



Principles of Business

Term 3 course n°8

Final review session

BA 1st Year – 12/05/2020

Summarizing the course



Economy can be sexy too !

Left photo : Gita Gopinath, Phd Princetown 2001 (born December 8, 1971, yes) is an Indian American economist who is the Chief Economist of the International Monetary Fund since 2019.

Right photo : Kim Kardashian (born October 21, 1980), is a TV reality actress and business woman with estimated worth of \$ 370 millions. In 2015 a reported \$ 50M pay from TV reality. Very few people are making as much in a whole career in finance. She must be very smart somehow because Paris Hilton disappeared.. Where is she ?

We all have our preferences, the point is all (legal !) ways of success are respectable.

Summarizing the course



What have we learned in this course ?

The main goal of education in my opinion is “to learn to learn” or “to learn to do by yourself”.
I am personally a strong supporter of **Maria Montessori** (1870, 1952).

You will remember only few concepts from the course (after the exam !) but it’s not a problem.

My hope is that your mind will be prepared for understanding economic / financial way of looking at the world.

Summarizing the course : Term 2

The best way to check your understanding of the course is to test yourself on few questions. Write down your answer before watching at answers. If you jump directly to answers there is no added value.

Disclaimer : it is few questions, not all the whole course.

Term 2 :

What is economy ?

Why is GDP the most used economic indicator ?

What should be remember from Adam Smith ? From David Ricardo ?

Why those 2 guys are english ? (not in the course !)

What is Washington consensus ?

What are the main finding from Thomas Piketty ?

What is « Limit to the growth » ?

What is a Gini coefficient ?

What is Price Elasticity ?

Summarizing the course : Term 2

What is economy ?

Read again Jodi BEGGS's article « Economics for Beginners: Understanding the Basics » : is the « study of how people and groups of people use their resources ».

Why is GDP the most used economic indicator ?

Its try to give a numerical indication of « wealth » in the form of annual flows of consumption of good and services (private and public). It tells you immediately if a country is a big economy or not. GDP per capita will tell you if a country is developed or not.

Example GDP of France is 2778 billions \$, GDP of Luxembourg is 70 billions \$; GDP of Romania is 240 billions \$; France GDP per capita is 41k\$ / year ; Luxembourg GDP per capita is 117k\$ / year, Romania is GDP per capita is 12k\$ / year.

You can conclude from GDP that France is a big economy (among top ten) and that Luxembourg and Romania are small economies.

You can conclude from GDP per capita that Luxembourg is super rich country, France is a rich country and Romania is « intermediate revenue country » (neither rich or poor).

Further reading : <https://www.gfmag.com/global-data/economic-data/worlds-richest-and-poorest-countries>

On the basis of GDP, GDP annual rate of growth is calculated.

Because GDP is supposed to grow perpetually at the moment i read many articles writting « GDP growth will be negative », we could just say that « GDP will decrease ».

Summarizing the course : Term 2

What should be remember from Adam Smith ? From David Ricardo ?

Adam Smith is famous for **the pin / needle factory** example, which explain why work division is efficient and increase productivity. He is also famous for the **invisible hand** concept : no need for government supervision, market can equilibrate by itself.

David Ricardo is famous for **work value** theory : each good value is proportional to the work involved to create it. He is also famous for his international trade theory of **comparative advantage** : in both case of **absolute advantage** (each of the 2 countries are better in one production) and **relative advantage** (one country is better at both production but the other is « less bad » in one of the 2 productions).

Why those 2 guys are english ? (not in the course !)

They both lived in England at the time of the industrial revolution. A moment where people started to have the conscience of the overall development of economy and the link with individual welfare.

Summarizing the course : Term 2

What is Washington consensus ?

Washington consensus is a set of 10 economic policy that are mainstream now and applied widely in the world and are considered as a condensed of « liberal » policies.

What are the main finding from Thomas Piketty ?

Piketty studied the concentration of both revenues and assets in USA and Europe based on long time series, starting in 1900. His famous book is *Capital in the twenty-first century*.

He find that revenues and assets where very concentrated in the beggining of the 20th century, then because of first and second world wars, inflation and the rise of planned economy (socialism / communism) those inequalities reduced sharply. Since 1980 those inequalities start to rise again.

Bottom line : you can't just say « The rich are getting richer and the poor are getting poorer ». You need to choose an economic indicator and mesure it over time. Indicators show that this was true during 1900 to 1920, false from 1920 to 1980 and true since.

What is « Limit to the growth » ?

A 1972 controversial book about physical limits to economic growth.

A example of limits reached by economy is Ozone depletion (ozone-depleting substances have been forbidden since) or the fish stock (around 90 M tonnes of fishing per year globally, limit recheid in 1990, oceans just can't give more, any increase in fish consumption is from fish farming).

Summarizing the course : Term 2

What is a Gini coefficient ?

Gini coefficient measure inequalities : A coefficient of 0 expresses maximal economic equality (where everyone has the same income). A coefficient of 1 expresses maximal inequality (only one person has all the income).

Because value is between 0 and 1 the gini coefficient is often expressed as a %. Often the % sign is missing.... On the World Bank website for example 33.2 for Albania is 33.2%.

Values can be found here : <https://data.worldbank.org/indicator/SI.POV.GINI?view=map>

What is Price Elasticity ?

Price elasticity is how much offer or demand would react to price change. See formula bellow.

A product (or a service) can be Perfectly elastic, Relatively elastic, Unit elastic, Relatively inelastic, Perfectly inelastic.

Example : right now oil demand is relatively inelastic : even if the oil price drop people can't buy more because they drive less or can't take the plane because of Covid-19 (but that's a conjonctural factor). Oil offer is also structurally (permanent factor) relatively inelastic because once you are drilling oil it is difficult to reduce production.

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

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Term 3 :

What is openness to global trade ?

How would you define a globalized textile brand ?

What is a Matrix management system ?

What is sunk cost fallacy ?

When I look at EDF (Electricité de France) stock price historical graph I think it is cheap right now (see graph). What psychological bias could be involved ?



Summarizing the course : Term 3

What is openness to global trade ?

Openness to global trade is how much international trade (= imports + exports) are important for a given country's economy. The indicator is calculated by dividing international trade by GDP, and the result would be expressed as a % of GDP.

How would you define a globalized textile brand ?

Globalization is natural economic process (in absence of political decision on trade tariff) to try to produce at lower cost in order to meet consumer demand, beat competitors / survive to competition or increase profits.

Nowadays most textiles companies engage in / accept / resign to (depending on case) globalization using "competitive advantage of poor countries" to locate production where cost of work is low, using cheaper synthesis fibers and favoring a fast turnover of products.

Summarizing the course : Term 3

What is a Matrix management system ?

Matrix management is an organizational structure in which some individuals report to more than one supervisor. Can also be called cross-functional, cross-business groups.

What is sunk cost fallacy ?

The sunk cost fallacy makes people giving a value to what they already lost.

The Concorde plane is a very famous example. French and British had invested so much into the project of building a supersonic commercial plane that they couldn't stop it even if it was money losing. The more it flew, the more it lost money.... At some point they finally stopped.

When I look at EDF (Electricité de France) stock price historical graph I think it is cheap right now (see bellow). What psychological bias could be involved ?

Compared to IPO price in 2007 of 32€ and historical high of 80€ the current price of 7€ looks cheap. Just because previous price was higher. That is not rational. They may be very good reasons to justify the current price : very low electricity market price, problem with building of EPR nuclear plants...etc..

It fact 2007 price and today price are not comparable at all because many shares where issued since to cover losses (capital increase : EDF sold new shares).