

Applied managerial economics research papers examples

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Cost is an important measure which is extremely vital for an organization in particular. There are two different types of cost, which particularly are fixed cost and variable cost and it makes a total of Total Cost. Both of the types of costing are essential for a company to incur. Every organization tries to decrease the cost of the company in order to increase the financial belongings resultantly. Apart from the fixed and variable cost, financial risk is yet another important provision on which the entire capacity of an organization depends upon. The prime theme of this assignment relates to a company with the name of AutoEdge, a new company which has two different manufacturing plants in South Korea and United States. There are three different questions that related to this assignment.

" What types of short-term and long-term variable and fixed costs should we consider?"

Fixed cost is a form of business expense. The fixed cost is such a cost that cannot be diminished even with the increase or drop off in the volume of goods and services produced by the company. It is a certain expense for any company to keep their operations active as these expenses may not be lessened nor destroyed. This sort of cost is generally regarded as a time based cost such as staff salary, building rent, insurance premiums and others. On the other hand, fixed costs can also design economies of scale that means to curtail per unit costs by boosting up the production. This process can be identified as a diminishing marginal cost. In general, fixed costs are not fixed everlastingly as it is modified in different time intervals but are fixed in regard to productions on different scales. Whereas, the nature of Variable cost is totally different with fixed cost as the amount is

tailored with the manipulation in the production of goods and services. The variable cost can also be associated with the marginal cost that is normally a change in total production outlay in the case of augmentation or turning down the quantity of each unit. However, direct costs express that it has a direct influence in manufacturing any specific object, but to some extent, all the variable costs are not always deemed to be direct costs. For instance, the cost incurs in overhead production expenses are indirect cost rather direct cost . The total cost is primarily based on two elements such as fixed and variable cost. Variable costs may be of many sorts for example raw materials, labor service, wrapping that has direct influence over quantity of production. The companies with a high proportion of variable costs are comparably deviated from the companies with high fixed cost budget. The difference surely impacts the financial structure of the company along with product pricing and profit margins

If the manufacturing plan would have been transferred to the United States, then a totally different cost structure would have been coming in the front. The fixed cost might not change because it will be like the same no matter if AutoEdge will operate in South Korea or in the United States. The fixed cost is the one which has been set out by the management in a given fiscal year which would be remain the same in both of these regions. There would be no difference between the short and long term fixed cost associated with the locations and regions; however it is totally differ in terms of variable costing. The variable cost in both short and long term time periods are union cost, labor cost, raw material cost and operational cost, and it would be around \$ 320 per unit in the United States, because raw material and labor are

expensive here, however in South Korea, the same quality of production could be designed in \$ 110 per unit. AutoEdge would get the added advantage by sticking their operational unit in South Korea instead of United States.

What costs should we expect if we stay in South Korea?

As mentioned above the cost which are expecting in both of the regions would be union cost, raw material cost and labor cost. It is known as the variable cost. Apart from this, supplier cost could also be an escalating cost which we have to expect while producing the unit in the South Korean region, but it can be decreased by hunting the most cost effective suppliers.

What financial risks are the company and the stakeholders exposed to?

The risks that are directly or indirectly involved in making investment in any project, company or financial transactions like risk of default in terms of debt financing. In other words, the essence of uncertainty by investors that involves the probability of money thrashing or low return as a result of corporate investment and their cash flows journals are exhibited that the company tends incapable to meet the financial obligations in proper extent . The time when the company in need to acquire debt financing method, then the creditors would be given preference to pay back the loan rather company's stakeholder in the case of bankruptcy. There are numerous ways of evaluating the financial risk by investors that includes debt-to-capital ratio, which expresses the proportion of debt in the entire capital structure of an entity. The probability of being defaulted by corporate or government in

the issuance of bonds that may impair the bond holders' by losing their investment may also be termed as financial risk. There are some financial risks which may be encountered by the company as well as the stakeholders. Financial risk which associated with the company is inefficiency in generating financial reserves because the consumption stance of the companies of South Korea is comparatively lower than that of the United States. In terms of stakeholders, they would consider the highest amount of financial risk, which is not having a perfect financial market in the South Korean region. Investors are not like to park their money in the stocks of the company, if the operations would be transferred to South Korea and most of the cost would be incurred by AutoEdge from their own pocket. The risk of losing stakeholders always sticks to AutoEdge while manufacturing their plant in South Korea.

References

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