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

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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

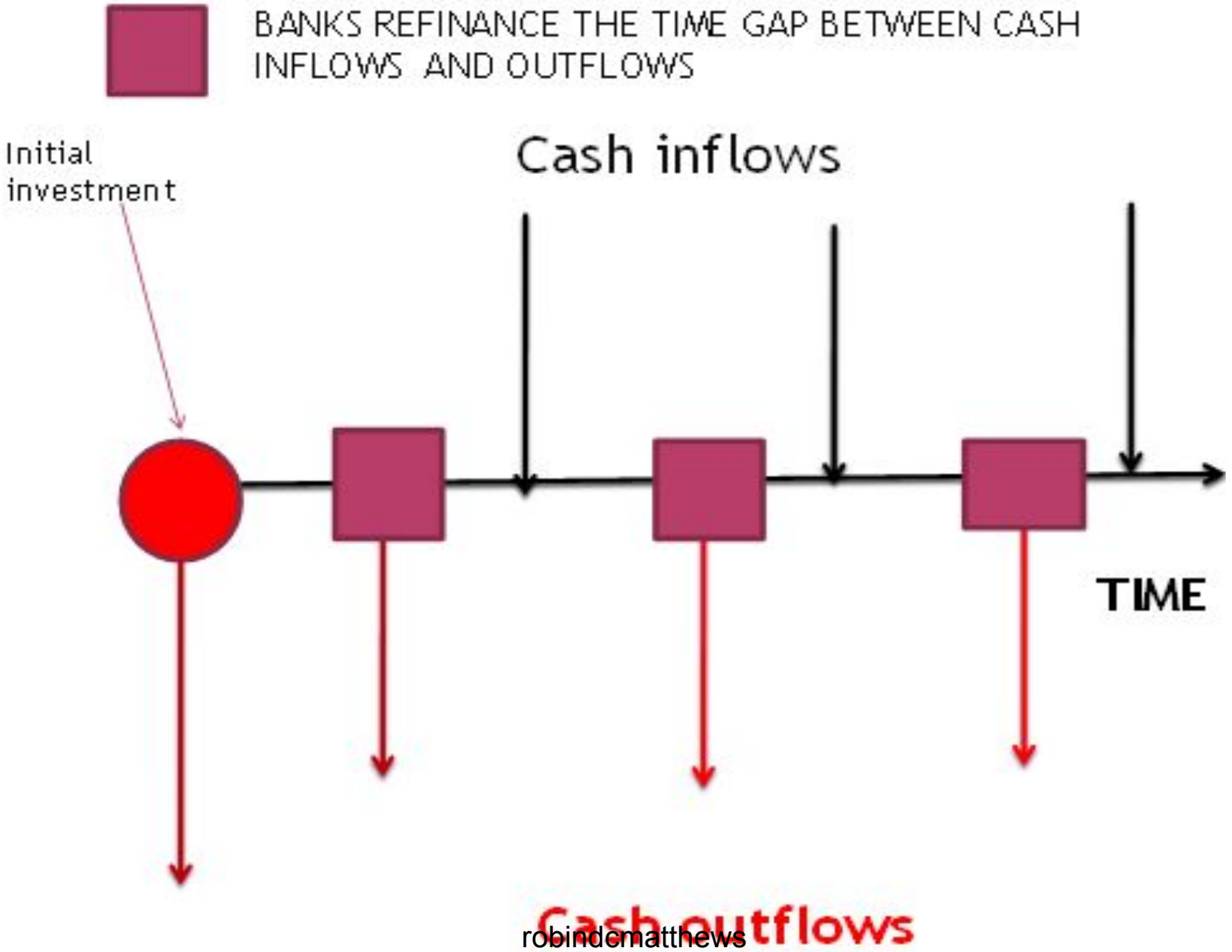
- Net Present Value
- Net Cash Flow
- Fundamental Equation

