PROVISIONAL
GLOBAL BUSINESS AND FINANCIAL ENVIRONMENT
Project Management October 2014
part 1

Robin Matthews

Professor of International Business

Kingston University Business School London

JM Keynes Professor of Management

Academy of National Economy Moscow

Further papers by robin Matthews can be found at
http://robindcmatthews.com
http://www.tcib.org.uk/about.html.
Also http://kpp-russia.ru and http://www.russtrategy.ru.
http://kingston.ac.uk/CIPB.php

Global business environment: history 1

- **Postwar recovery 1945 – 70**
  - **Keynesian policies**
- **Stagflation 1970 -1980**
- **Monetarism and supply side economics 1980 – 2007**
- **Global crisis**

Fundamentals managing projects 1

Firms as collections of projects

NPV AND NCF
NET PRESENT VALUE and NET CASH FLOW

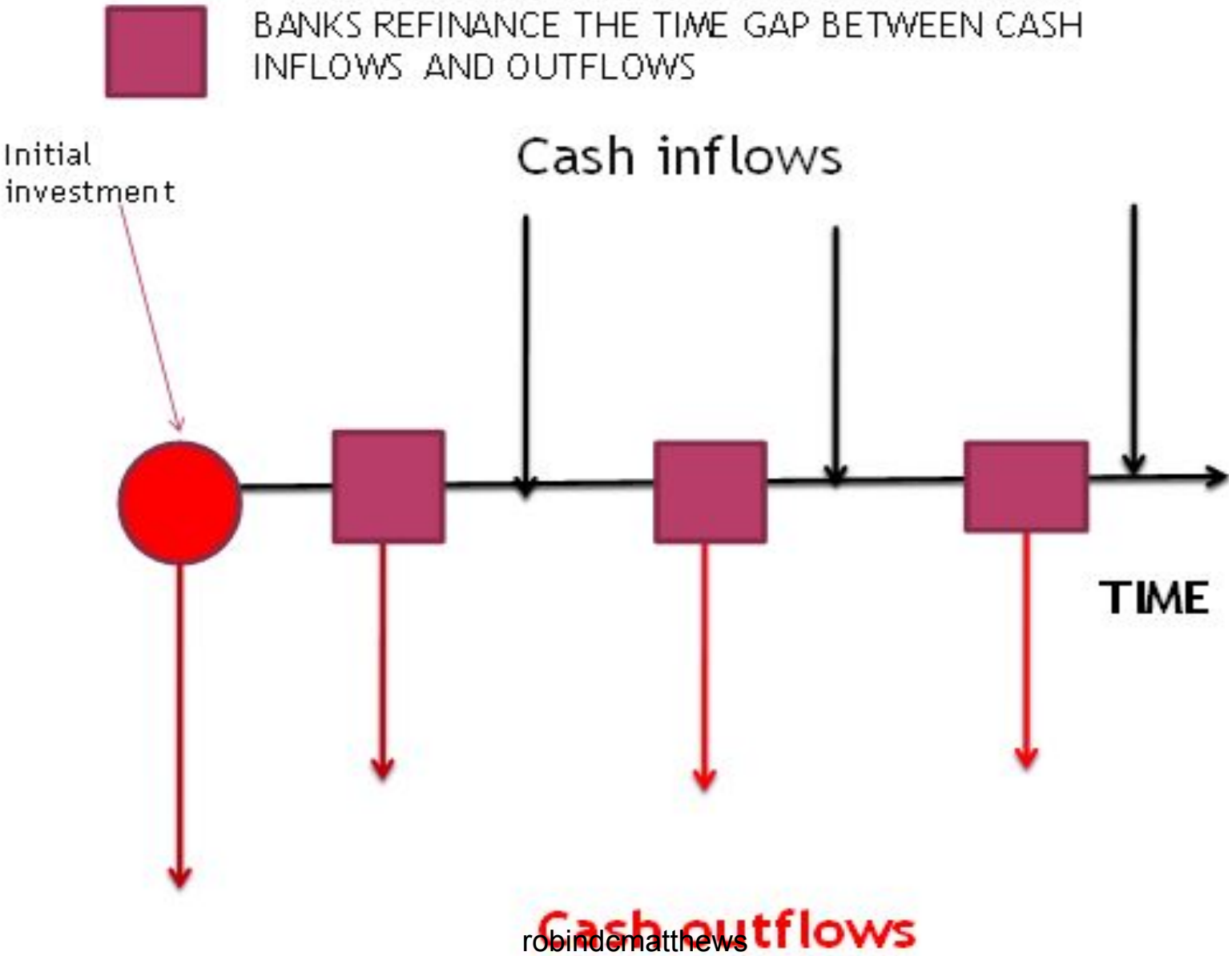
- Net Present Value
- Net Cash Flow
- Fundamental Equation

$$\Pi(t) = R(t) - C(t)$$

$$C(t) = W\&S(t) + M(t) + I(t) - D(t) + [rd(t) + re(t)]$$

Fundamentals managing projects 2

Integrating the real and financial sectors


BANKS REFINANCE THE TIME GAP BETWEEN CASH INFLOWS AND OUTFLOWS
Initial investment
Cash inflows
TIME
Cash outflows

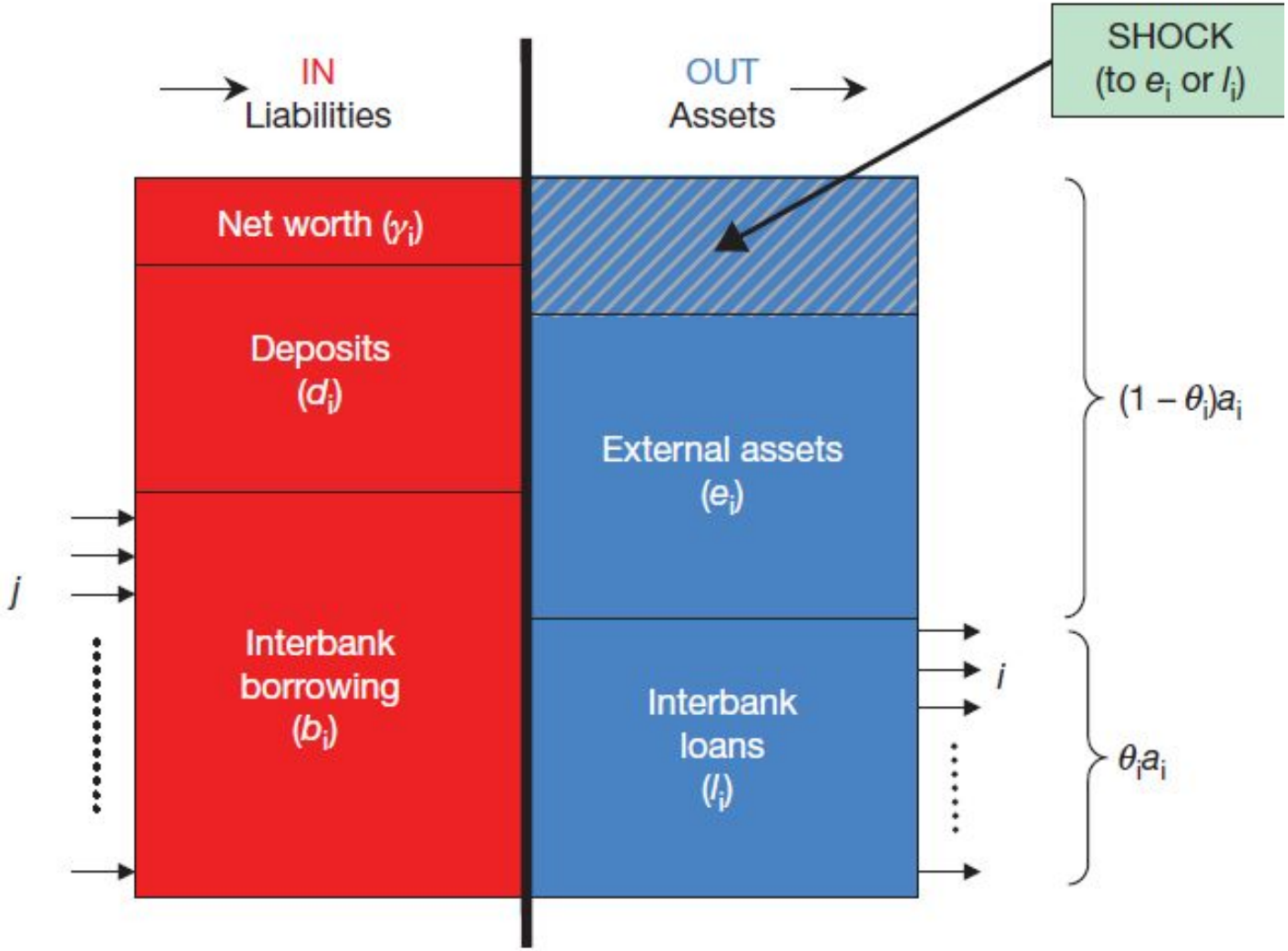
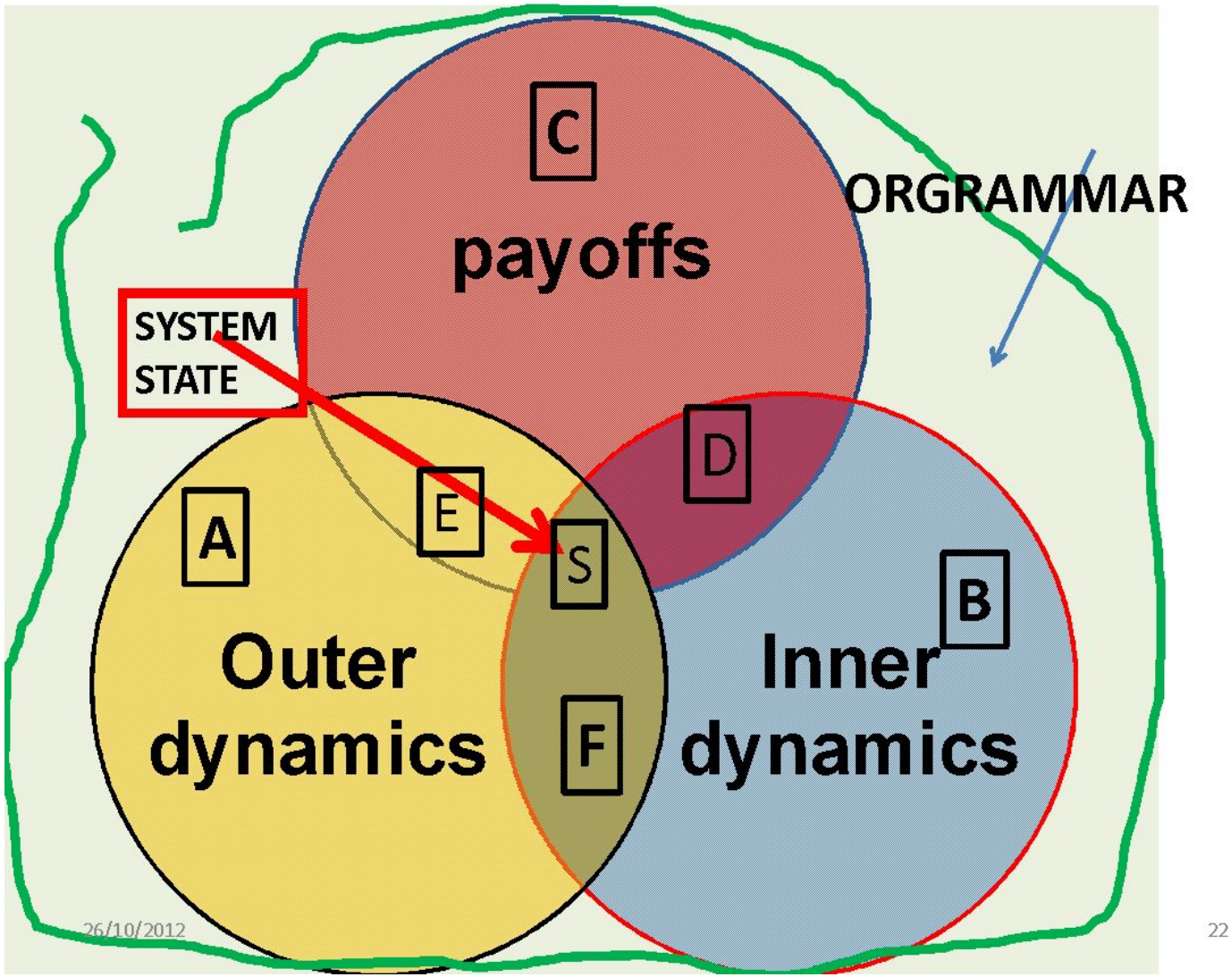


Figure 3 | Schematic model for a node in the interbank network. Adapted with permission from ref. 25.

