

# Effect of macro- economics on companies flashcard



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This is a report about the macro-economic environment of Germany in which Brayer GAG (Brayer) was founded and listed in the European Stock Exchange vis-a-vis the macro-economic environment of China in which Brayer has a significant market and operations. This report examines and provides an insight on market structures in which Brayer operates, the impact of the macro-economic of Germany and China on Brayer's economic activities and the monetary, fiscal and foreign trade policy and their impact on Brayer.

This will assist Brayer to make strategic business plans includes major investment and expansion based on the above economic and market factors.

Background of Brayer In fiscal year 2013, Brayer employed 113,200 people and had sales of €40.2 billion. The figure below shows the key figures of Brayer (revenue & employee) by key geographical regions. Brayer is a global enterprise with 3 core competencies. Brayer GAG, Levelness, Germany, acts as a strategic management holding company which defines the values, goals and strategies of the entire Group.

Brayer Financial Performance Summary The following is an excerpt of the five years summary of Brayer Group financial performance with about 88% of Brayer sales outside Germany. The following table provides Brayer's regional breakdown of external sales by market and of intangible assets, property, plant and equipment. China forms a significant part of Brayer overall market as well as emerging markets for growth. Brayer in China Brayer's links with Greater China go back to 1882 and it now employs around 13,000 people.

The signing Of a broadly based cooperation agreement between Brayer and the Ministry for Chemical Industry in 1993 laid the foundations for expanding business activities in China. In 1994, Brayer (China) ad. Was established as a holding company in Beijing to coordinate technology rancher and market development, and support the preparation and implementation of joint venture projects. Global Economic Environment The crisis in a number of European countries continued to damper economic development.

Although trend was positive as the European economy grew slightly again after several quarters of recession and economic output continued to increase in the United States, albeit at a slower pace than in the previous year, the biggest contribution to global growth still come from the emerging markets.

With Brayer 88% of sales coming from the rest of the oral outside Germany, Brayer would need to continue focus on emerging market economies to drive sustainable growth for Brayer Group. 2.

Fiscal and Monetary Policy in Germany and China and the implications on Brayer Business Introduction Fiscal and monetary policies are the two tools used by the government to achieve its macroeconomic objectives by influencing the level of aggregate demand in the economy to achieve economic objectives of price stability, full employment, and economic growth. When the government changes the levels of taxation and government spending, it influences aggregate demand and the level of economic activity.

There may be sectarian impact but in general, macroeconomic effect is broad base and they will impact Brayer's operations and performance. Both Germany and China are large export countries especially in manufacturing, although increasing for China, it also has developed its domestic market for a more balanced growth, Brayer's operation and performance will certainly be influenced by the government fiscal and monetary policies .

**Germany Fiscal and Monetary Policies** Germany does not have its own money so they cannot use their own monetary policy.

Germany has to abide by what the CB (European Central Bank) policies. Given the size and importance of the German economy to both the Rezone and to the European Union as a whole, it is unsurprising that the Governing Council of the CB might work along the lines that what is good for Germany is good for the rest of the SEC). The decisions of the CB are aligned somewhat more closely to the interest of the German economy. Germany Exports By volume, Germany exported nearly as much as the United States, which is considerable considering the German economy is a quarter that of US.

Germany's trade-to-GAP ratio was 87.

4% which indicate that the country is keen to be heavily affected by fluctuations in demand for its exports by other countries. Germany runs a substantial trade balance surplus to partner countries, issuing debt in return. Germany is a large investor in Greek debt. CB countries like Spain and Portugal have sizable trade balance and budget deficits, importing Germany goods. Through buying of debts, Germany has maintained its growth where

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exports and the growth thereof offsetting stagnant domestic demand and with low wage inflation.

If any of these countries like Greece were to default, Germany will be severely impacted in terms of the debt and the export market evaporates. This was all fine and large when growth was strong, but when the financial crisis hit, things went awry. CB countries now finds itself with double-digit inflation and is very precarious on debt defaults. Germany see falls in export and Brayer is not insulated from it too. China Fiscal and Monetary Policies China's emphasis is on implementing " proactive fiscal policy" aimed at continuing to achieve economic growth and " prudent monetary policy" to maintain price stability, keeping inflation at bay.

China government wanted to change the taxation system and to reduce of the structural taxes for the impasses and also an effort to stimulate the public consumption and the firms to invest and create new jobs opportunities.

Every crisis, (Asian crisis in 1997, the Supreme crisis in 2008) have undermined China's economic growth, specifically because of their effect on lessening aggregate demand. China is balancing export with domestic consumption to diversify risk. Reevaluating the renaming gradually prevents import inflation, becomes absolutely needed when global commodity prices are rising.

