



Principles of Business : course n°4

Understanding Economic cycles

BA 2nd Year - 05/02/2020

Question on previous course

What is GDP ? What is the difference between GDP and GNP ?

What is the use on calculating GDP ?

How do you calculate it ?

What are the advantages of GDP metric ? What are the shortfalls ?

What is inflation ? How would you calculate it ?

How would you qualifie inflation today ?

What is Gini coefficient ?

How would you qualifie the relation between GDP and Gini coefficient ?

Business fluctuation

Business fluctuations affect the whole economy, they are also called economic cycles.

Understanding Economic cycles

What are we measuring ? GROWTH ! Of what ? Of GDP !

Not a new concept !!

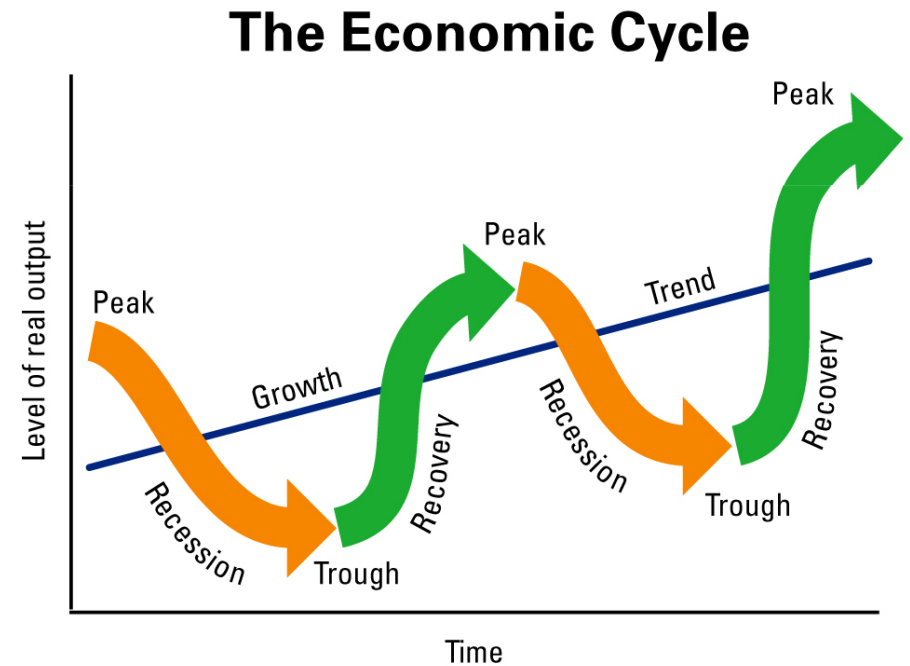
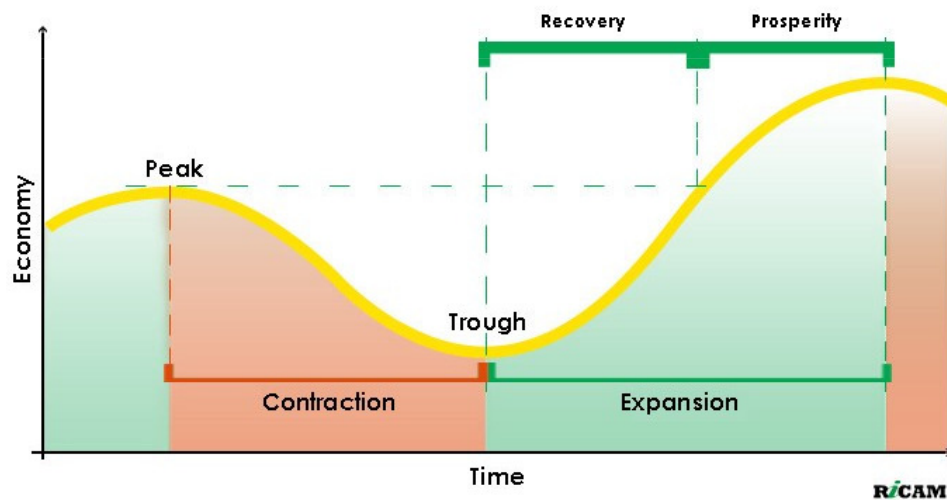
Clément JUGLAR, *Les crises commerciales et leur retour périodique en France en Angleterre et aux États-Unis*, 1862.

Length of cycles may varies : Kitchin (3 to 4 years) ; Juglar (8 to 10 years) ; Kuznets (15 to 25 years) ; Kondratiev (40 to 60 years).

