

Economic naturalist



We always associate the month of December with flood season especially in Kelantan & Terengganu. December also normally become a vacation period for most of Malaysians as this time of the year coincide with school holiday and people are finishing off their annual leaves to be with their family. You might be wondering what December has to do with the economy? How about calendar? People are normally looking for calendar for incoming year in December. Many companies in Malaysia are producing calendars to be given out to their customers, official contacts and suppliers.

We can find so many types of calendars form small and simple to big and colorful and quite expensive too. Why companies are producing calendars? Why they have to incur an additional unnecessary expenses? Is it part of the advertising expenses? What are the expected benefits? They do not sell the calendars!!! Of course, they are not going to get some income out of this activity. These are some of the issues that we are trying to explore and answer. We will relate the issues into some of the economic theories. There must be some economic reasons for companies to give out complementary calendars every end of the year.

Theory of the Firm A firm is an organization that combines resources for the purposes of producing goods and/or services for sale. Firms exist because it would be very inefficient and costly for entrepreneurs to enter into and enforce contracts with workers and owners of capital, land, and other resources for each separate step of the production and process. Calendars play some roles in any firm. Generally, firms produce calendars as part of their promotion for its products and the company itself. Normally, the

calendars are printed with company's particulars such as company's logo, name, address, and contact numbers.

It also has the information and pictures of products the company produce. The pictures are normally in full color and very attractive. These elements are very important in projection the good image and can be one of the marketing strategies for the company. The calendars will play a role as part of the company's advertising effort in promoting its products and services. Normally, calendars are given out as a complimentary to company's customer, suppliers, business contacts and government authorities. Sometime, people need to buy something from the store in order to get a calendar.

Believe it or not that there are people who buy goods and products just to get the calendar. These consumers are influenced by the year end discounts and the just for the sake of calendar that the company offers. But as far as the company is concerned, the above will increase public awareness of its company and products which will later have a positive effect on its sale and profit. Of course, the company will incur some additional expenses in producing calendars in short term but they will gain in long term. As such, companies are willing to sacrifice short-term profits for the sake of increasing future or long-term profits.

The same goes to other expenditures such as research & development, and new capital equipment. These require a very high initial investment and the return may be realized in five or ten years. Originally, the theory of the firm was based on the assumption that the goal or objective of the firm was to

maximize current or short-term profits but, the theory of the firm now postulates that the primary goal or objective of the firm is to maximize the wealth or value of the firm. This is given by the present value of all expected future profits of the firm.

Future profits must be discounted to the present because a ringgit of profit in the future is worth less than a ringgit of profit today. As such, companies are willing to invest in producing calendars as they know that they will gain profit in long-term. Talking about, there are two types of profit which are business profit and economic profit. Business profit refers to the revenue of the firm minus the explicit cost or accounting cost of the firm. The explicit costs are the actual out-of-pocket expenditures of the firm to purchase or hire the inputs it requires in production.

While the economic profit equals the revenue of the firm minus its explicit costs and implicit costs. Implicit cost refers to the value of the inputs owned and used by the firm in its own production processes. Law of Demand As mentioned earlier, calendars act as a part of advertising channel for a company. With the right combination of distribution strategies, design, and concepts; the message on the company and its products will reach the consumer and it stick to their mind as calendars are hanged in our living room for the whole year.

In long term, the demand for the product is increased. It is shown by a rightward shift of the demand curve for a product. Before, we explain further on shift of the demand curve, let's look at the basic law of the demand. The law says that as the price of the commodity increase, the quantity

demand decrease and as the price of the commodity decrease, the quantity demanded increase. This inverse relationship between the price of the commodity and the quantity demanded per time period is referred to as the law of demand.

The demand function faced by the firm is the relationship that identifies the determinants of the demands for a commodity faced by the firm. These include the price of the commodity, consumer's income, the price of related commodities, tastes, advertising, and other forces that are specific to the particular industry and firm. The consumer demand theory postulates that the quantity demanded of a commodity per time period increase with the reduction in its price, increase in consumer's income, increase in the price of substitutes and a reduction in the price of complementary commodities, and increased taste for the commodity.

On the other hand, the quantity demanded declines with the opposite changes. Now, let's go back the issue of rightward move of a demand curve. If any of the things held constant in drawing the demand curve change, the entire demand curve shifts to the right so that the consumer demands more of the commodity at each commodity price if the consumer's income increase, the price of substitute commodity increase or the price of a complementary commodity falls, and if the consumer's taste for the commodity increase.

An increase in expenditures on calendars could also lead to an increase in demand of the product of the company and contribute to the rightward shift of the demand curve. Regression Analysis In other words, we could say that

the expenditures on calendars could also contribute to the increase in the demand of the product or there is a relationship between the ringgit spent on calendars and the quantity demanded of particular product. How significance is the relationship is really depending on some formula and data to come up with t value of the hypothesis.