of informational flows in the market
- Presence of externalities
- Control non-competitive behavior
- Provide public goods
- Change income distribution when there is an aroma of economic inefficiency.

Answer 4)

Capital Projects are not only expensive but also have high risk associated with them. Since years the corporate finance professionals have been trying to minimize these risks through implementing project guidelines and by employing structured process but still a staggering 30 percent of large, capital-intensive project costs are wasted. In addition to losing a substantial amount of capital, some of the other issues related to expansion through a capital projects are:

- Cost of financial resources
- Accessibility of financial resources
- Potential labor clashes
- Difficulties of partnership with the joint venture participants
- Federal regulations relating to health, safety and environmental measures.

Managing the complexities relating to the capital project:**i)Governance Structure Framework:**

No matter what the size of a capital project is and what investment is being involved in it, in order to manage the inherent risk in the capital project, the organization needs to have a strong governance structure as this diverts accountability at each hierarchical level of the management, i. e. from operational level to the managerial level by allowing comparison and integration of risks involved in the project. For this purpose, the operational perspective of managing risk of the project should be integrated with the strategic view of managing project portfolio risks as this provides the advantage of overall portfolio balancing and also allows the management of enterprise-wide risk.

ii) Using advanced risk-management tools aligned with team interaction:

With the development in the financial and risk management technology, the companies are now able to employ highly advanced risk management models since the inception of the capital project. However, empirical evidences have proved that even the highly advanced and expensive risk management models are not successful until there is regular interaction between the project team.

Answer 5)

The principal-agent problem has been a big corporate issue since decades now. As for a company, the principals, i. e. the shareholders mostly share different goals than the agents(managers). For instance, the shareholders always believe that the management should do more to add value to their wealth, while the manager's motivations and goals can be to take decisions that maximize their income and not the shareholder's wealth. Hence, the board of directors tries their best to align the interest of both the parties through the following means:

Offering ownership interests:

Under this mean, the managers are offered ownership interest in the business if they are able to increase the firm's profit. Through this way, the management is motivated to perform in a manner that maximizes shareholder wealth also. This scheme is used only for the senior management only.

Incentive Pay:

This scheme is tested with the managers and workers both, under which they are offered performance related incentives in the form of share in profits or stock plans. Promotion is yet another way of aligning the interests of the shareholders and managers through this mean.

Offering long-term contracts:

This scheme is generally provided to the CEO's of the company where they are assigned long-term contracts to induce them to take decisions and develop strategies that will maximize the profits for a longer period of time.

Impact on profitability:

Different organizations employ different methods to minimize the principal-agent problem, but each of these methods had been found to be effective in increasing the profitability of the company. For Instance, British Airline and United Airlines, which were once running into losses, proposed ownership to its managers and within an year, each of them was heading high into profits.

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