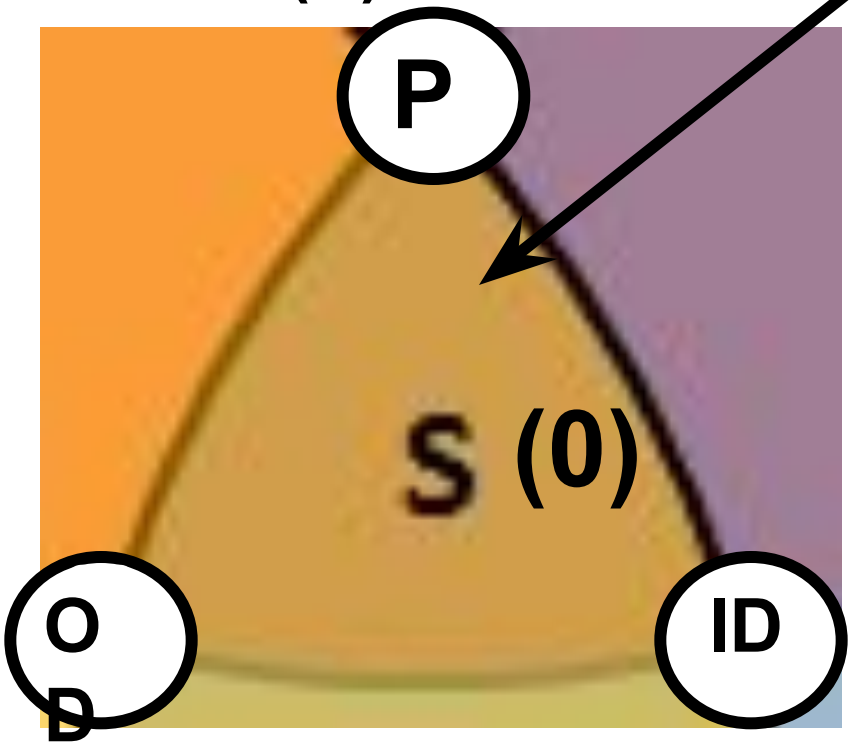
Meta Model


C
payoffs
ORGRAMMAR
SYSTEM
STATE
D
E
A
S
B
Outer
dynamics
Inner
dynamics
F
26/10/2012
22

grammar

ATTRACTOR

PAYOFFS (P)



OUTER (OD) DYNAMICS

INNER (ID) DYNAMICS

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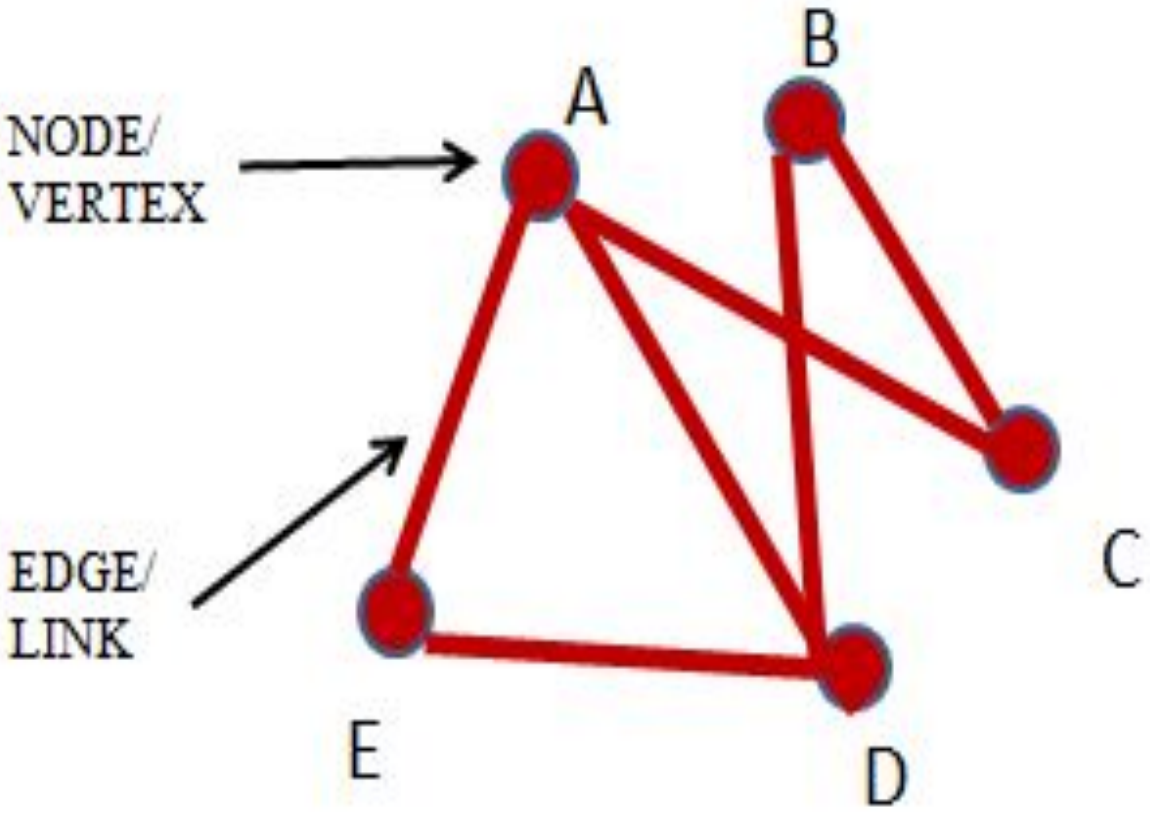
networks

Synergies and feeedback


NODE/
VERTEX
EDGE/
LINK
A
B
C
D
E

More complex networks

Networks: default state
Small world: highly clustered, short path lengths

- Degree of a node is the number of edges (***k***) connecting it to other nodes.
- High degree nodes have many connections (high ***k***); low degree nodes have few (low ***k)***
- ***P(k)*** probability of degree ***k*** follows a power law
- $P(k) \sim z\, k^{-\alpha}$..

$P(k) \sim z\, k^{-\alpha}$..