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

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

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

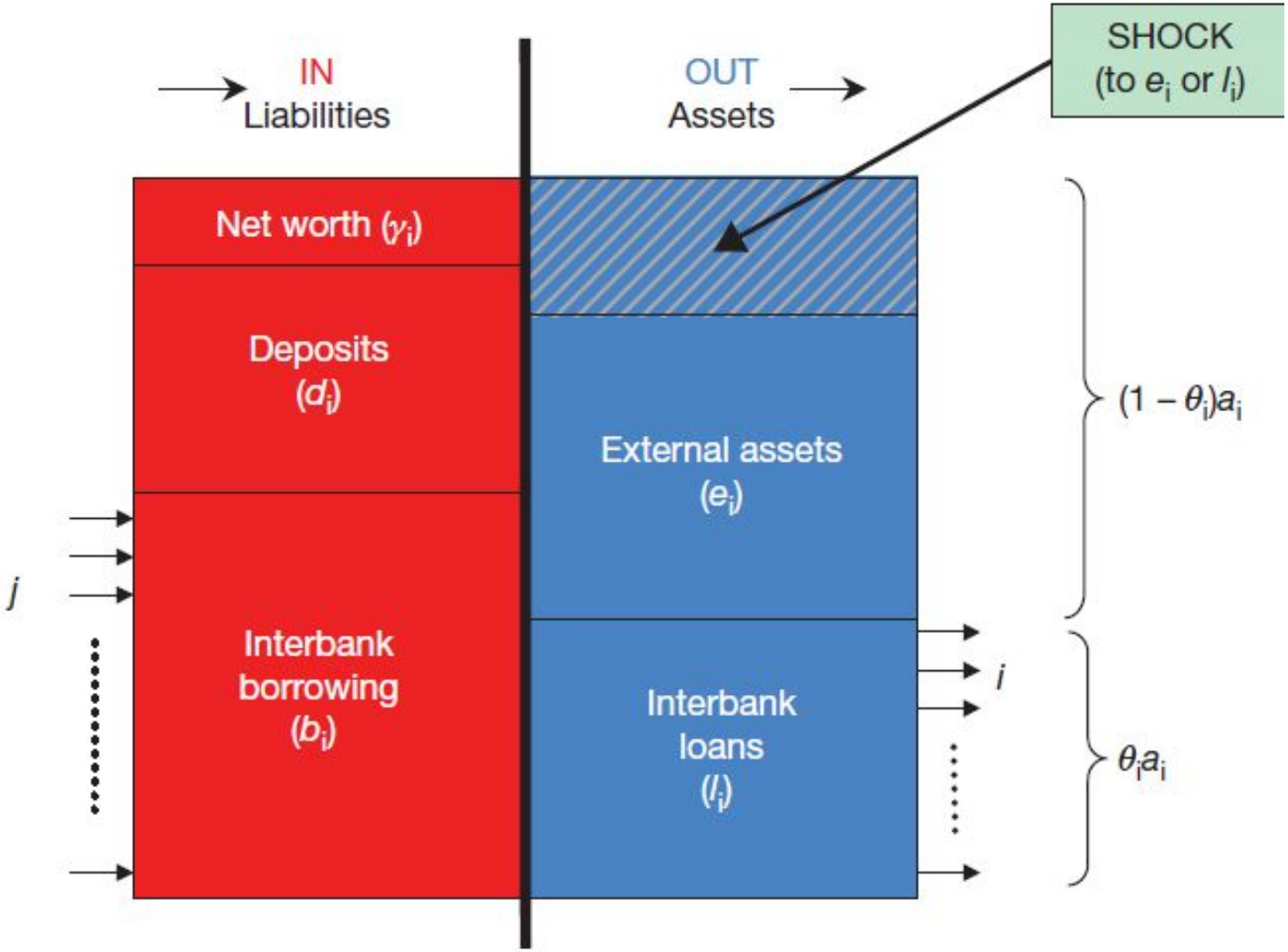
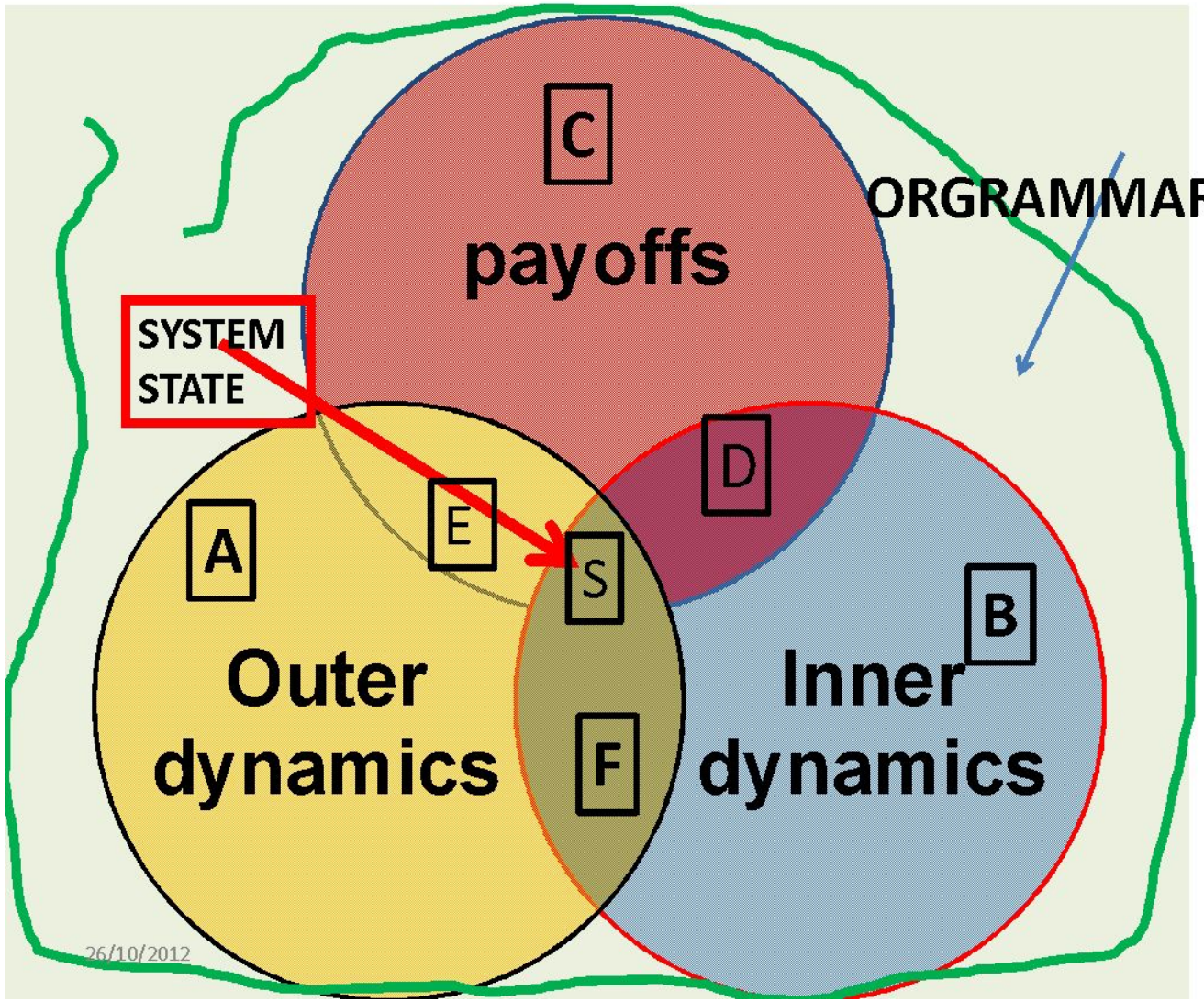