Is that important for you ? Yes, because fashion and luxury in general is a very cyclical industry. Investment decisions should rely on economic cycle studies.

Understanding Economic cycles

Graphical representations & vocabulary. Source : left picture « How economic cycles work and where Brazil stands », Ricardo Amorim



Understanding Economic cycles

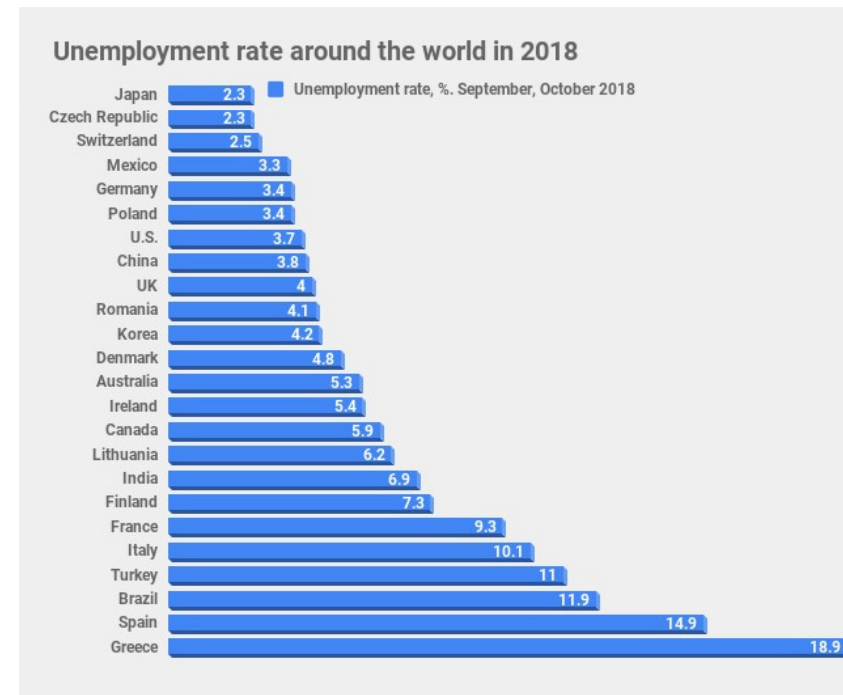
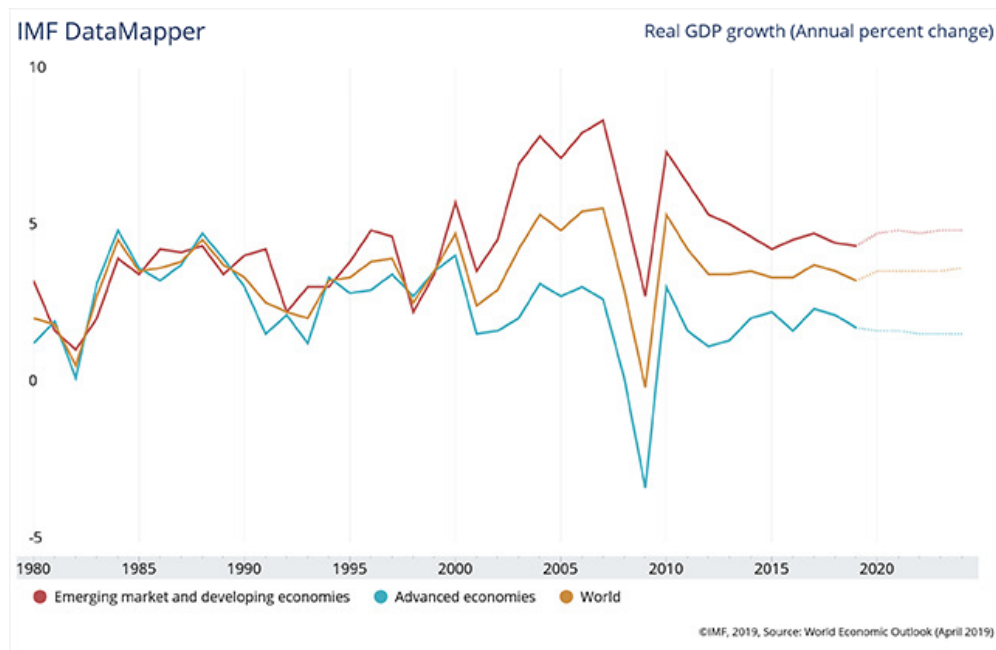
Could we be at a peak after 10 year since the last trough (in 2009) ?

Lets introduce teacher's personal view.

