Task: Write an essay with economic analysis of a company

Topic: Economic Analysis

Type: Analysis Essay

Length: 4 pages

Formatting: APA

Requirements:

Apply **economic principles presented in the course guide.** Use up to 3 reliable sources.

Name

College

Lecturer

Date

Thomas Money Service Inc. has been in lending business for the last 70 years. its equipment manufacturing subsidiary Future Growth Inc. had experienced year on year growth in profits for 67 years. The company weathered recessions and recorded more 1700% increase in share price in the period. However, the current economic recession hit its profits hard resulting in a 30% reduction in profits and massive layoffs. The company had repossessed 500 pieces of equipment following non-payment of revenues. The company also reduced its manufacturing costs due to the low level of demand.

Market structure

MostAwfulEssays 3/20/15 11:13 AM
Comment [1]: Missing something?

MostAwfulEssays 3/19/15 10:21 AM
Comment [2]: Yeah, right, who needs capital letters anyways?

MostAwfulEssays 3/19/15 10:22 AM
Comment [3]: I cannot see how this is needed here.

MostAwfulEssays 3/20/15 11:13 AM
Comment [4]: You like missing articles, don't you?

MostAwfulEssays 3/20/15 11:14 AM
Comment [5]: A comma would be nice around here.

MostAwfulEssays 3/20/15 11:14 AM
Comment [6]: You know, you really don't have to leave it out words.

The industry market structure has been changing in the period following the onset of economic recession. The market had many buyers before but now only a few buyers of remain such as hospitals and nursing homes. The sellers are many both domestic and international ones all angling for a slice of the market. The market structure is therefore an oligopsony.

MostAwfulEssays 3/19/15 10:39 AM
Comment [7]: This is as clear as gjheoihsilht. Rewrite, please.

MostAwfulEssays 3/19/15 10:40 AM
Comment [8]: Punctuation and syntax is not too important you, I guess.

Elasticity of demand for the product

Elasticity of demand refers to the sensitivity of demand to changes in price. Using the following data, it is possible to gauge the sensitivity of demand to change in price for the period as follows: Elasticity of demand is change in quantity divided by change in price. Assuming that all the output is supplied to the market, the following is the price elasticity of demand for the company's products:

MostAwfulEssays 3/19/15 11:37 AM
Comment [9]: Is it some sort of special economic mumbo-jumb0?

MostAwfulEssays 3/20/15 11:33 AM
Comment [10]: Not a new sentence—no need to capitalize.

OUTPUT	PRICE	Change in quantity	Change in Price	Elasticity of demand
0				
1	$2,600.00			
2	$2,500.00	$1.00	($100.00)	($0.01)
3	$2,400.00	$1.00	($100.00)	($0.01)
4	$2,300.00	$1.00	($100.00)	($0.01)
5	$2,200.00	$1.00	($100.00)	($0.01)
6	$2,100.00	$1.00	($100.00)	($0.01)
7	$2,000.00	$1.00	($100.00)	($0.01)
8	$1,900.00	$1.00	($100.00)	($0.01)
9	$1,800.00	$1.00	($100.00)	($0.01)
10	$1,700.00	$1.00	($100.00)	($0.01)
11	$1,600.00	$1.00	($100.00)	($0.01)
12	$1,500.00	$1.00	($100.00)	($0.01)

The elasticity of demand for the company is less than 1 meaning that the company faces very inelastic demand. This means that the company cannot benefit from reducing its prices as this will lead to less increase in demand for its products.

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Comment [11]: A comma would be nice.

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Comment [12]: Please place commas sometimes. PLEASE.

Pricing and cost decisions

The following is the cost and production structure of the company

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Comment [13]: ":" is needed you dimwit.

PRICE	MARGINAL REVENUE	TOTAL REVENUE	TOTAL COST	FIXED COST	VARIABLE COST	MARGINAL COST	AVERAGE	AVERAGE	AVERAGE
							FIXED COST	VARIABLE COST	TOTAL COST
				$990.00					
$2,600	$2,600	$2,600	$1,050	$990	$60	$60	$990.00	$60.00	$1,050.00
$2,500	$2,400	$5,000	$1,100	$990	$110	$50	$495.00	$55.00	$550.00
$2,400	$2,200	$7,200	$1,145	$990	$155	$45	$330.00	$51.70	$381.70
$2,300	$2,000	$9,200	$1,200	$990	$210	$55	$247.50	$52.50	$300.00
$2,200	$1,800	$11,000	$1,262	$990	$272	$62	$198.00	$54.40	$252.40
$2,100	$1,600	$12,600	$1,335	$990	$345	$73	$165.00	$57.50	$222.50
$2,000	$1,400	$14,000	$1,423	$990	$433	$88	$141.40	$61.90	$203.30
$1,900	$1,200	$15,200	$1,517	$990	$527	$94	$123.80	$65.90	$189.60
$1,800	$1,000	$16,200	$1,637	$990	$647	$120	$110.00	$71.90	$181.90
$1,700	$800	$17,000	$1,772	$990	$782	$135	$99.00	$78.20	$177.20
$1,600	$600	$17,600	$1,917	$990	$927	$145	$90.00	$84.30	$174.30
$1,500	$400	$18,000	$2,091	$990	$1,101	$174	$82.50	$91.80	$174.30

The company has very high fixed costs meaning that it can only compete favorably based on producing more units of its products to realize the lowest average total cost. This way, the high fixed costs will be shared out across several units of production. On the contrary, producing few products will result in high average total cost per unit thus decimating the total profit per unit.