Figure 3 | Schematic model for a node in the interbank network. Adapted with permission from ref. 25.

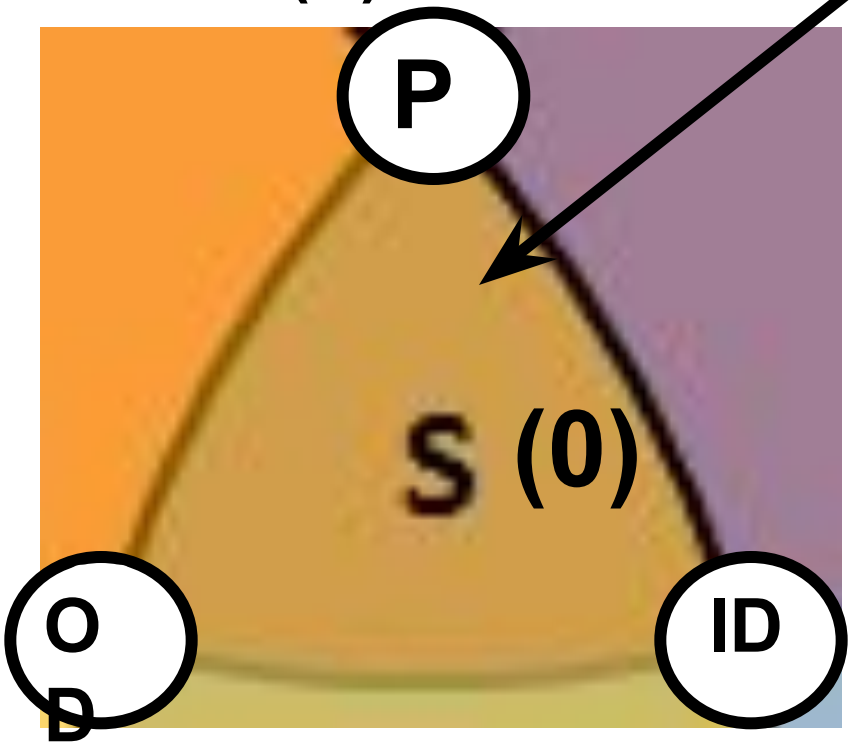
Meta Model


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

grammar

ATTRACTOR

PAYOFFS
(P)



OUTER
(OD)
DYNAMICS

INNER
(ID)
DYNAMIC
S

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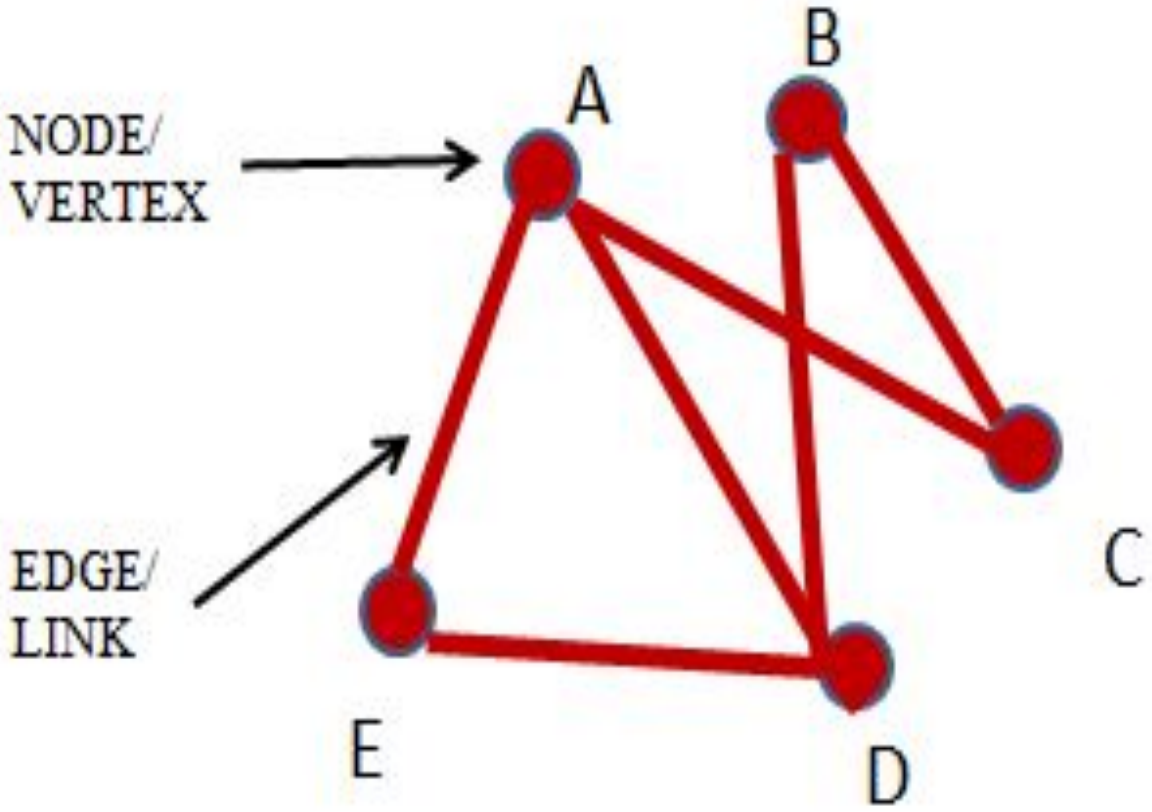
part 2