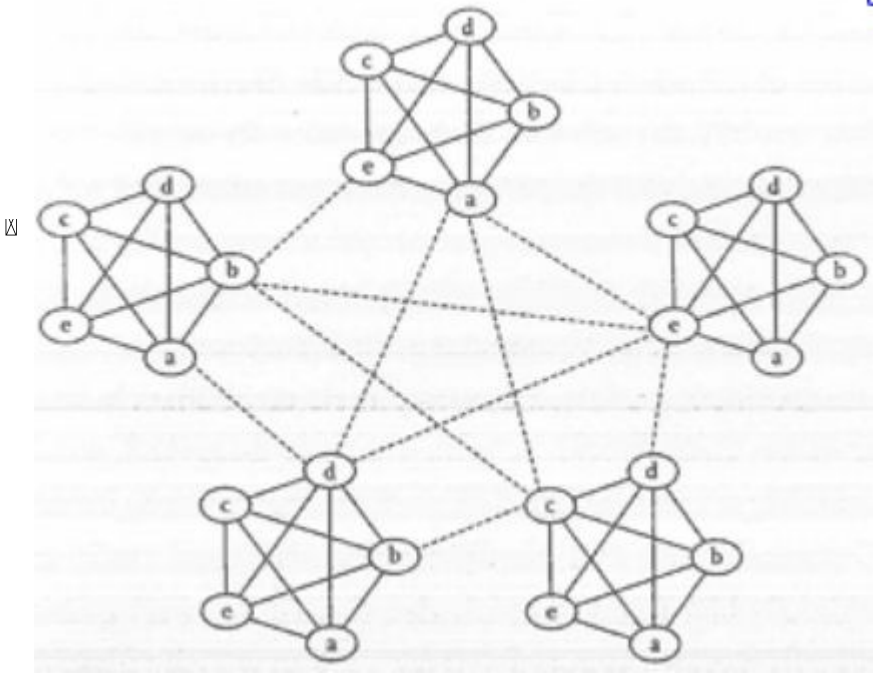
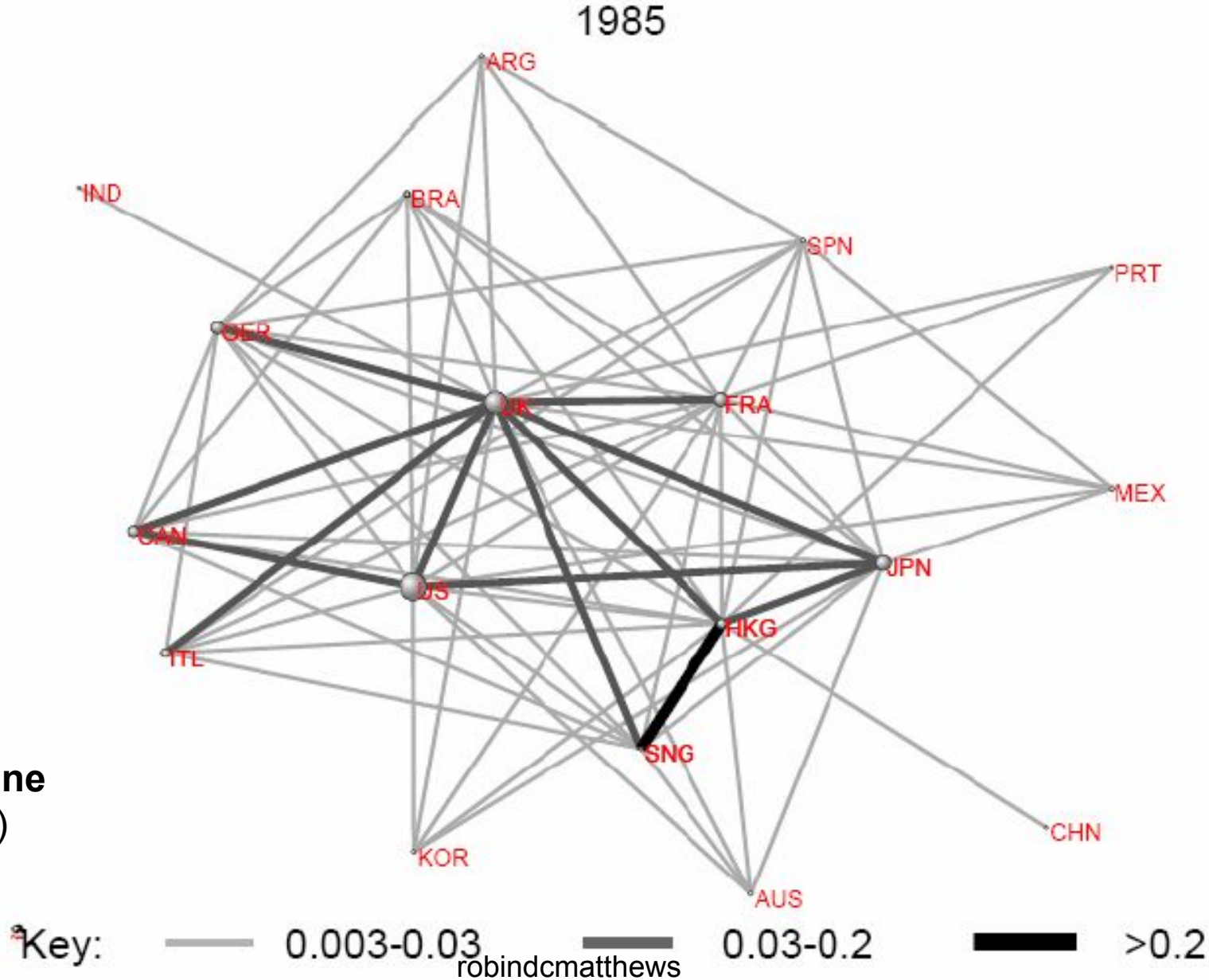
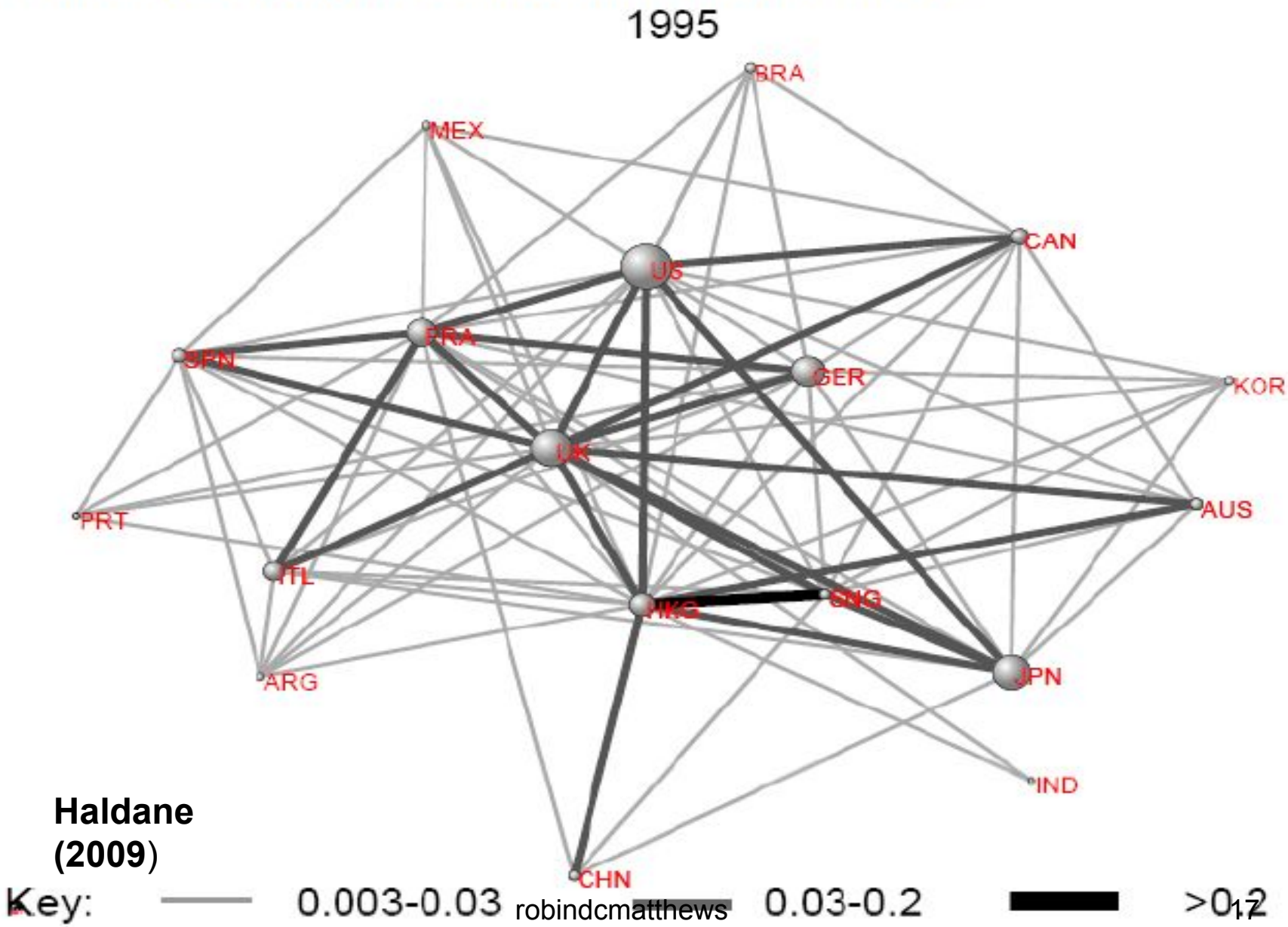


Chart 1: Global Financial Network: 1985



Haldane (2009)

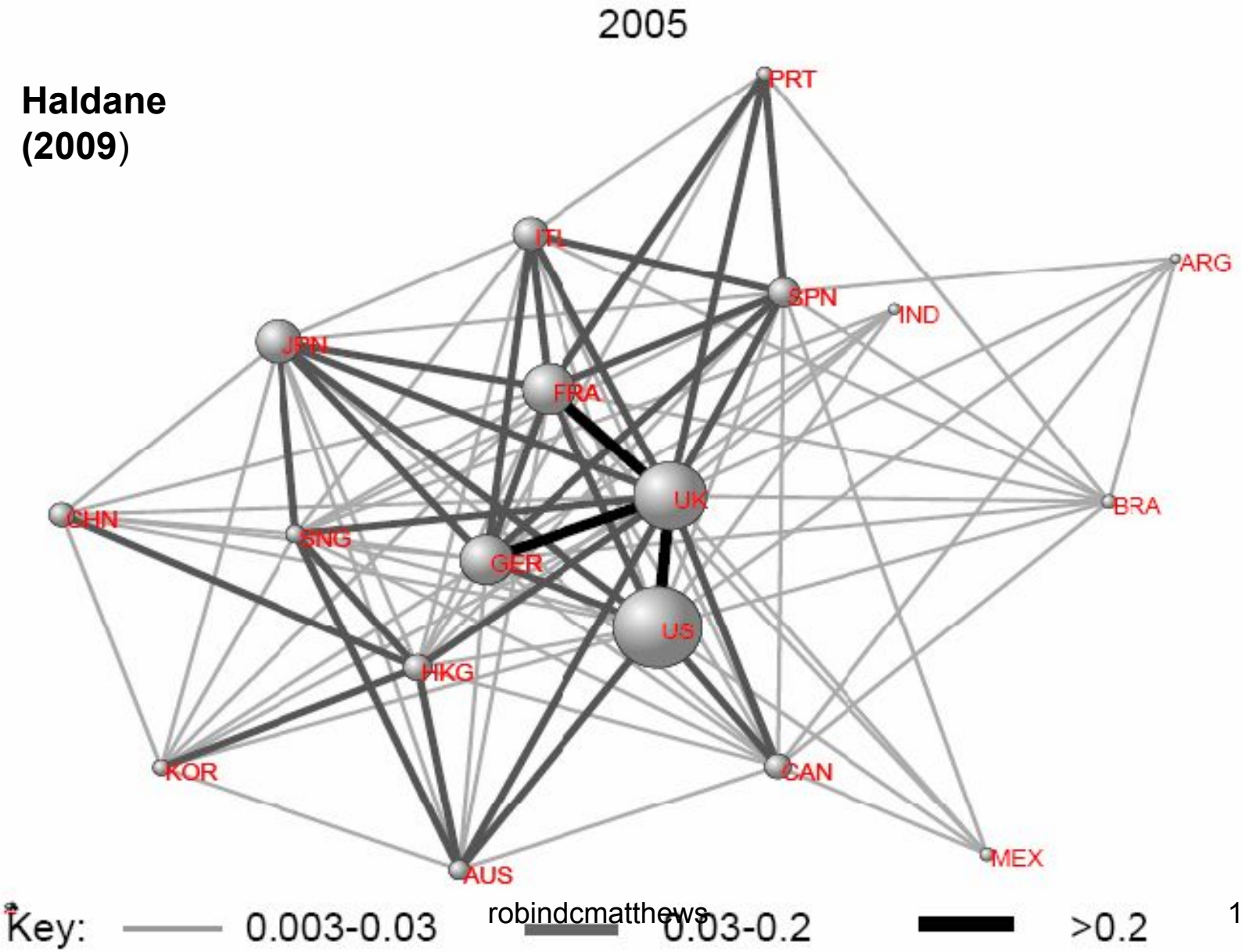
Chart 2: Global Financial Network: 1995



Haldane (2009)

Chart 3: Global Financial Network: 2005

Haldane (2009)