Following the global financial crisis of 2008, major economies in the world have been " printing money. Examples include the quantitative easing

measures adopted by the United States and the European Central Bank's "unlimited" bond-buying program.

China has pumped copious amount of cash into the economy using various public and private conduits and has emerged as the world's biggest "money printing machine" with 12 trillion Yuan (US 1.9 trillion) added each year since 2009. This is shaky when real collateral value lags the backing up the new money created.

This results in jump in China's inflation fuelled by the surplus supply of money and its potential risks (which will be addressed later). According to 2011 data from the World Bank, the global average for surplus ratio was 126%. China ranked number 10 in terms of the countries with the largest surplus ratio.

The top 25 also includes Germany as well. If a country's per capita income fails to catch up with an increase in its money supply, the ratio will widen, a warning sign for a country's economy.

The European debt crisis is highly correlated with the runaway printing of money by CB countries and an excessively high ratio of money supply to GAP. 3. Comparative Analysis of Macroeconomic Factors of Germany and China and their implications on Brayer GAP of Germany and China The Gross Domestic Product (GAP) in Germany was worth 3634.

82 billion US dollars in 2013 which represents 5.86 percent of the world economy, is the largest national economy in Europe, the fourth-largest by nominal GAP in the world, and fifth by GAP Purchasing power parity (PPP).

It is empirical that world economy as well as mature economy like Germany growth hovers around 2% and growth will be limited. Euro crisis has dampen growth activity.

Germany economy and Brayer is not spared will be impacted by the slow in growth (+0.1% in 2013). This compiles Brayer to look at other emerging and development economy as the engine for growth. In contrast, China being a developing country grows rapidly.

Even if China cannot be expected to escape the deterioration in the global economy, especially in light of the weaker prospects for exports to Europe and US, their rapid expansion will continue although at lower growth rates.

China GAP continue to growth at 7.8% in 2013 and it is the world 2nd largest economy. With the size of GAP and growth in GAP per capita, most foreign companies including Brayer benefit from China being the world manufacturing hub for export. It is an export-oriented industry that mostly serves the needs of multinational reparations (MACS) including Brayer for both export and domestic market. Inflation and It's Implications This rising of interest rates will not affect only Germany, but all the rest of the CB countries.

This can result in unstable prices, and alter many costs of living making it harder for citizens to get approved for loans on many things. It increases the cost of borrowing, increases mortgage income payments, increases incentive to save rather than to spend, rising interest rates affect both consumers and firms like Brayer, and government debt interest payments increase. If the

worth of goods and services is sold or bought is than its real price, it will inflate. There is also pressure of the need to rise wage.

Other triggers include rising fuel prices in international markets, rising prices of manufactured goods due to cost of imports and cascading effect of price rise in related products. High inflation distorts consumer behavior.

Because of the fear of price increases, people tend to purchase their requirements in advance as much as possible. This can destabilize markets creating unnecessary shortages and yet causes the bubble to burst when there is a glut of supplies and a sudden drop in demand.

During a high inflation period, wide fluctuations in the inflation rate make it difficult for business like Brayer to predict the future and accurately calculate prices and returns from investments. China having higher rate of inflation a considerable period of time, will make its exports less price competitive in world markets. Eventually this will show through export reduction and fewer jobs and also Brayer's business performance.

For Germany, it is a mature economy and inflation is range bound.

For China, inflation rises to 7.1% in 2008 largely due to the fuel price and food price. The government has stepped in to curb the inflation since.

Primarily for China, it does not need to be so "cheap" anymore and there is also the social pressure of better standard of living as the country develops.

For both Germany and China are net export country although China also have a relatively large domestic demand as Brayer's products will sourced locally, as China is the manufacturing hub and exporters of the world.



Brayer has also presence in other emerging economies and will have to weigh the cost of manufacturing, the net import and export markets (visas;- visas taxes) for these manufacturing facilities and their supply and demand chains ND their overall costing, bearing in mind that these parameters interacts with each other on a global basis for other economies too.

Unemployment Rate Recently, Germany's Federal Statistics Office marked the sharpest monthly drop in exports in five years. There have also been declines in industrial production, factory orders and business confidence.

Unemployment is caused by falling aggregate demand especially if production cost is high.

Jobs haven ' t been this abundant in Germany but the unemployment rate is low due to the Government scheme of short-term working allowance scheme ladled " Sauerkraut", which has successfully supported the labor market.

Work sharing schemes exist in several economies, but the German one has been touted the most successful. Even as China's economy slows and companies report they are hiring fewer workers, the country's official jobless rate of 4. 1% hasn't budged.