Teacher personal view

Reason for the long lasting growth period is a mix of tech boom, cheap oil (« thanks » to shell gas) and low interest rate

A result of economic prosperity, unemployment is low in much countries.



Teacher personal view

2 majors economic problems have been overcome : the final crisis (left picture : Lehman Brother headquarter in New York before the September 2008 Bankruptcy) and the price of oil (NYMEX WTI ; \$/barrel).

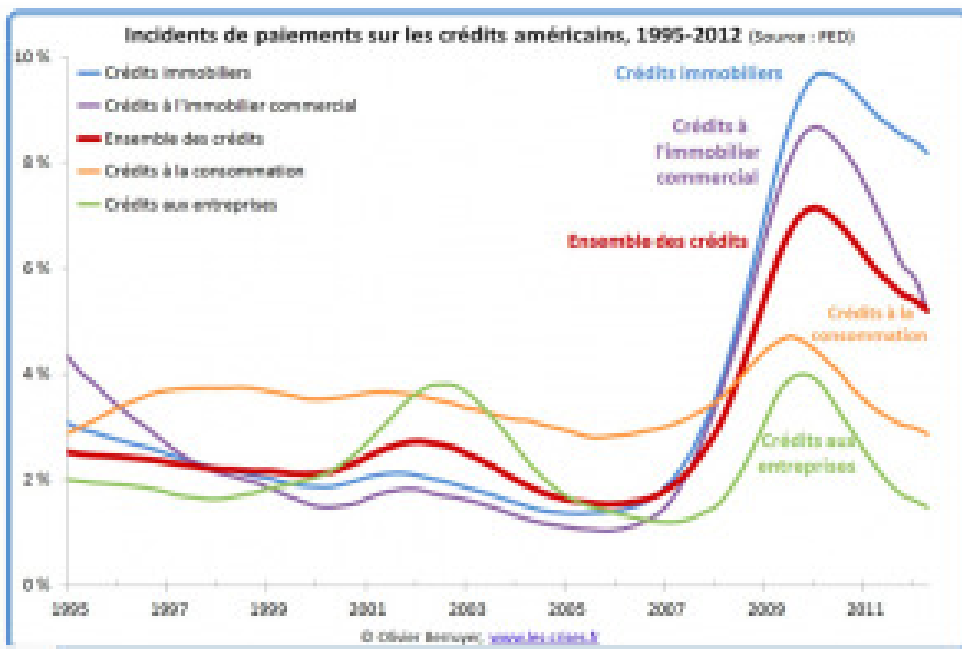


2008-2012 Financial Crisis

Have you heard about it ?

Must know for general culture.

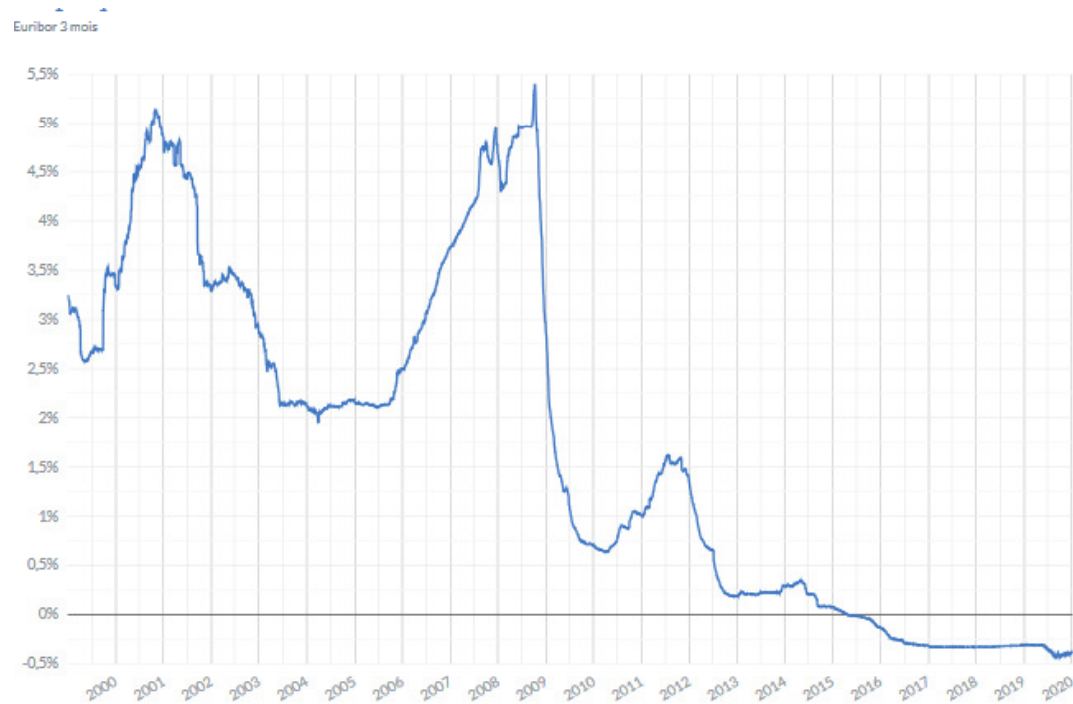
Cause : **Subprime** are bad loans engineered in USA and sold over the world under AAA rating. Put is simply : that was a giant scam, loans where granted to insolvent people but this wasn't a problem for the lender because he resold those loans, mostly transformed into securities. Chart bellow shows sharp increase in default rate, especially for real estate (mortgage) loans from 2% to 10%.