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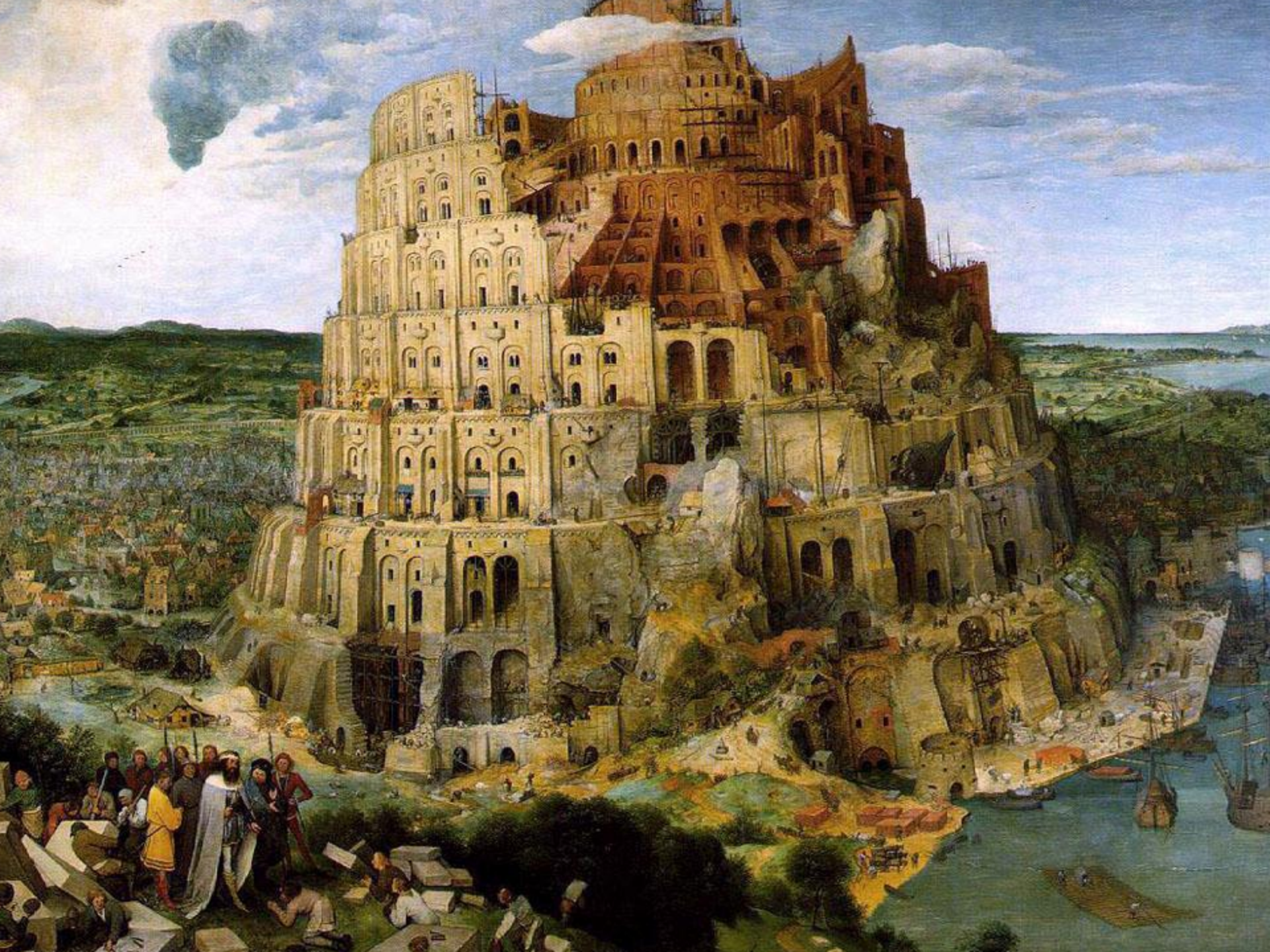
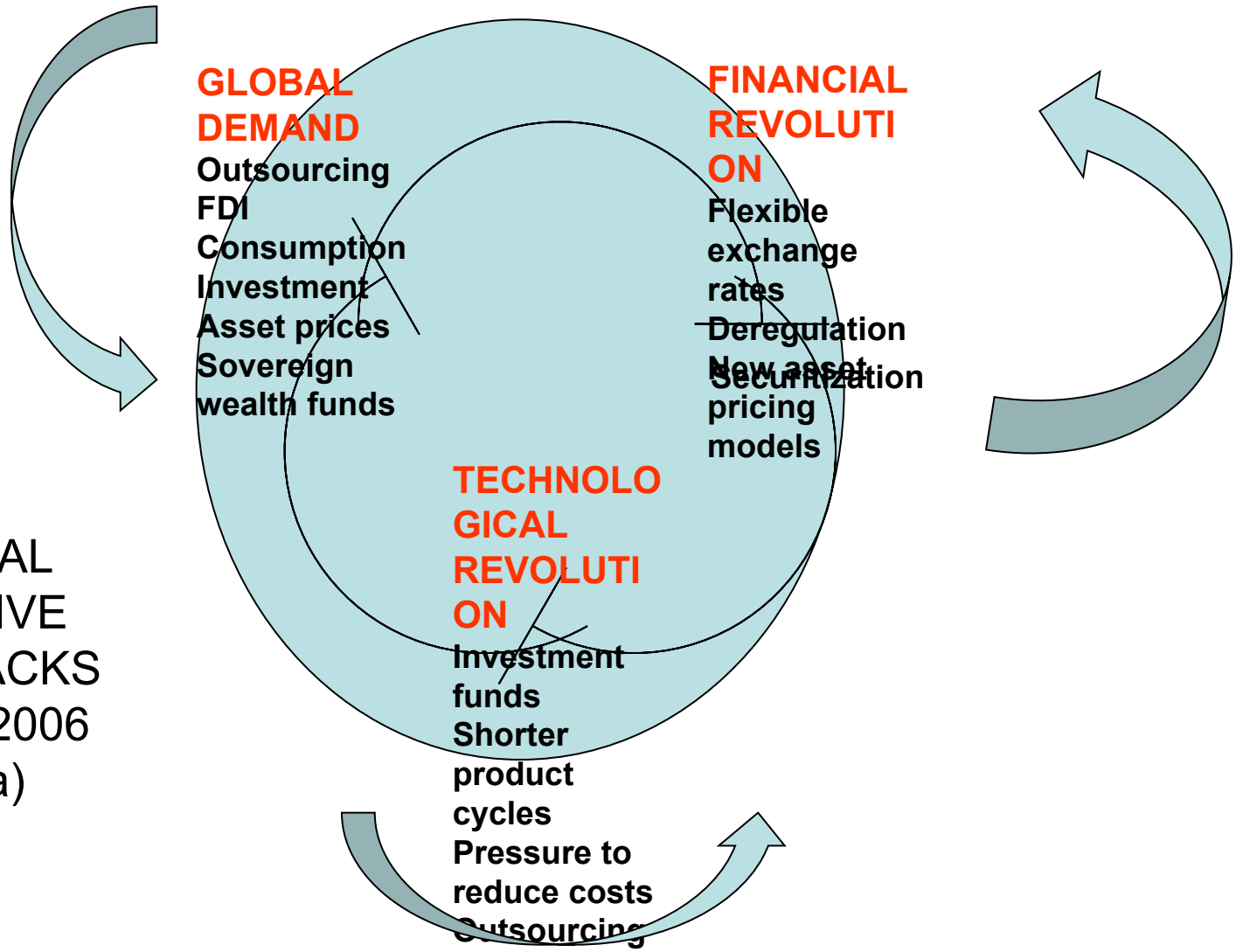
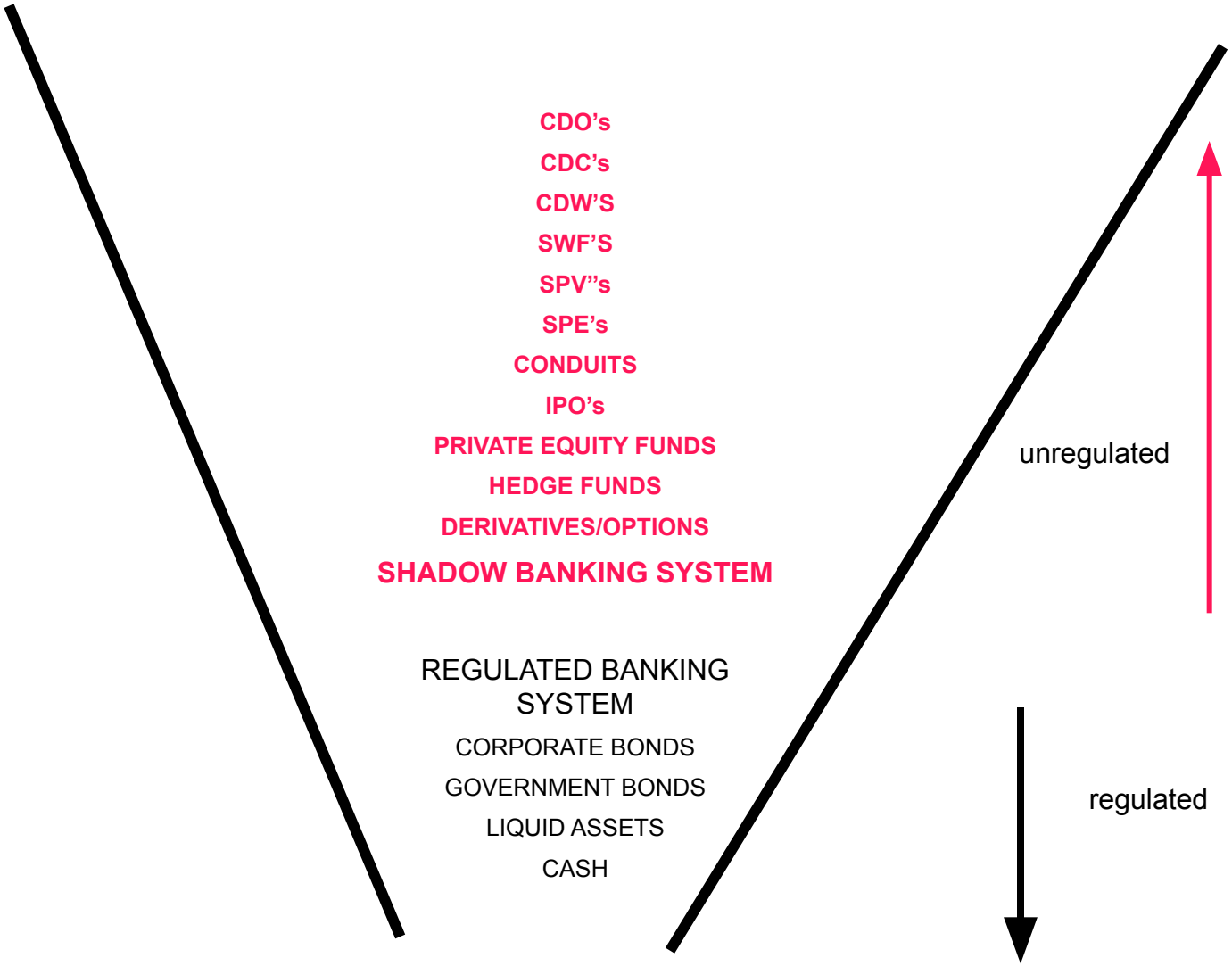
The Crisis 2007 – 20012
The financial tower of Babel



GLOBAL POSITIVE FEEDBACKS 1980 – 2006 (circa)



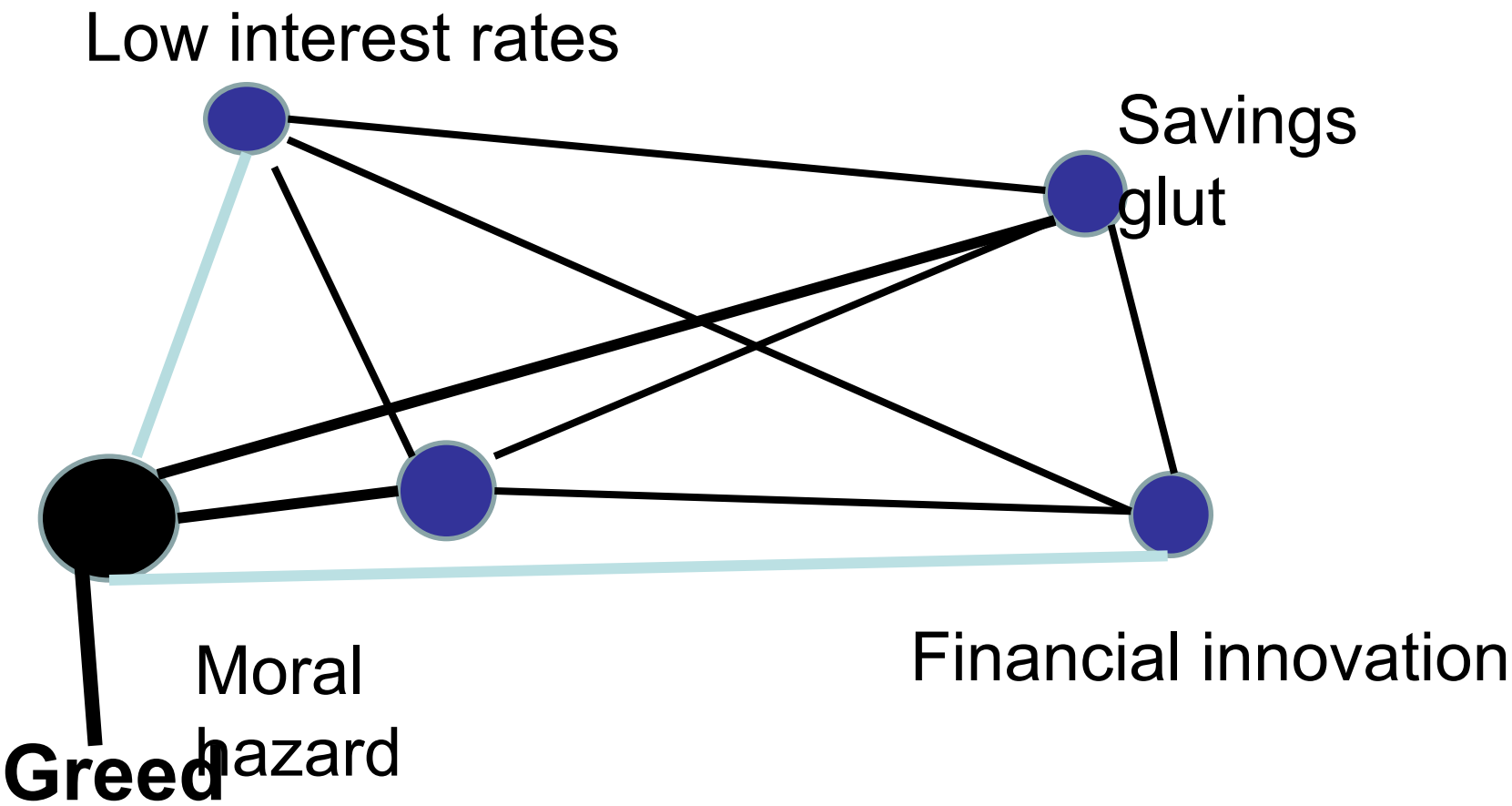
The financial tower of Babel: 21ST century