That's because what China's authorities measure are only those urban workers who are formally registered and thus eligible for unemployment benefits. The large majority of the 230 million migrant workers who live in the cities are not accounted. In either case, the new economy requires skilled workers and it is more challenging for Brayer to hire the right skills workers in China whereas the challenge in Germany is that of redundancies as EX. is highly unionized. Interest Rate The Central Bank can throttle

interest rate, decrease to boost the economy by encouraging consumer spending and investment; increase thus making borrowing more expensive.

Higher interest rates reduce aggregate demand in main ways: a)

Discouraging borrowing by both households and companies b) Increasing the rate of saving to discourage spending c) The rise in mortgage interest payments will reduce owners' disposable income and their ability to spend.

Increased mortgage costs will also reduce market demand in the housing market d) Business investment may also fall, as the cost of borrowing funds will increase. Some planned investment projects will now become unprofitable and, as a result, aggregate demand will fall. Germany and the whole Rezone has low interest is to encourage economy activities.

China raised interest rates for the second time since mid- October to prevent the economy from overheating.

Brayer expansion in China would hinge on the cost of money for business investment. General Government Balance and Balance of Payment Growth where exports far outweigh imports means that expansion comes at the expense of other economies. The balance of sum can result in surplus countries accumulating wealth which is evident in both Germany and China. This signal that Brayer should continue investing in both Germany and China manufacturing facilities to capitalize on the export market.

Germany runs regular trade surpluses primarily due to its strong export of cars and other machinery. Germany also exports chemical products, hardware, electronic equipment, metals and pharmaceuticals.

Main trading partners are France, Netherlands, Lignite States and Italy.

Brayer will face headwind in Germany as these economies slow. Exchange Rate China has appreciated its currency by around 30% since 2006, not including inflation. Although the MIFF says China's Yuan is still between undervalued, it estimates the Euro to be up to 15% undervalued for Germany's economy.

Fostering growth where exports far outweigh imports means that expansion comes at the expense of other economies. Concern over global trade imbalances has made US and MIFF lamented that export countries like Germany and China is using the exchange rate for their competitiveness instead boost growth in domestic demands.

According to fiscal policy, a higher exchange rate is caused by higher interest rate which has to drive down inflationary pressure by rising incentive for exporters to cut costs, making imports cheaper, and decreasing demand for exports.

China has sought to internationalist the renaming which naturally will be on the uptrend. Companies like Brayer will have to be cautious when investing in China due to the possible changes in interest that may result in lower domestic and export. 4. Analysis of the Market Structure of Germany and China \*Note: This covers Brayer HealthCare and Materialistic Brayer HealthCare is can be considered as Oligopoly. As for Brayer Materialistic, while commodity polymers is a Contestable Market, high-end polymers where Brayer focus is an Oligopoly Market.

Germany is known for strong anti-trust legislation, low entry barrier to business and development of common standards which promote exports. Germany's chemical industry is characterized by a high concentration of medium-sized companies, but some larger companies do stand out. These include BASF, Bayer, and Hoechst's. Pharmaceutical companies including Bayer have long operated in a tightly regulated market. Their success at inventing and marketing medicines over the past century has made them highly valued contributors to national economies.

Drug price controls, more rigorous enforcement of existing safety laws, and new regulations for post-market monitoring has allowed Bayer to continue being a dominant player in both Germany and China, especially where patents are linked to inventions of new drugs. However, once the patents period is over, generic drugs can be produced and the barrier to entry is relatively lower. China's business environment is still more of a maze. The nation's legal system is unreliable, and government regulations are vague and often subject to bureaucratic whims.

Oligopoly in China is manipulated by the government.

The move to private State Own Enterprise is a collusion in which rivals in the industry were forced to react to the price leader other than other factors that could ignite competition like quality issues. With China's 2001 entry into the World Trade Organization and mounting global pressure on Beijing to level the playing field for international investors, long-standing restrictions on foreign companies are now rapidly dropping to the wayside. For Bayer,

the initial years of Joint Venture and long term collaboration with China has laid the path.

China remains a competitive market place for Brayer with both International investment (e. G.

BASS) and local Polymer manufacturers. 5. Conclusion China is a global hub for manufacturing, and is the largest manufacturing economy in the world as well as the largest exporter of goods in the world. China is also the world's fastest growing consumer market and second largest importer of goods. China has also been criticized for unfair trade practices, including artificial currency devaluation, intellectual property theft reductionism, and local favoritism.

Regardless, China's future development will be different in that growth will be fuelled by domestic demands of more affluent domestic market. With China enormous size and growth rates averaging 10% over the past 30 years, it is an economy that Brayer can't ignore but to continue to invest in order to fuel its growth. Brayer has and should continue to be cautiously optimistic about China as it is an economy that cannot be ignored. It is not surprising that Brayer has made significant investment in China and should continue to do so where groom causes capacity to increase.