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) ~ z k*** $^{-\alpha}$..

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

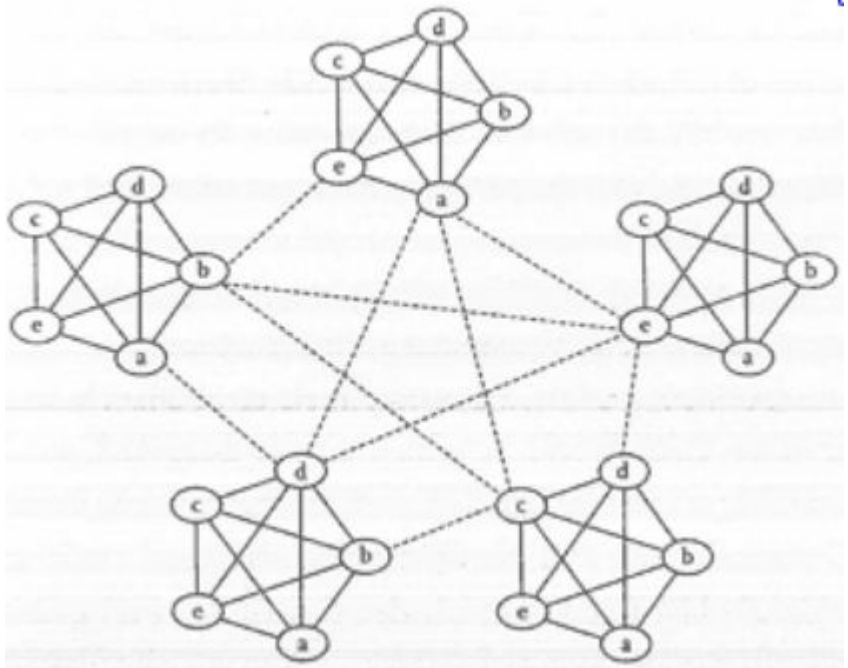
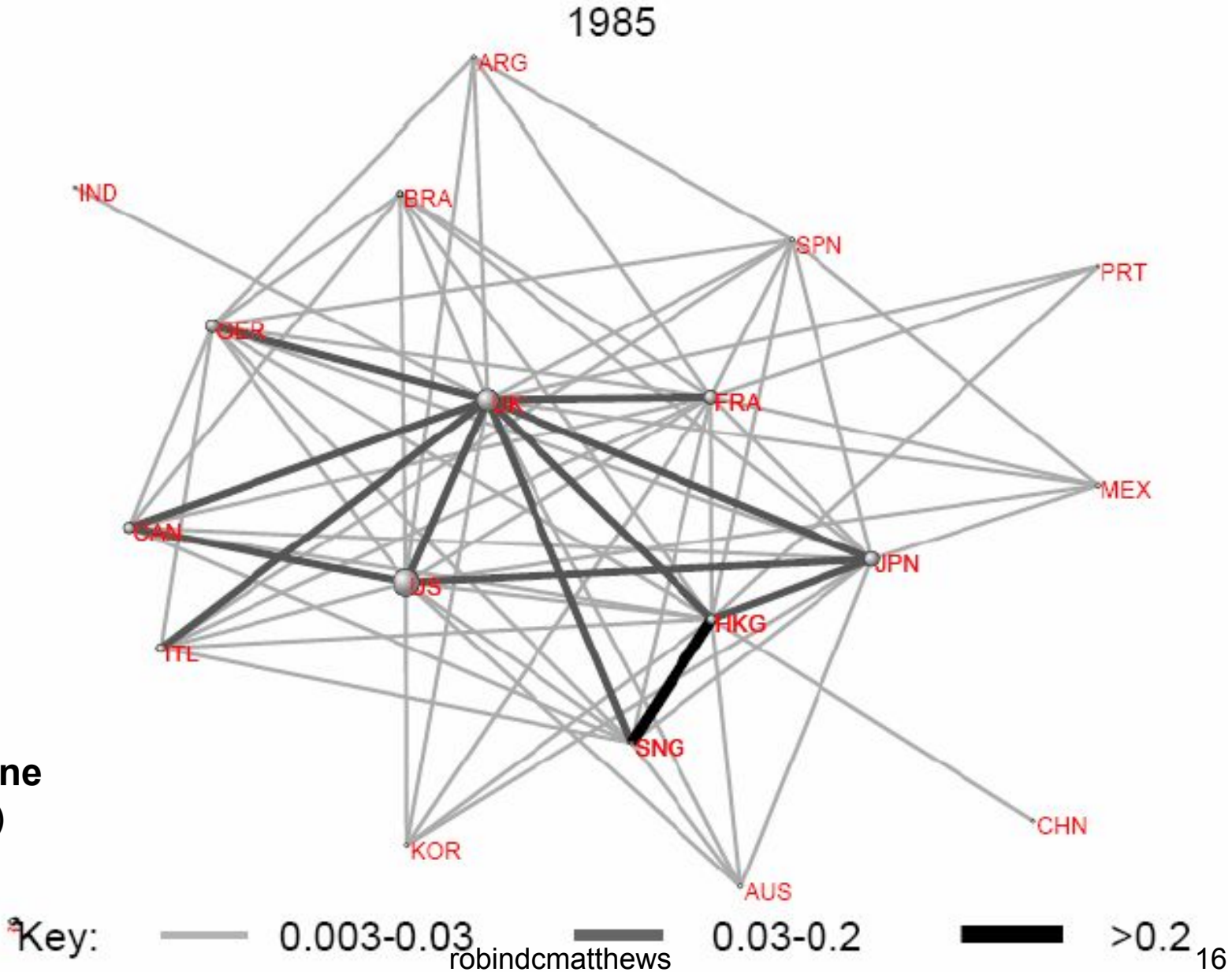
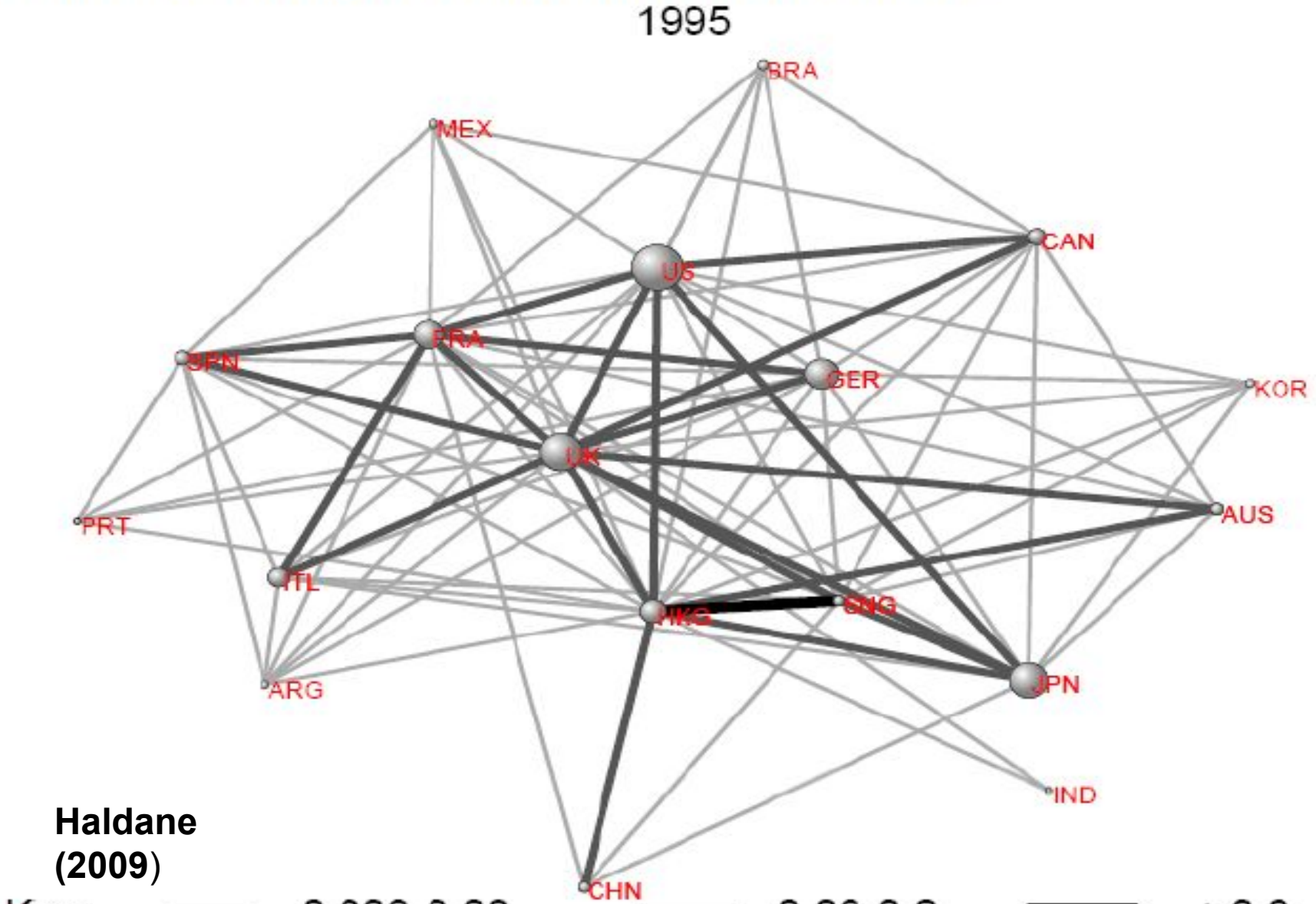