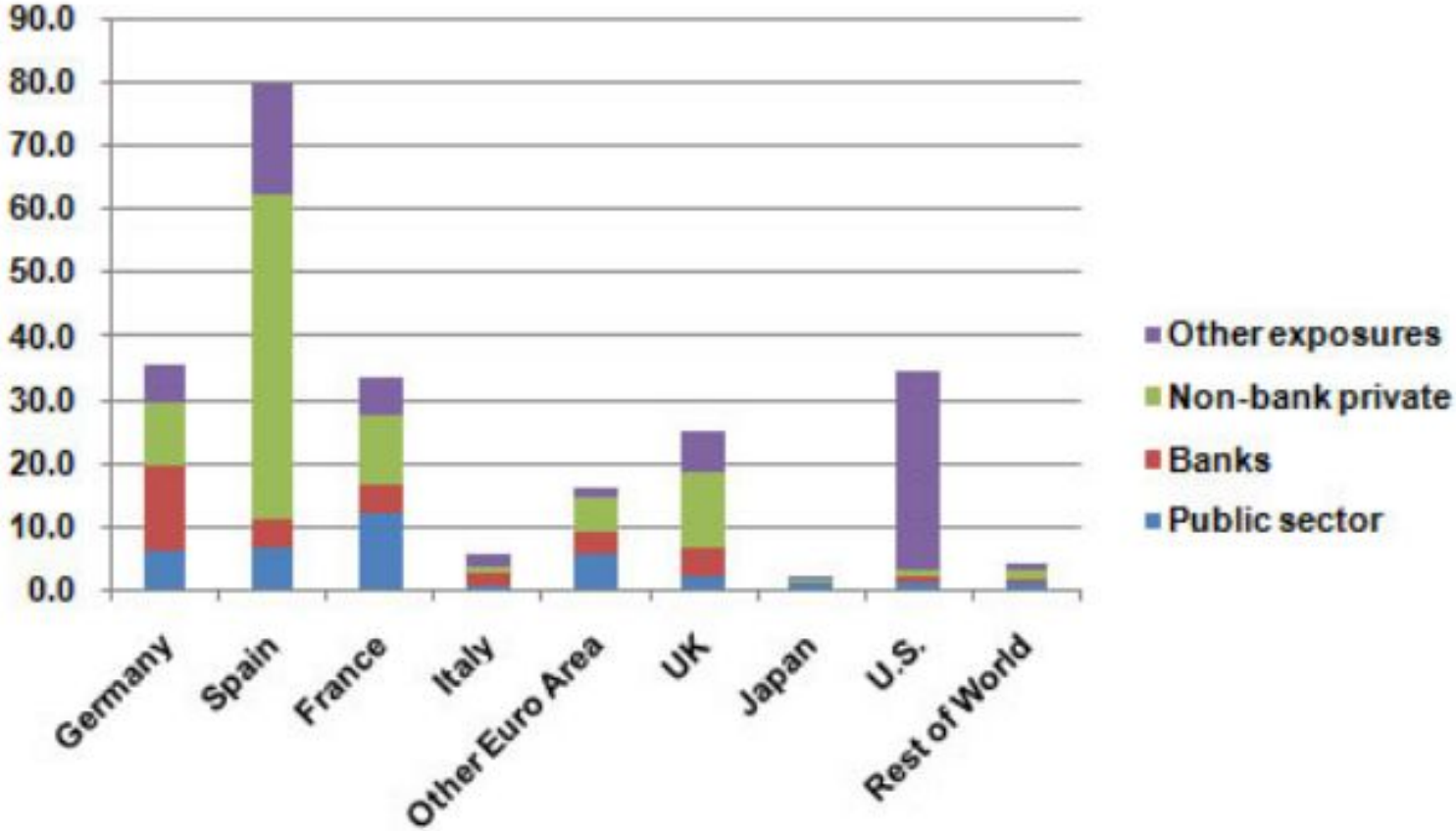


Causes of crises

- Low interest rates
- Savings glut
- Financial innovation
- Moral hazard
- None of the above
- All of the above
- Samudaya (the second noble truth: thirst)

Causes of the crisis?



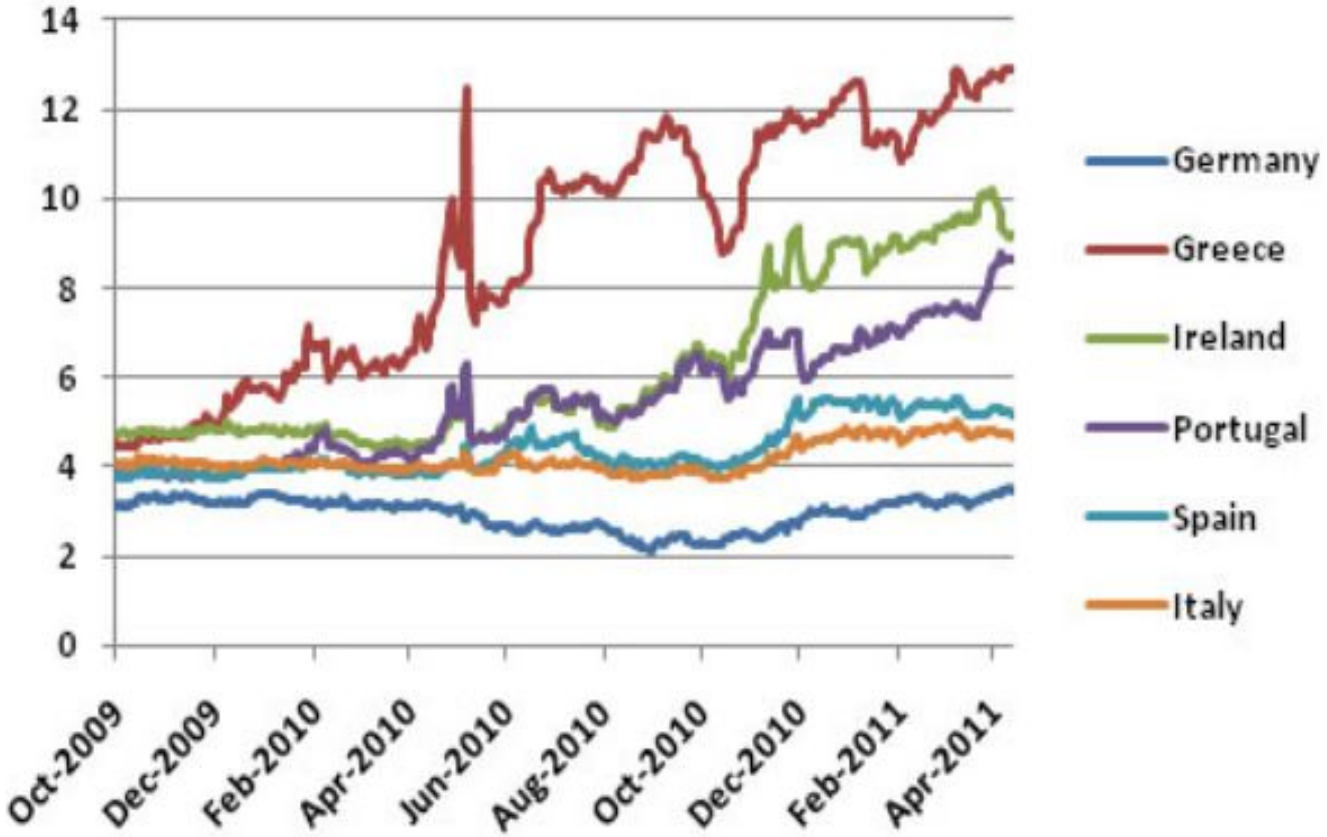


Note: Ultimate risk basis except Germany

Source: BIS, Q3 2010

Exposure to Greek debt

Source rge monitor



Source: Bloomberg

Long term bond yields july 2011

Source rge monitor

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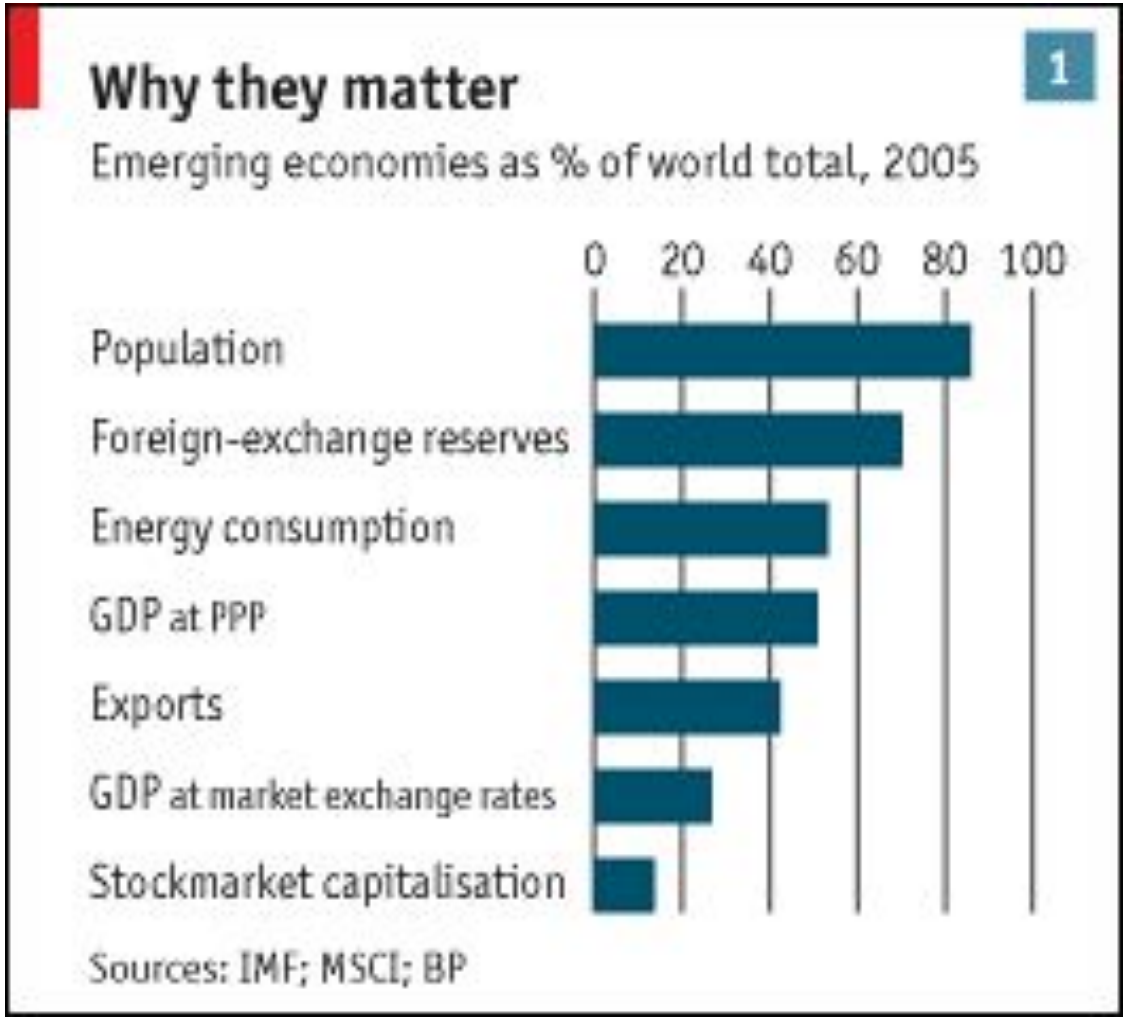
Emerging nations

