Lesson 1: Economic and Socioeconomic Forces

Learning Objectives

As a result of participating in this lesson, you will be able to:

- Learn the purpose of an economic analysis and the kind of information it provides.
- Present the important economic and socioeconomic dimensions that management uses to compare markets.

Week 3 Reading 1

Ball, D., Geringer, M., Minor, M., McNett, J. (2010). Economic and socioeconomic forces. In *International business: The challenge of global competition* (12th ed) (pp. 210-240). McGraw Hill.

Click here for the downloadable file.

Important!

Before you proceed, read the attachment linked above. Please do not continue until you have done so.

Lesson 1 Lecture

Log in to the course to view presentation and alternative version.

Note: This presentation does not contain audio.

Click the links below for the lecture content. Use the controls at the bottom-left of the screen to navigate the presentations.

Week 3 Lesson 1 Presentation

Click the link below for an alternate version of Lesson 1: Economic and Socioeconomic Forces

Alternate version

Lesson 1 Practice: End of Chapter Questions

Week 3 Activity 1: Research Activity: Economic Outlook
(Submit by end of Day 6, Suggested Day 2)
Value: 20 Points

You work at a company that manufactures low-cost computers and is currently considering entering India. Use the World Development Indicators (WDI) – the World Bank's premier data compilation of data on development – to gather information on this country. Prepare a short report focusing on the economic policy and external debt, education, and infrastructure of India as it applies to your company's product. Make sure you examine the trends India may have been experiencing over the past few years in your selected variables. **Your report should be a maximum of 1 page, double-spaced, Word or PDF document. However, you can have unlimited number of exhibits that should be put in an Appendix in the same file.**

Hint:

- http://globaledge.msu.edu
- Go to Resource Desk: http://globaledge.msu.edu/ResourceDesk/
- Search Phrase: "World Development Indicators"
- Resource Name: World Bank: World Development Indicators globalEDGE™
- Category: "News & Periodicals: Publications"
- Website: http://data.worldbank.org/indicator

On the World Bank website, click on the "By Country" tab and select India. Then, go to the corresponding indicators.

Extended Hints:

A. Economic policy and external debt

Gross National Income (GNI)

- Income generated by a nation's residents from domestic and foreign activity.
- Preferred over GDP which measures in addition income from nonresidents.

GNI/capita:

- reveals purchasing power of the country.
- Compare to other countries, e.g., high values and advanced economies.

Growth Rate in GNI/Capita

- o Important since high values indicate a high growth market.
- o As GNI or GNI/capita it is affected by underground economy (ideally we need an estimate for this).
- o Managers usually will prefer a fast-growing market, all else constant. If a choice has to be made between (1) high GNI/capita but low growth rate country and (2) lower GNI/capita but much higher growth rate country, then management will usually opt for option 2.
- Research Activity:

  - We want to see the growth rate of GNI/capita over the past say 6-10 years.
  - Given that we compare values across time we must account for inflation.
  - Therefore, we need to obtain the GNI/capita in constant currency and then calculate the growth rate.
  - Get inflation separately to see trends in prices over time.
  - In this task we don't compare the GNI/capita of India to other countries so no need to obtain GNI in PPP or at US$ terms. If we want to get some sense on how these values compare to US then we should use the GNI in US$ or PPP terms.
  - So get the GNI/Capita in constant US$.

Income Distribution

- o Even or uneven distribution of income in a country may present opportunity depending on the type of product and population.
- o Your book has a nice example on this.
- o In the online notes, a similar example is presented:
- o In 2010, Paraguay had
  - a population of 6.5 million,
  - a GNI of $33 billion in PPP terms, and
  - Income distribution: 20% of the population received >56% of the country income. This indicates that a sizable group of people are potential customers for low-volume, high-priced luxury products.
  - On the other hand, the market is rather small (6.5 million population) for low-priced goods requiring a high sales volume.
  - Given these conditions Paraguay may not be a good market for entry in low-priced goods while for high-priced goods the returns from entering the market might not be higher than the cost of entry.
  - These 3 measures can be potentially used to eliminate a market without further analysis.
- Research Activity
  - o Obtain the income distribution, population, and GNI. How India compares to the above example?