Chart 1: Global Financial Network: 1985



Haldane (2009)

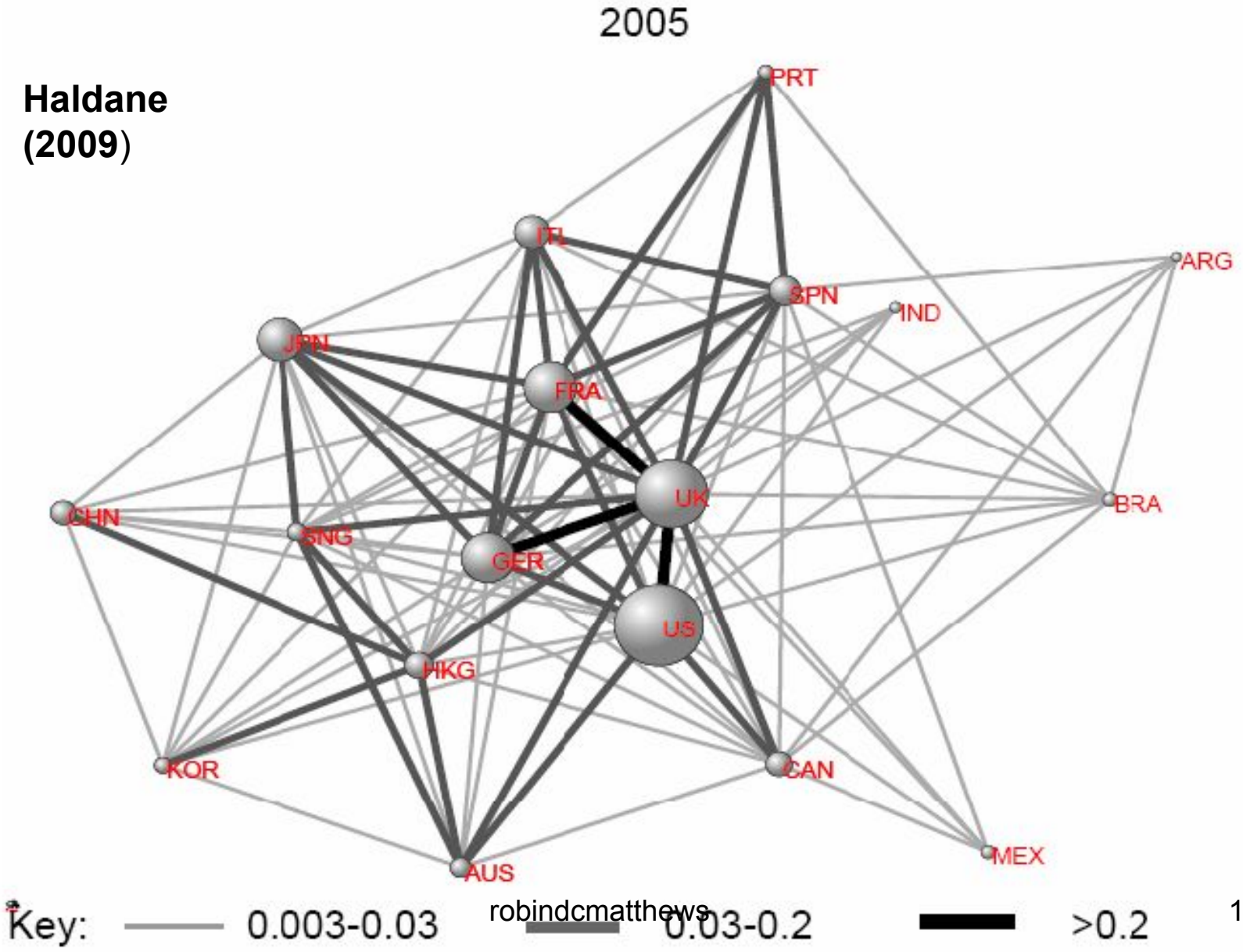
Chart 2: Global Financial Network: 1995



Haldane (2009)

Chart 3: Global Financial Network: 2005

Haldane (2009)