Back to the past



Economist Sept 17 2006

1

Why they matter

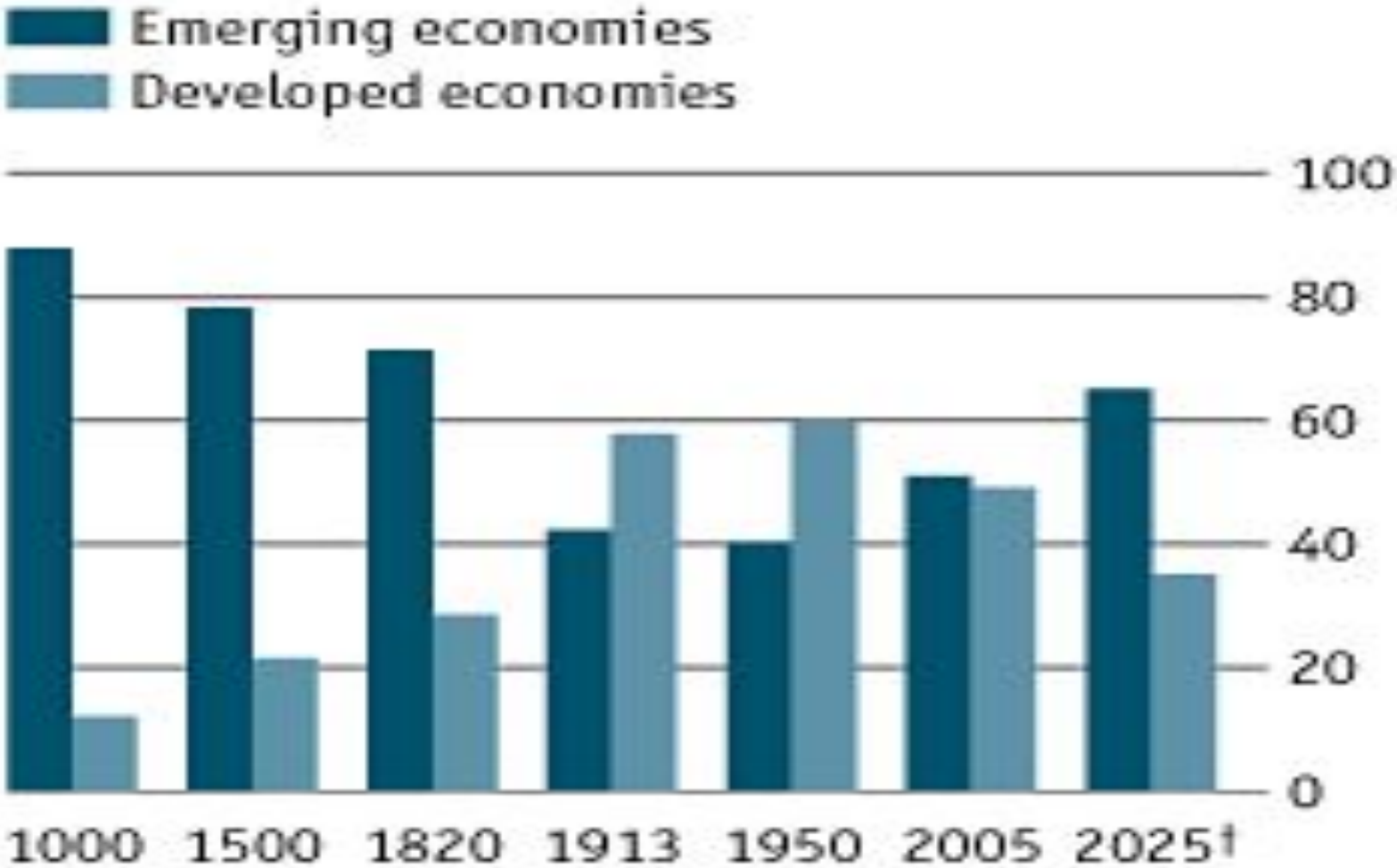
Emerging economies as % of world total, 2005

Sources: IMF; MSCI; BP

Re-emerging

2

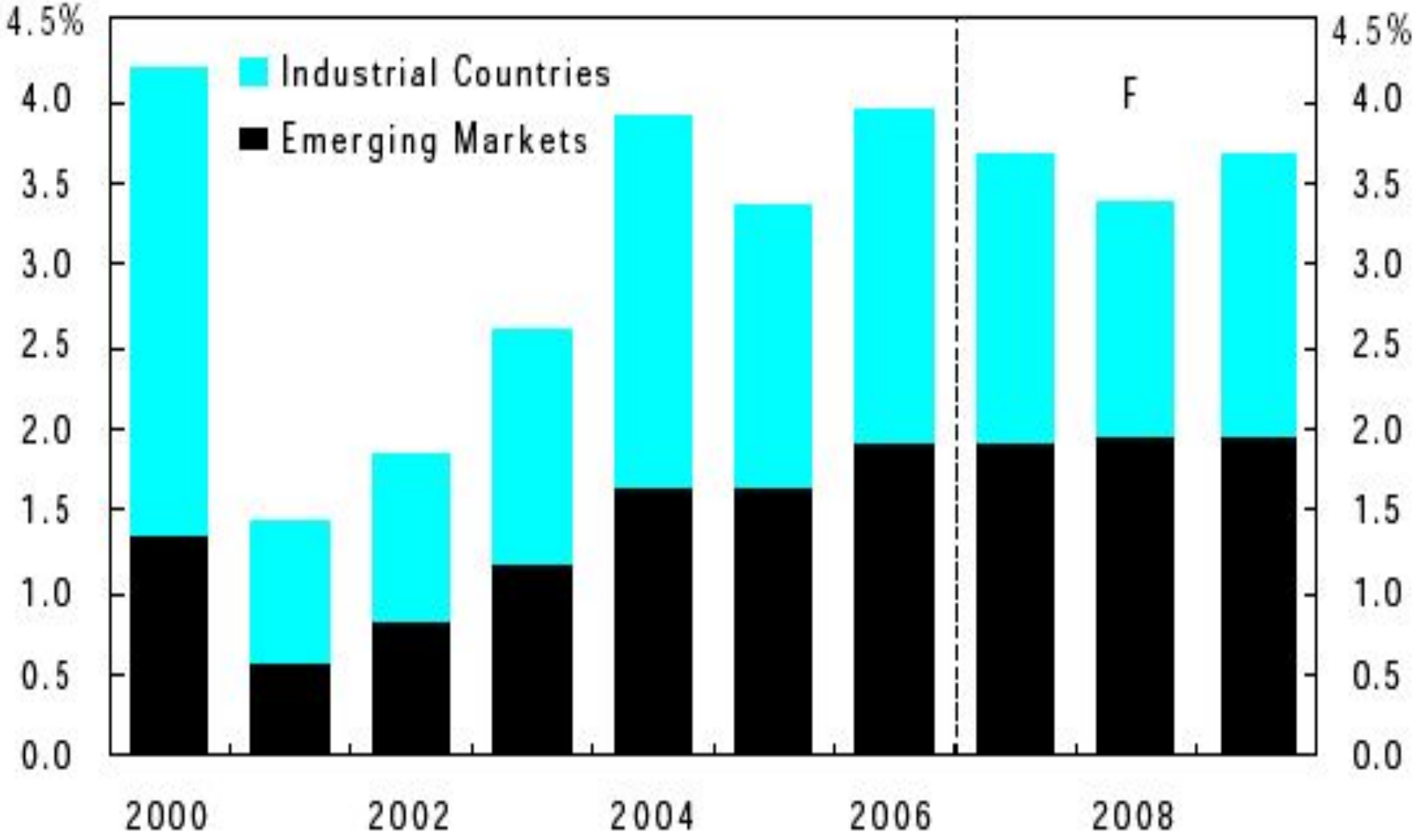
Share of global GDP*, %



*At purchasing-power parity †*The Economist* forecasts

Sources: OECD, Angus Maddison; IMF

Figure 4. Global – Contributions to Global Growth (Percentage Points)



Sources: IMF and Citi.