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Comment [14]: I am going insane without punctuation.

MostAwfulEssays 3/20/15 11:41 AM
Comment [15]: Your writing always looks like a large blob of information people don't want to read.

The objective of the company is to maximize its profits. However, the market is currently experiencing a recession. Therefore, the first objective is to avoid the recession eating into its profitability and resulting in a shutdown. If the marginal cost is lower than the marginal revenue, the firm will be incurring losses for every unit of production. It must therefore ensure that its marginal revenue is higher than marginal cost.

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Comment [16]: …"recession eating" never knew there was such a phrase.

The firm faces three options in the short run depending on comparison of price per unit, average variable cost and the average total cost. This is informed by the conditions in the market that call for the company to maintain its operations awaiting better performance in the market as the economy peaks. The options are as follows (Frank and Bernanke, 2010):

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Comment [17]: Even when you use punctuation, it is used incorrectly.

MostAwfulEssays 3/20/15 11:45 AM
Comment [18]: I think I will jump off a boat soon if you keep this up.

Option 1: If the price is higher than average total cost, the firm should produce goods up to the point that marginal revenue becomes equal to marginal cost. This way, the firm will realize some economic profit.

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Comment [19]: Use articles sometimes, please.

Option 2: If the price of products is lower than their average total cost but is greater than average variable cost, the firm should produce up to the point where marginal revenue equals with

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Comment [20]: Not needed.

marginal cost. This way, the firm will realize some economic loss that is lower than the fixed costs.

Option 3: If price charged on the products is lower than their average variable cost, the company should stop production in the short run and it will therefore incur a loss equivalent to its fixed costs.

The following is a summary of price, average total cost and average variable cost for the company in the period:

Price	Marginal Revenue	Average total cost	Average variable cost	Marginal Cost
$2,600	$2,600	$1,050.00	$60.00	$60
$2,500	$2,400	$550.00	$55.00	$50
$2,400	$2,200	$381.70	$51.70	$45
$2,300	$2,000	$300.00	$52.50	$55
$2,200	$1,800	$252.40	$54.40	$62
$2,100	$1,600	$222.50	$57.50	$73
$2,000	$1,400	$203.30	$61.90	$88
$1,900	$1,200	$189.60	$65.90	$94
$1,800	$1,000	$181.90	$71.90	$120
$1,700	$800	$177.20	$78.20	$135
$1,600	$600	$174.30	$84.30	$145
$1,500	$400	$174.30	$91.80	$174

From the above summary, the product prices are still higher than the average total cost. The company should therefore adopt option one above. The company should produce goods up to the point that marginal revenue becomes equal to marginal cost. Therefore, the company should increase its production to ensure that it realized more revenue up to the point that the marginal cost and revenues equal (Pindyck & Rubinfeld, 2001).

Given that the company cannot reduce prices to increase te uptake of its products due to the low elasticity of demand, the company should instead focus on a number of non-pricing strategies that will enable it survive the recession. The first one is to embark on a serious maketing campaign to ensure that the company gathers a trusted loyal customer followisn that will mmake it survive through the recession. It should also differentiate its products to make is products stand out in the market ahead of its competitors (Samuelson & Marks, 2006).

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Comment [21]: Not needed, again.

MostAwfulEssays 3/20/15 11:53 AM
Comment [22]: Some titles are capitalized consistently while others are not. Remember the small details!

MostAwfulEssays 3/19/15 11:47 AM
Comment [23]: Where's option one? Oh wait, it's not there.

MostAwfulEssays 3/20/15 12:00 PM
Comment [24]: Messing with tenses... I see.

MostAwfulEssays 3/19/15 11:48 AM
Comment [25]: Is this the new article? Semi-definite or something like this?

MostAwfulEssays 3/19/15 11:48 AM
Comment [26]: I hope you can see the typo yourself.

MostAwfulEssays 3/19/15 11:49 AM
Comment [27]: Wow, seems like you were in a rush.

MostAwfulEssays 3/20/15 12:01 PM
Comment [28]: I think you repeated yourself a lot, and this is a good example of it.

References

Samuelson, W., Marks, S. (2006). *Managerial Economics*. New York: Wiley.

Pindyck, R., Rubinfeld, D(2001) *Microeconomics*, 5th ed. New York: Prentice-Hall.

Frank, R and Bernanke, B. (2010) *Principles of Microeconomics*, New York: McGraw-Hill.

Overall Impression

Ridiculous inattentiveness and poor English language skills. A boring mess.