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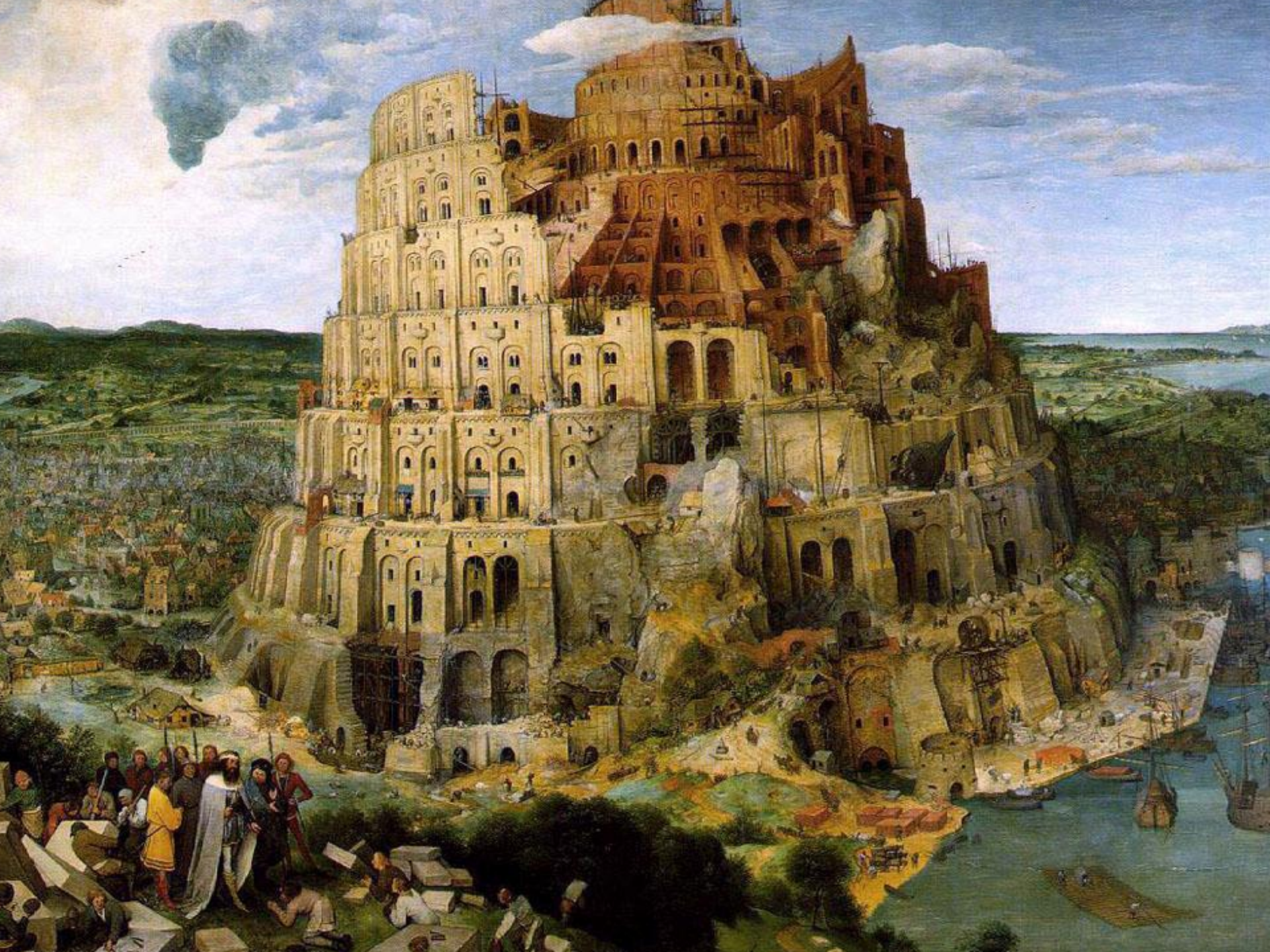
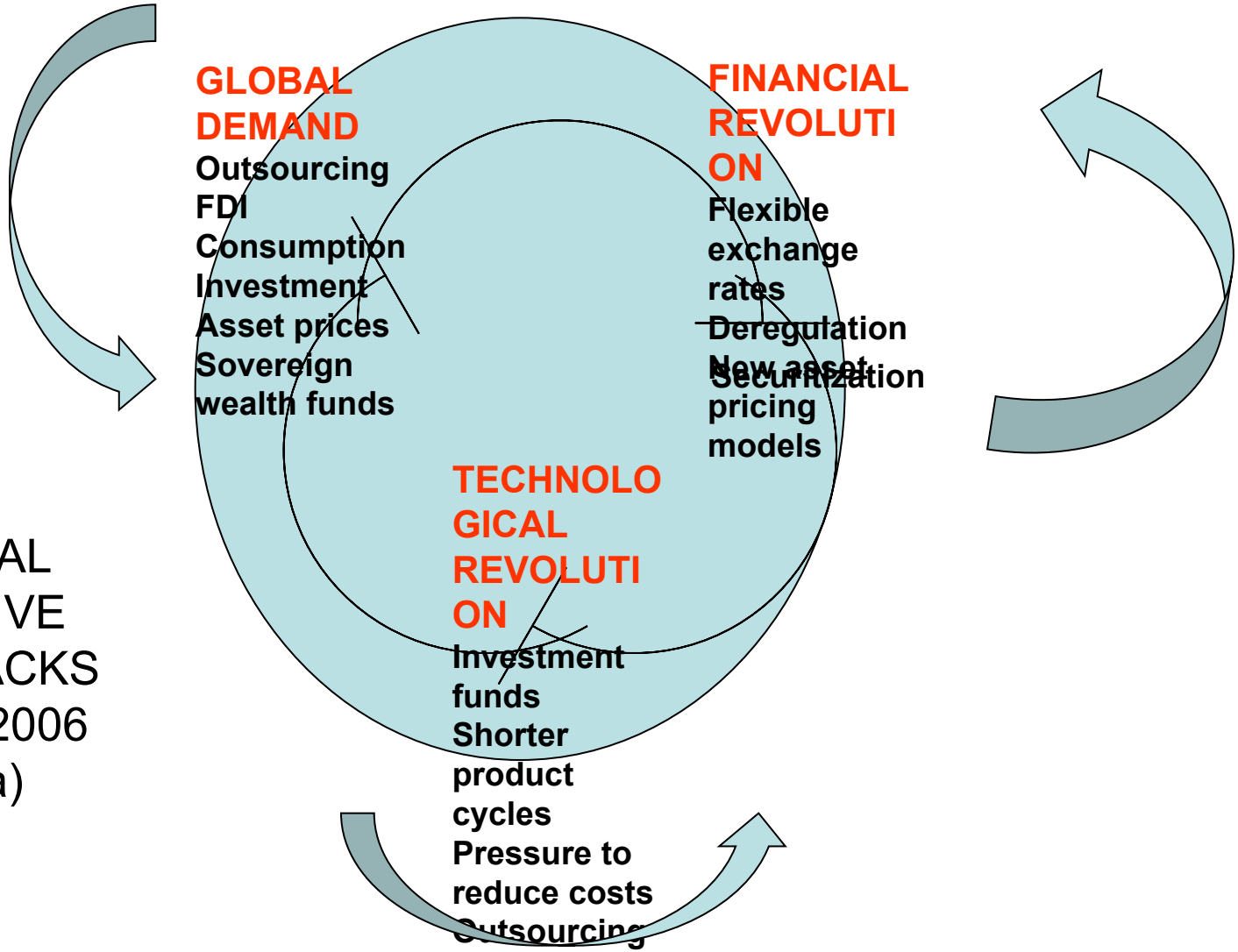
part 3