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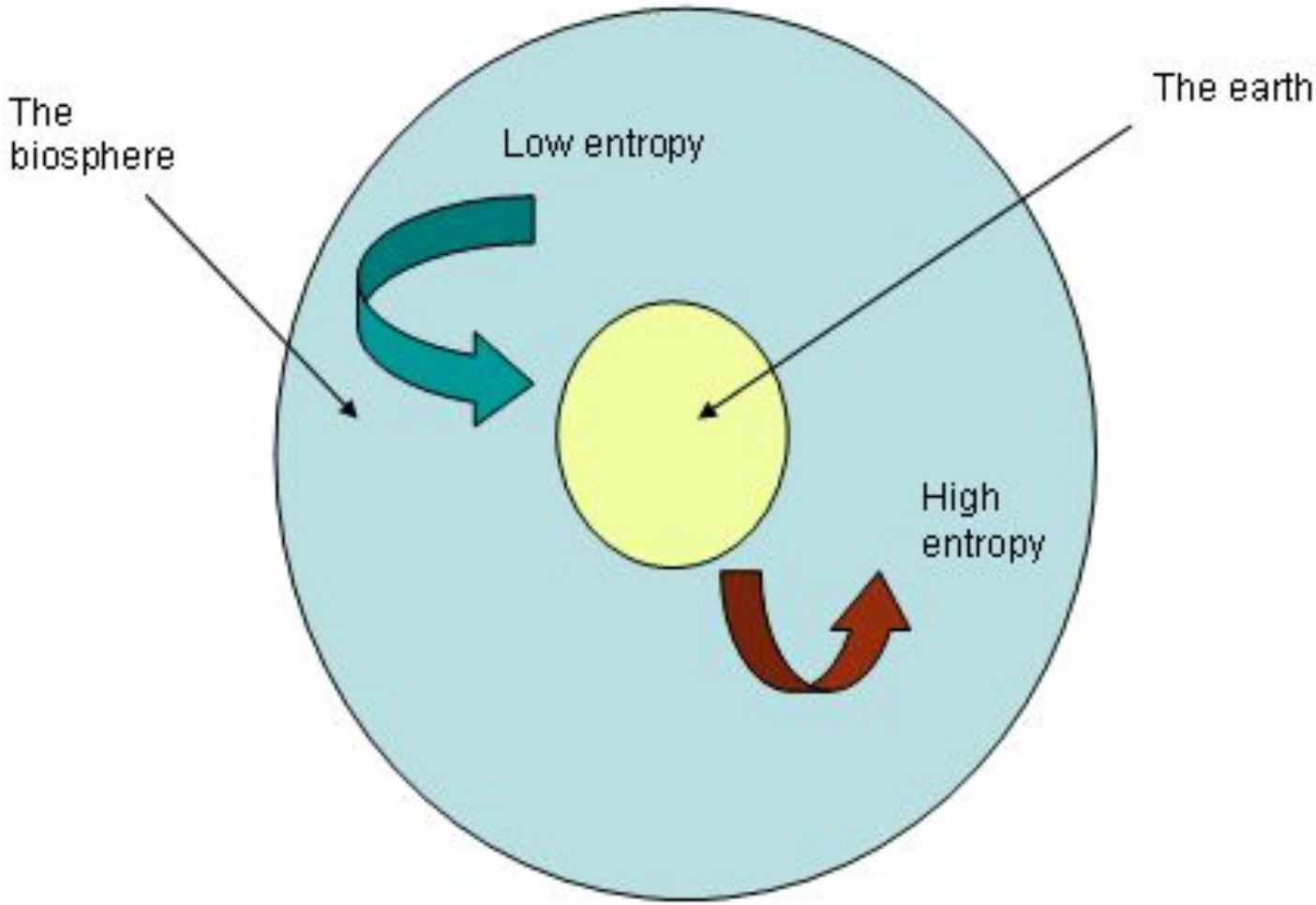
The environment

Gaia or exploitation


The biosphere
Low entropy
The earth
High entropy

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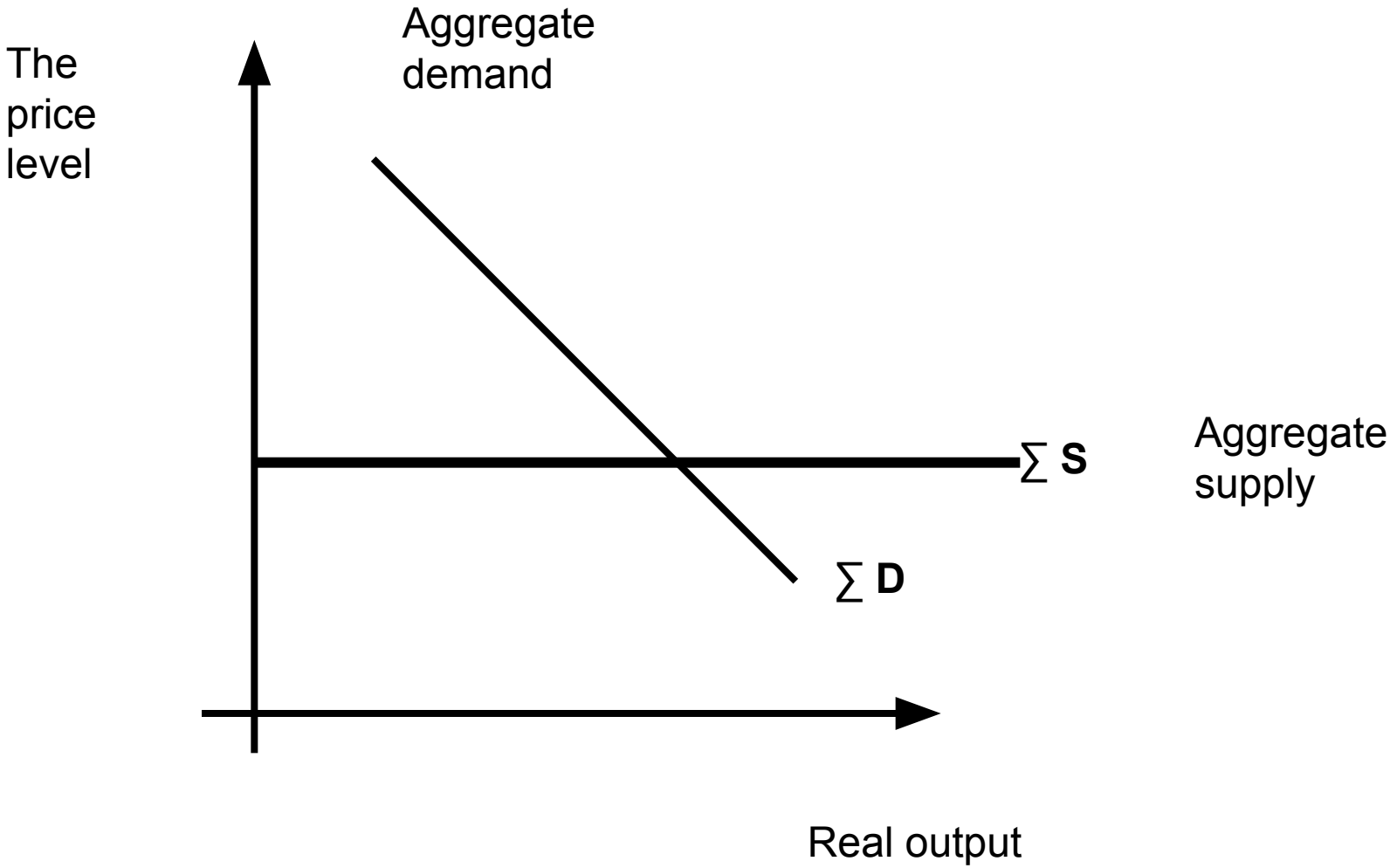
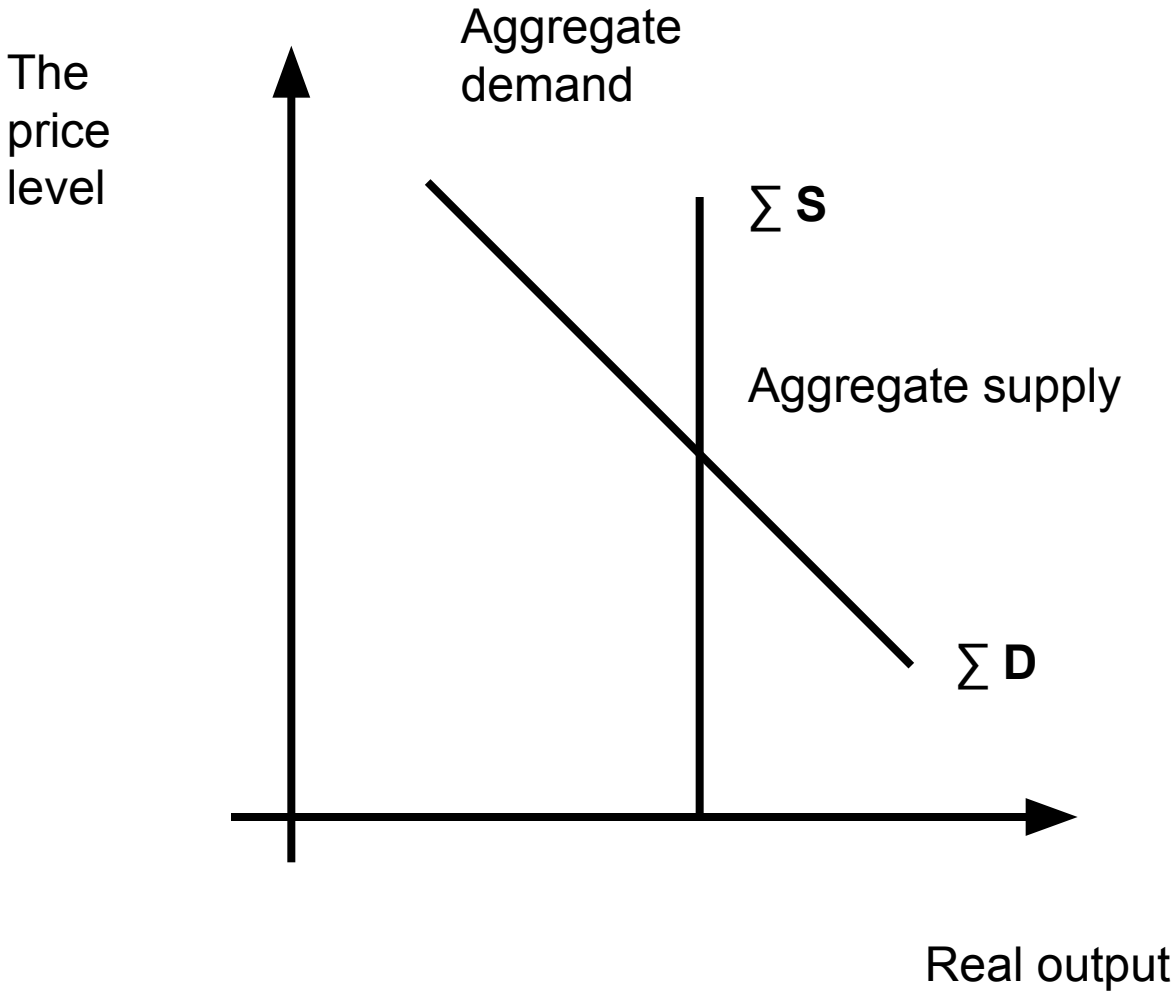
Cryptic models

Keynesian and monetarist



Keynesian case with liquidity trap



The pure classical case
Reagonomics and crowding out

Simple Keynesianism

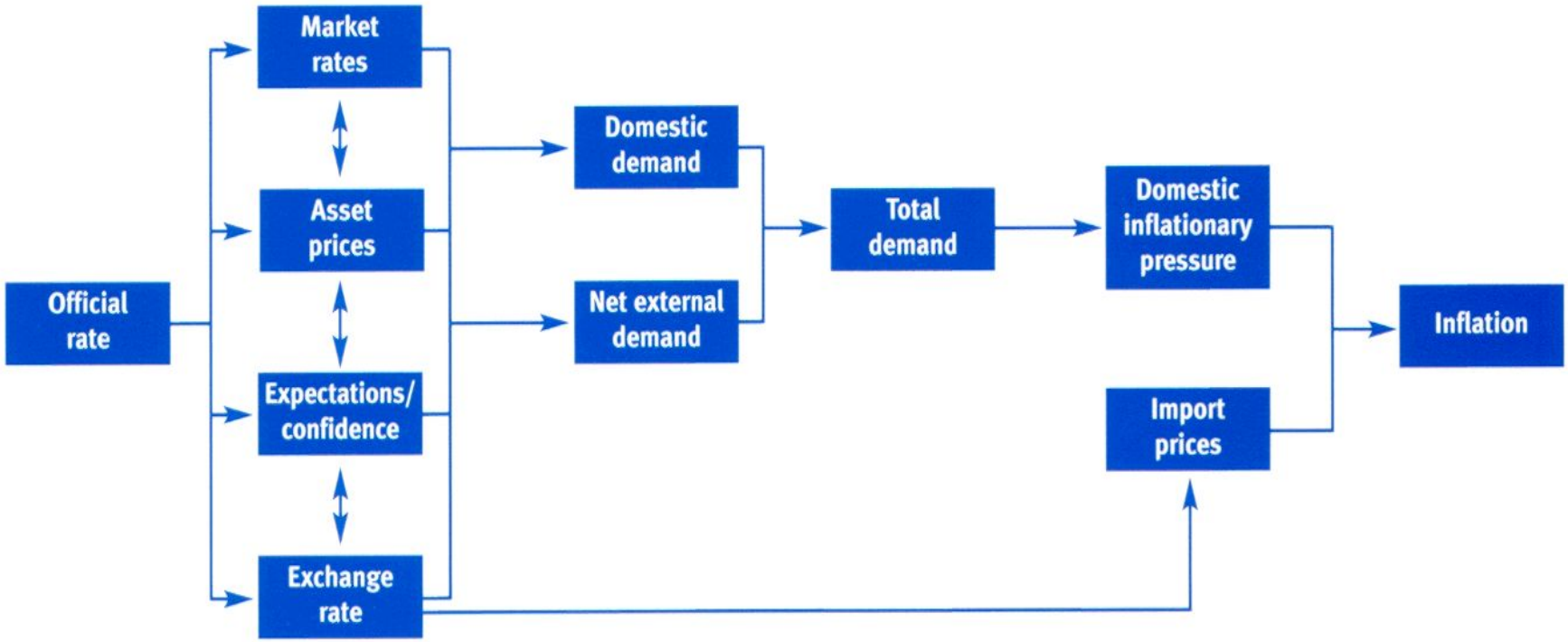
- The multiplier
- The marginal propensity to consume
- The importance of aggregate demand

