

# Answers to Questions in Case Studies

## Part A: Introduction

### Case study A.1

*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.

### Case study A.2

*1. In what ways have the defence industries responded to the ending of the Cold War?*

Collaborative ventures, the production of specialist equipment and mergers between companies have been three answers to a decline in overall demand.

*2. Using an Internet search, find out how the defence and security industries are responding to the threat of terrorism.*

You will have to answer this yourself. Try to find how the threat is affecting military expenditure: how the demand for the products of the various industries supplying defence equipment and services has changed.

### Case study A.3

*1. Why might downsizing fail to improve the economic position of a business?*

To the extent that the total level of production is cut back, this will result in a loss of revenue, which could be greater than the reduction in costs. To the extent that the business is broken up into smaller autonomous or semi-autonomous units, this could result in fragmentation and a loss of co-ordination between the units. As is stated in the case study, 'Some companies that have cut their costs drastically have found that the quality of their operations has suffered, leading to a fall in revenue: a fall that may be greater than the fall in costs. The result is a reduction in profit.'

*2. What side-effects, other than on levels of employment, might widespread downsizing have on the national economy?*

It could lead to more competition, as smaller units separated from bigger companies compete with other suppliers. This could help put downward pressure on prices and thus reduce inflation (or even contribute to 'deflation': a general fall in prices). It could also hasten the trend towards more flexible labour markets (see section 8.4 in the text).

## Case study A.4

*1. There is a saying in economics, 'There's no such thing as a free lunch' (hence the sub-title for this case study). What does this mean?*

That there is always (or virtually always) an opportunity cost of anything we consume. Even if we do not incur the cost ourselves (the 'lunch' is free to us), someone will incur the cost (e.g. the institution providing the lunch).

*2. Are any other (desirable) goods or services truly abundant?*

Very few! Possibly various social interactions between people, but even here, the time to enjoy them is not abundant.

## Case study A.5

*What dangers do you see from increasing globalisation in the world economy?*

The dangers include: possible increased instability of the world economy; greater possibility of economic problems in one part of the world spreading to others; greater power of giant multinational corporations; a reduction in the power of national governments to tackle their economic problems; an erosion of national/local cultures. We take a closer look at the supporters and critics of globalisation in the postscript to the final chapter of the book.

## Case study A.6

*1. What might prevent you from making the best decision?*

Lack of knowledge. You will not know just how much benefit you will gain from the textbook until you have read it, taken your exams or had your assignments marked! Another cause of making poor decisions is the lack of care taken in making them.

*2. If there are several other things you could have done, is the opportunity cost the sum of all of them?*

No. It is the sacrifice of the *next best* alternative.

*3. Why is the cost of food not included?*

Because you would buy food anyway. If, however, food were being provided free of charge by your parents if you lived at home, but you had to pay for it if you went to university or college, then food *would* be an opportunity cost to you

*4. Make a list of the benefits of higher education.*

The benefits to the individual include: increased future earnings; the direct benefits of being more educated; the pleasure of the social contacts at university or college.

*5. Is the opportunity cost to the individual of attending higher education different from the opportunity costs to society as a whole?*

Yes. The opportunity cost to society as a whole would include the costs of providing tuition (staffing costs, materials, capital costs, etc.), which could be greater than any fees the student may have to pay. On the other hand, the benefits to society would include benefits beyond those received by the individual. For example, they would include the extra profits employers would make by employing the individual with those qualifications.