Teacher personnal view

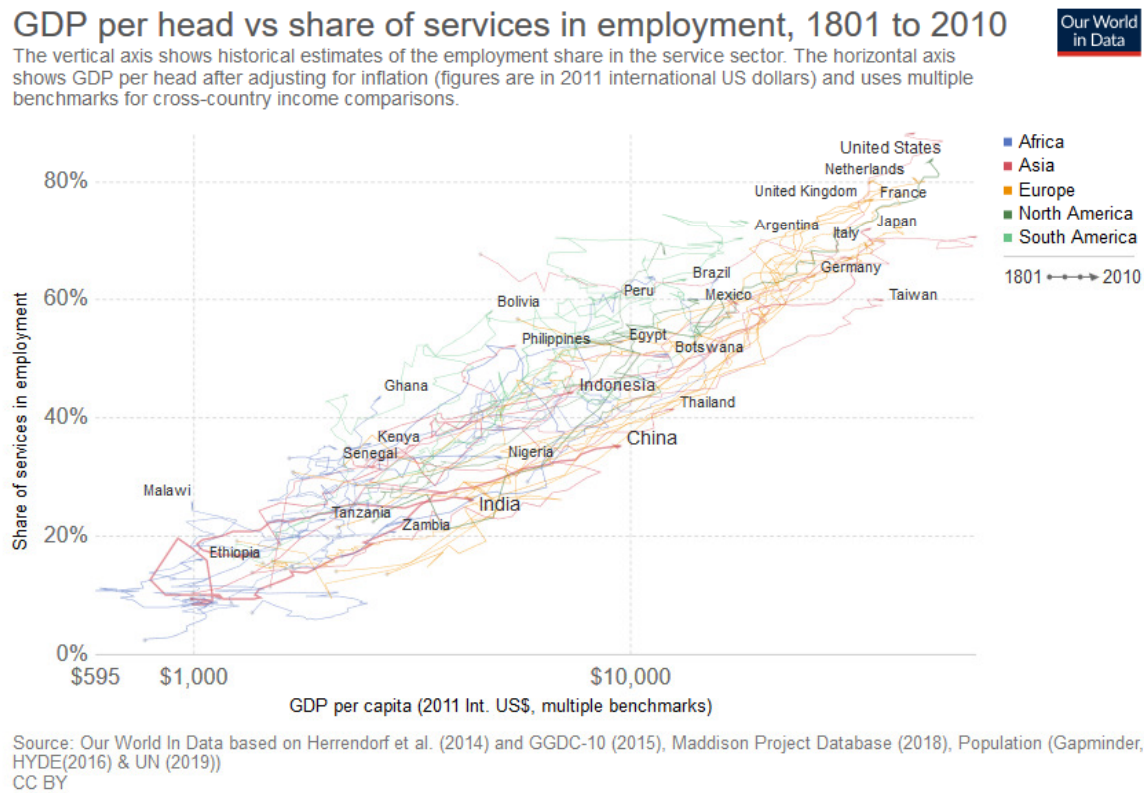
Interest rate as extremly low and even negative in Eurozone and a few other countries (Switzeland, Danemark....)

Everything is done to fuel economic growth



Economic General evolution

More and more services in total part of GDP, a key for developpement



Economic General evolution

As a result, biggest companies are not more heavy industrial companies but services or « marketing companies » (the customer pays for marketing in a larger part than production cost).

For example, Total was for many years the biggest company in France in term of **market capitalization** (= value of the company measured with price of share x number of shares), but is now overtaken by L'Oréal and LVMH.

Market cap : Total 130 B€ ; L'Oréal 147 B€ ; LVMH 214 B€ (as of 10th January 2020).

Shampoo is beating oil !!



Economic General evolution

Stock prices historical graph