Keynes: sources of unemployment

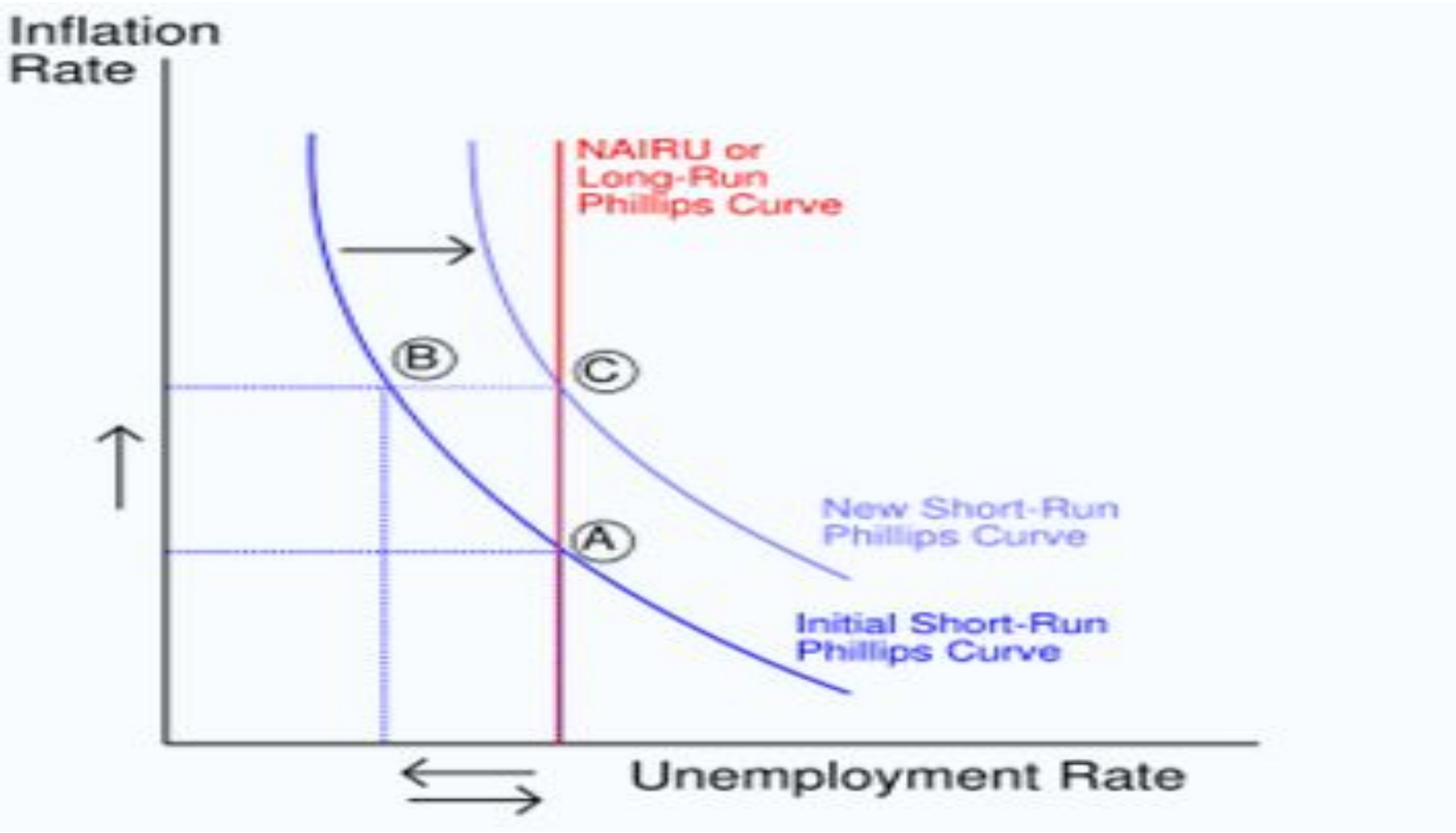
- The liquidity trap
- Inconsistency between savings and investment
- Rigid money wages

Monetarism

Figure 1: From interest rates to inflation – the transmission mechanism of monetary policy



The Phillips curve



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Micro-foundations

Costs

Revenues

Risk

NPV AND NCF
NET PRESENT VALUE and NET CASH FLOW

- Net Present Value
- Net Cash Flow
- Fundamental Equation

$$\Pi(t) = R(t) - C(t)$$

$$C(t) = W\&S(t) + M(t) + I(t) - D(t) + [rd(t) + re(t)]$$

costs

AVOIDABLE

UNAVOIDABLE

V

Variable
Avoidable by cutting
Down output
(marginal costs)

F2

Fixed
Avoidable by going out of business

F1

Sunk costs
Unavoidable once incurred
(True costs)

Scale and scope economies

- Leveraging
- Outsourcing
- Restructuring

Marketing

segmentation

Elasticity (price)

- % change in quantity bought/% change in price
- Defined as an absolute value
- Varies along demand curve
- E> 1 implies price reduction increases sales revenue
- E < 1 implies price reduction decreases sales revenue

	Effect on sales revenue of price reduction	Effect on sales revenue of a price increase
Elastic Ep >1	Sales Revenue RISES	Sales Revenue FALLS
Inelastic Ep <1	Sales Revenue FALLS	Sales Revenue RISES

ELASTICITIES

$E_P = | E_P |$ = price elasticity

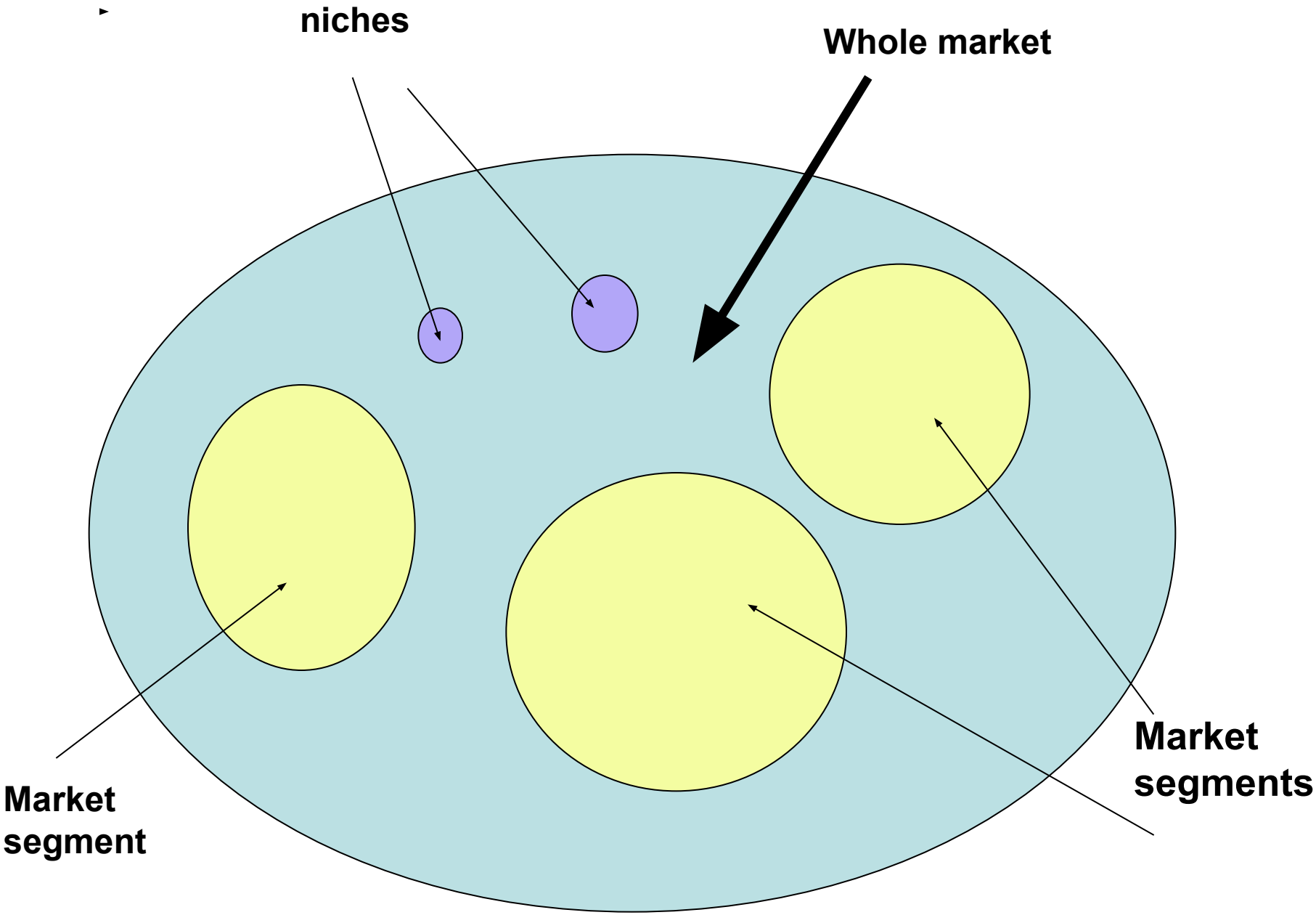
E_y = income elasticity

$$E_P = \frac{\%\text{change in quantity demanded}}{\%\text{change in price}}$$

$$E_y = \frac{\%\text{change in quantity demanded}}{\%\text{change in income}}$$

$$E_P = \frac{p}{q}\frac{dq}{dp}$$

$$E_y = \frac{y}{q}\frac{dq}{dy}$$


niches
Whole market
Market segment
Market segments

$$Em = \Sigma siEi$$
$$(i = 1,2,\ldots.m)$$

- where Em denotes the elasticity of the market as a whole Ei denotes the elasticity of the segment i, Ei denotes the elasticity of the segment i and si denotes the share of the segment in total expenditure on the good.

Elasticity of demand for the market as a whole (for a particular product X)	equals	**the sum of the elasticity of each of the segments of the market multiplied by the share of that segment in total expenditure on the market.**