Private Consumption

- o If your results from the previous step are promising then gather the private consumption data.
- o **Disposable income** is total personal income minus personal current taxes.
- o **Discretionary income** is total income minus personal current taxes and necessity goods (food, rent, mortgage, utilities, etc.).
- o As such, manufacturers of, say, household durables will be interested in disposable income.
- o While producers of nonessential goods will be interested in the discretionary income.
- o Read the book, especially the **Relevance for Managers** section under **Private Consumption**.
- Research Activity

  - Which one you would need if you are selling low-costs computers in India?

Unit Labor Costs

- Defined as total direct labor costs over units produced.
- Firms will make an investment opportunity if lower than currently available to the firm, everything else constant.
- Firms prefer slower-rising unit labor costs. Please read the relevant section in your book.
- Need to monitor over time for rates of increases. For instance, the recent increase in wages in China along with tax breaks in US has resulted in several firms bringing back manufacturing (or thinking about it) in the US. Wall Street Journal has a special section with firms doing exactly that. It is called "Remade in the US."

- Research Activity

  - We are not given in which country the production takes place. We can skip this but for your project you should definitely provide some estimates of labor costs.

External Debt

- If becomes too large to be sustainable then governments may impose price controls, cut government spending, impose wage controls, and impose capital controls to keep cash in the country. It can also cause a shift from imports to local production of goods.
- "debt service difficulties" become increasingly likely when the **ratio of the present value of debt to exports reaches 200 to 250 percent** and the **debt-service ratio** (amount of export earnings needed to meet annual interest and principal payments on a country's external debts) exceeds **20 to 25 percent** (see your textbook).

- Research Activity

  - Are there any external debt issues in India? Obtain these indicators.

Population

- Usually as input in calculations of other indicators (X/capita).

- Research Activity

  - Obtain this indicator.

Age Distribution

- Older people might not buy laptops.

- Research Activity

  - Obtain this indicator.

Population Density and Distribution

- o Densely populated nations make product distribution and communication simpler and less costly.
- Research Activity
  - Obtain this indicator.

B. Education

Here we don't have much theory in the textbook to go on. How would education play a role in the market for laptops?

- Think about uses of laptops (educational, entertainment in some cases, work, etc.).
- Do you think that literacy or school enrollments would be positively correlated with use of laptops? If yes, then gather this measure.
- Here is an article (theory) on this topic (click it):

Computers and Schools

- Research Activity
  - o Obtain an indicator.

C. Infrastructure

Revisit the MPI calculations from last week. Under infrastructure you have:

- Main telephone lines (in several countries around the world telephone lines are used for high-speed internet).
- Cellular mobile subscribers (potential consumers).
- Secure Internet servers (the higher denotes increasing use of computers).
- Other?
- Research Task.
- Obtain these indicators.

D. Sum up

- Growth Rate in GNI/Capita.
- Population.
- GNI in constant US$ or constant PPP terms (whichever available).
- Income distribution.
- Private Consumption (pick the one that is more appropriate for the research task).
- Present value of debt to exports (ratio).
- Debt-service ratio.
- Age Distribution.
- Population Density.
- School Enrollments.
- Main telephone lines.
- Cellular mobile subscribers.
- Secure Internet servers.
- OTHER – guide your selection with **THEORY** from the book, online notes, or any academic article?

