Long-term investment decisions

Business

In a market economy government plays various roles. The government puts in place policies to protect companies from imbalance competitions and the consumers from exploitation. Aspect of price ceiling and price control is also a function of the government. It holds on strategic resources to avoid the private firms from exploiting them. In this way, the consumers are protected.

If the government makes poor policies and regulations that manage the economy, it results in crisis of the industry. It is the government mandate to prevent economic stagnation, stagflation, and inflation (Libby &Timothy, 1996). The role of government in a market economy includes providing the economy with a legal structure. Should the government fail to control the market economy is at the verge of collapsing; in the energy industry the government controls the pricing of energy products by putting the price ceilings to protect the consumers from exploitation (Pamela, 2007). To maintain competition the government put measures to protect business enterprise from the unfair competition. American electric power may get unfair competition if its competitors lower their prices extremely.

If the company's competitors lower their prices, the business will lose its customers and income. This will lead to the company not meeting its both short-term and long-term expenses and investments. The minimum amount that the government imposes to the market price is called the price floor. At P# is the price ceiling. The price ceiling is usually higher than the market price equilibrium (e) at point P* is the price floor (Libby , 1996). At this point, sellers cannot increase the prices past this point.

Price floor is lower than the market equilibrium price. It is the lowest price a company may sell its products for. Regulating the market prices is an incentive to the market's growth and stability. Business Expansion American electric power has two possible ways to expand. Merging with another company is the first option.

Forming mergers and assets acquisition are two or more companies coming together to control the reasonable market's share. However, because the company has seen complexities in merging, self-expansion is another possible way for the company to increase its market capacity (Hassan, 2007). In this situation, the company uses its capital projects to expand its operations in power plant installation, improve its power distribution services and expand its network coverage. Reinvesting the company's assets to realize more market share and increase its profit level may cause somechallenges especially from the shareholders (Hassan, 2007). A capital project is a pool of asset investments, which are reliant on one another and are measured together.

Let us imagine that the company is considering production and distribution of a very new product. It requires setting up of a new plant and increasing ether technology or labor force, or both. In addition, the company is required to increase its working capital. Working capital is the total amount of money that a company requires for its day-to-day operations to assist its long-term investments. Reinvesting means creating more expenses for a company.

If the company invests in the renewable sources of energy, then it may incur many expenses during and after the process of setting up the plants. These costs are not included in the company’s operational expenses. Increase in the labor force also requires an increase in salary and wages projections. The company may also incur extra taxes due to expansion. It is required to pay taxes for insurance and medical care among other expenses that are required by the law.

This may be problematic in the short run of the company’s books of account. Moreover, there is a lot of legislation on the carbon emission. If the company decides to expand for non-renewable sources of energy plants like coal, it has to pay extra levy to the government. A source of funding is another challenge that the company may incur. The sources of extra capital for a company that wants to expand are either using shareholders’ interests or borrowing money from a financial institution, or both.

Each of the additional sources of funding has its negative side. The company’s manager may get many critics from the shareholders or bank may turn down a request for the additional funding. In addition, there may be the needed source of financing for the new projects, but the projected rate of return on the capital invested may be low. Market competition is another challenge that the company may face if it decides to increase its operation network on reinvestment. Merging businesses may not experience this challenge, especially if they merge with companies that control a reasonable share of the market.

However, since American electric power did not consider a merger, it means that the company has to invade or create a new market to make sales for its products and services (Hassan, 2007). The new area may be the new federal state with the unfriendly business legislation. Other expenses may be incurred because of such move, since the company has to advertise its products in order to familiarize the public with the new product or with the advantage the company has over other companiess producing the same goods or services. Finally, the economic life of an investment is an important factor to consider before reinvesting. Economic life is also referred as the useful period; it is, therefore, the period that is opted for the reinvestment to last (Hassan, 2007).

With the rapid changes in technology, the company may be risking, especially if it invests in the non-renewable sources of energy like fossil fuel. Fossil fuels emit a lot of green carbon dioxide and the world is moving to a clean environment with minimal carbon emission. Thus, investing in fossil fuels may not reap the expected rate on return on capital. Effects of Expansion via Capital Projects to Managers and Stakeholders Stakeholders are a group of individuals, who are considered as the owners of a business enterprise. The main objective of stakeholders is to earn profit from business operations.

Managers, on the other hand, are the decision makers on the growth and productivity of a company. Managers make day-to-day and long-term decisions on issues the company faces. Self-expansion of a business may be a profitable idea to the business but it requires a lot of consultation for managers to stakeholders. The latter may demand on the sharing of the total profit realized by the company without reinvesting any amount (Pamela, 2007). Thus, the managers need to convince the stakeholders in case of an expansion.

The dividends paid to stakeholders will reduce in the short run before the company starts reaping profits or losses. The future excellence of the company depends on the long-term strategy of the managers. Managers build on their reputation by employing their managerial skills and ability to move a company to a higher level. For them to make progress they need to form the mutual agreement with the stakeholders (Pamela, 2007). The stakeholders’ assurance that their money is on a safe course is of significance. This creates confidence of the managers to the stakeholders.

An expansion of a business in the short run will bring low levels of profit or even negative profits. This is to meet its both short-term and long-term liabilities and expenses. In the end, the company will make a profit if the market will be favorable to accommodate the new products (Peter, 2007). Losses are other option in case while there will be an emergence of a firm with the new and effective products than what American electric power produces. For the mutual benefit of American electric power and a company itself, an agreement between managers and stakeholders to make progress in expansion of its production is important.