

Answers to Box Questions

Part A: Introduction

Box 1.1 A Perfect Partnership

Choose a well-known company that trades globally and do a Web search to find out how well it has performed in recent years and how it has been influenced by various aspects of its business environment.

To find a company, you might try looking at the company information section in site B2 in the [hotlinks section](#) of this book's website. Then you should use this information and information on the economy to conduct a PEST or STEEPLE analysis (see section 1.1 in the text). For data on the economy see site B1.

There are thousands of companies to choose from selling a range of products. Start by looking at the company's website and perhaps examine their accounts. Look for press releases about new strategies or opportunities. Has the company recently merged with another; has it opened offices in another country; has it developed an ethical or environmental strategy? There was a series on the BBC about John Lewis – perhaps if you saw that you could use the information within it to answer this question. There is no right or wrong answer – the key is to find a global company and look at various aspects of the business environment and how the firm has been affected by them.

Box 1.2 The biotechnology industry

From the brief outline above, identify the social/cultural, technological, economic, ethical, political, legal and environmental dimensions shaping the biotechnology industry's business environment.

- ❑ *Social/cultural.* The social/moral debate over biotechnology, or more specifically lines of research within it, is at times probably the most significant influence over the industry's future development and direction. People from different cultures have different attitudes towards developments in biotechnology and whether they ought to be adopted.
- ❑ *Technological.* In order to be a world leader in biotechnology, maintaining a research or technological lead over your rivals is the key to long-term survival. The short-term cost and political risk must be weighed up against the massive potential long-term benefits that might be achieved.
- ❑ *Economic.* Economically the industry is expanding and receives many grants and subsidies both from the UK and European governments. Given the exploratory nature of the industry, much of its private-sector funding comes from venture capital sources, a notoriously volatile source of funds.
- ❑ *Ethical.* There are profound ethical issues surrounding biotechnology. Areas such as genetic modification and cloning are subject to significant moral considerations.
- ❑ *Political.* Given many of the moral debates surrounding biotechnology, and in particular issues concerning genetics, political debates over the ethical nature of the industry and its practices have been extensive. The establishment of research guidelines, especially in the area of genetics, has meant the industry has been subject to strict legal requirements concerning its development. In addition, the political side of the industry has been strongly influenced by pressure groups both for and against the use of biotechnology. The Wellcome Trust might support many biotechnological research initiatives, whereas other groups such as Friends of the Earth are bitterly opposed to initiatives such as those involving the development of genetically modified crops.
- ❑ *Legal.* Different countries have very different laws surrounding biotechnology. Companies in this industry will need to be very careful about the legal ramifications.
- ❑ *Environmental.* An environmental impact may be felt from people travelling all around the world to take advantage of different technologies and treatment available in different countries. Another might be the effects of genetic modification of crops on the natural environment.

Box 1.3 The changing nature of business

How is the development of the knowledge economy likely to affect the distribution of wage income? Will it become more equal or less equal? (Clue: think about the effects of specialist knowledge on the wage rates of specialists.)

In a knowledge-based economy, workers' specialist knowledge will form the basis of their reward. Employers will be forced to offer, among other things, higher wages to the best specialists in order to hold on to this key resource. In such instances, the distribution of wage income is likely to become more unequal over time.

Part B: Markets, demand and supply

Box 2.1 Stock market prices

1. If the rate of economic growth in the economy is 3 per cent in a particular year, why are share prices likely to rise by more than 3 per cent that year?

Because share prices tend to reflect *changes* (or anticipated changes) in the rate of economic growth. Thus if economic growth rose (or was anticipated to rise) from 1 to 3 per cent (a 200% increase in the rate of economic growth), share prices may rise by considerably more than 3 per cent. If, however, economic growth fell (or was anticipated to fall) from 5 to 3 per cent, then share prices would be likely to *fall*. Since 3 per cent economic growth is above the long-term average, economic growth is more likely to have *risen* to 3 per cent than fallen to 3 per cent, with share prices correspondingly rising by more than 3 per cent.

2. What has happened to the FTSE 100 index over the past 12 months? Can you explain the reasons behind the data?

Good sources of information for this are [Yahoo Finance](#) and [BBC Business News](#). In providing an explanation you should look at demand- and supply-side factors affecting share prices, such as the state of the economy, the return on alternative forms of investment (such as property), interest rates, business confidence. It would also be a good idea to look back beyond the past 12 months – say to the financial crisis of 2007/8. To what extent has the FTSE 100 recovered? Consider the outcome of the EU referendum. What has happened to share prices since then and have they moved in the direction you would expect? Also consider economic growth in key economies such as China and India. Have they been growing quickly or has growth slowed? These factors may also determine movements in the UK stock market. You might also like to look at other key stock markets, e.g. the New York Stock Exchange to see if share prices are moving in the same direction as the FTSE 100.

Box 2.2 UK house prices

1. Draw supply and demand diagrams to illustrate what was happening to house prices (a) in the second half of the 1980s, from 1997 to 2007 and since 2013; (b) in the early 1990s and 2008–13.

- (a) Demand was rising rapidly in the first two time periods. There was thus a continuing rightward shift in the demand curve for houses and a resulting rise in the equilibrium price. Demand also increased from around 2013/14, especially in London and the South East.
- (b) Demand was falling. The leftward shift in the demand curve for houses led to a fall in the equilibrium price. However, in 2009, there was also a fall in the supply of properties coming on to the market, which did, to some extent, counter the sharp fall in prices due to the low demand. The market remained relatively weak until 2013/14.

2. Are there any factors on the supply side that contribute to changes in house prices? If so, what are they?

Yes. Although they are less important than demand-side factors, they are, nevertheless important in determining changes in house prices. The two most important are the expectations of the construction industry. If house building firms are confident that demand will continue to rise, and with it house prices, they are likely to start building more houses. The resulting increase in the supply of houses (after the time taken to build them) will help to dampen the rise in prices.

The other major supply-side factor is speculation by house owners. If people think that prices will rise in the near future and are thinking of selling their house, they are likely to delay selling and wait until prices have risen. This (temporary) reduction in supply will help to push up prices even further.