Location of Indicators in World Bank

- **Growth Rate in GNI/Capita**
  - From Economic Policy & Debt → National Accounts → select GNI (constant 2000 US$)
  - From Health → Population → select Population, Total
  - Calculate in your excel the ratio of the 2 in order to get GNI/capita and then find the growth rate using the formula from online notes.
- **Income distribution**
  - From Poverty → Income distribution → select all of the Income share held by….
  - For India, data exist for 2005. Use those data.
- **Disposable Income**
  - A proxy for this is the GDP per capita (PPP)
  - From Economic Policy & Debt → Purchasing Power Parity → select GDP per capita, PPP (constant 2005 international $).
- **Discretionary Income**
  - Not available, but we can use a second best that includes expenditures on both necessities and household durables.
  - From Economic Policy & Debt → National Accounts → select Final Consumption expenditure, etc (constant 2000 US$).
- **Inflation**
  - From Financial Sector → Exchange rates & prices → select inflation, consumer price (annual %).
  - From Financial Sector → Exchange rates & prices → select inflation, GDP deflator (annual %).
  - The first reason we use it to see price levels, the second is to deflate (remove inflation) from GNI, GDP when they are listed in current (not constant) terms.
- **Exchange Rates** (another source, you need it for Research Activity 2)
  - From Financial Sector → Exchange rates & prices → select official exchange rate (LCU per US$), period average.
  - LCU stands for Local Currency Units.
- **External Debt Ratios**
  - From Economic Policy & Debt → External Debt → Debt ratios & other items → select Present value of external debt (% of exports of goods, services and income).
  - Debt-Service ratio: From Economic Policy & Debt → External Debt → Debt ratios & other items → select Public and publicly guaranteed debt service (% of exports, excluding workers' remittances).
- **Population Density**
  - From Environment → Density & urbanization → select Population density (people per sq. km of land area).
- **Age Distribution**
  - From Health → Population → select Population 0-14 (% of total), Population 15-64 (% of total), Population 65 and above (% of total).

- **Education**
  - From Education → select one of the school enrollment variables (whichever you think is more appropriate). You need total numbers.
- **Infrastructure**
  - From Infrastructure → select the appropriate variables (see previous slides).

Definition of any indicator can be found here:
http://data.worldbank.org/indicator

Screenshots of the World Bank Database

STEP 1: Go to the following link and click on **World Development Indicators**:

http://databank.worldbank.org/data/databases.aspx

STEP 2: Under Country tab select India.

STEP 3: Under Series select Economic Policy & Debt, Education, and Infrastructure and then select the indicators (selected indicators are shown on the right-hand side of the screen below):

STEP 4: Under Time select at least 6 years of data:

STEP 5: After you make all of your selections click on the DOWNLOAD button at the upper right of the above screen or if you press TABLE you have the option to configure the way the data are presented. I clicked on TABLE and then on Table Options button at the upper right of the screen. Under FORMAT NUMBERS I increased the Precision to 3 decimal points. Under ORIENTATION I chose Custom and then given that we get data for only one country I selected Country on Page, Series to be on Column, and Time to be on Row. Click on Apply Changes to get your data (table below is before changes were applied).

THE WORLD BANK   🏠 ⬅ Go Back   ⏻ Sign In

This page is in English Español Français عر 中文

World DataBank World Development Indicators

[TABLE] [CHART] [MAP] [DOWNLOAD]

India ▾ ⦿

TABLE OPTIONS

Apply Changes

	2011	2010
GNI (constant 2000 US$)	..	..
Population, total	1,241,491,960.0	1,224,614,327.0
Income share held by fourth 20%	..	20.8
Income share held by highest 10%	..	28.8
Income share held by highest 20%	..	42.8
Income share held by lowest 10%	..	3.7
Income share held by lowest 20%	..	8.5
Income share held by second 20%	..	12.1
Income share held by third 20%	..	15.7
GDP per capita, PPP (constant 2005 international $)	3,223.3	3,073.2
Final consumption expenditure (constant 2000 US$)	766,703,513,170.0	709,487,081,007.3
Official exchange rate (LCU per US$, period average)	46.7	45.7
Present value of external debt (% of exports of goods, services and primary income)	78.7	..
Public and publicly guaranteed debt service (% of exports of goods, services and primary income)	1.8	1.7
Population density (people per sq. km of land area)	417.6	411.9
Population ages 0-14 (% of total)	30.2	30.6
Population ages 15-64 (% of total)	64.8	64.5
Population ages 65 and above (% of total)	5.0	4.9

ORIENTATION

Popular Custom

Country
Page ▾
Series
Column ▾
Time
Row ▾

▸ DISPLAY

▸ FORMAT NUMBERS

▸ TABLE HEADER & FOOTER

Source: World Development Indicators.Click on a metadata icon for original source information.

Submit your completed research task through the Turnitin drop box located within the Assignments area by no later than end of Day 6.

Please note that the Turnitin drop box will be available on Day 1 at 12:00 a.m. E.T.

15