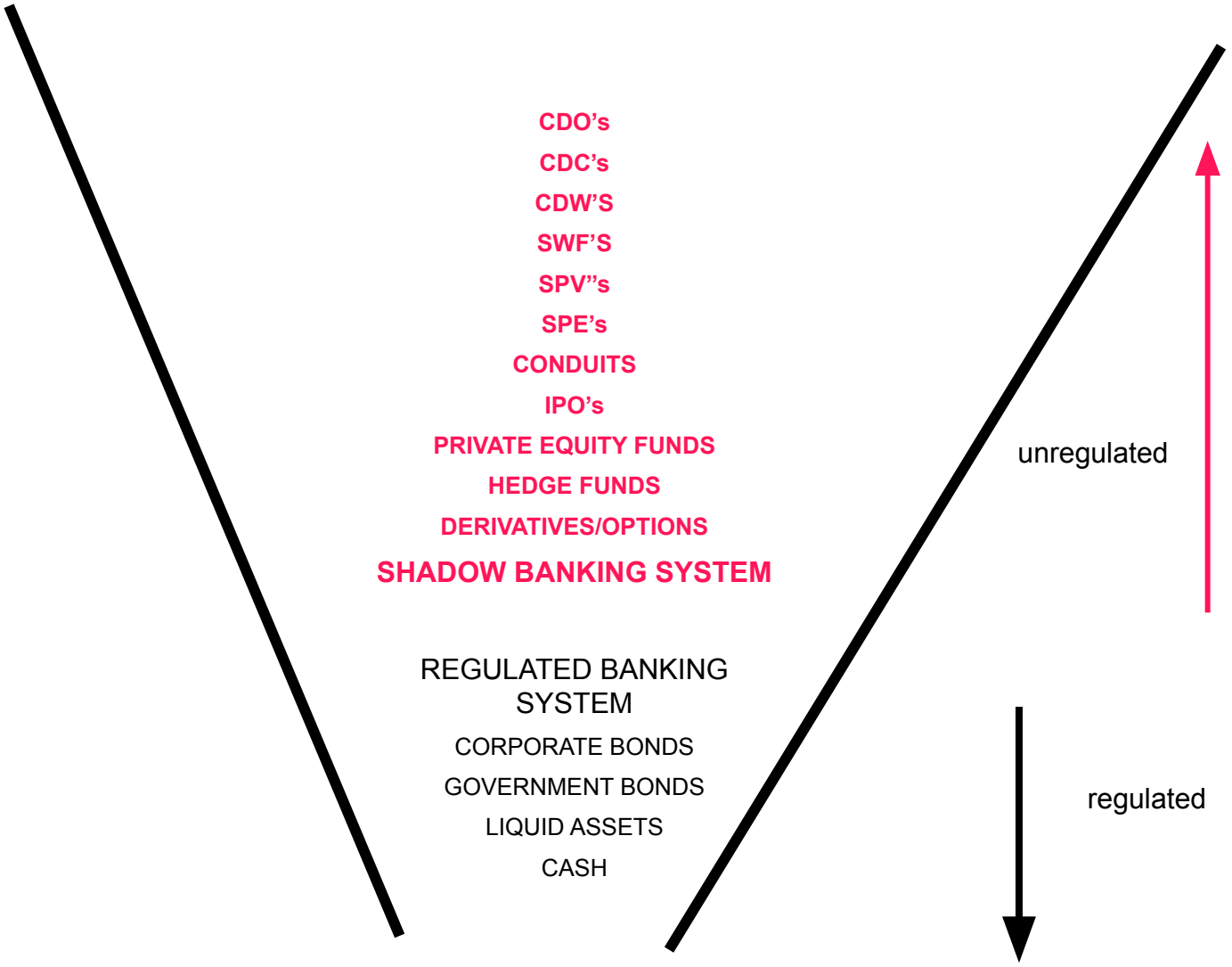
The Crisis 2007 – 20012
The financial tower of Babel



GLOBAL POSITIVE FEEDBACKS 1980 – 2006 (circa)



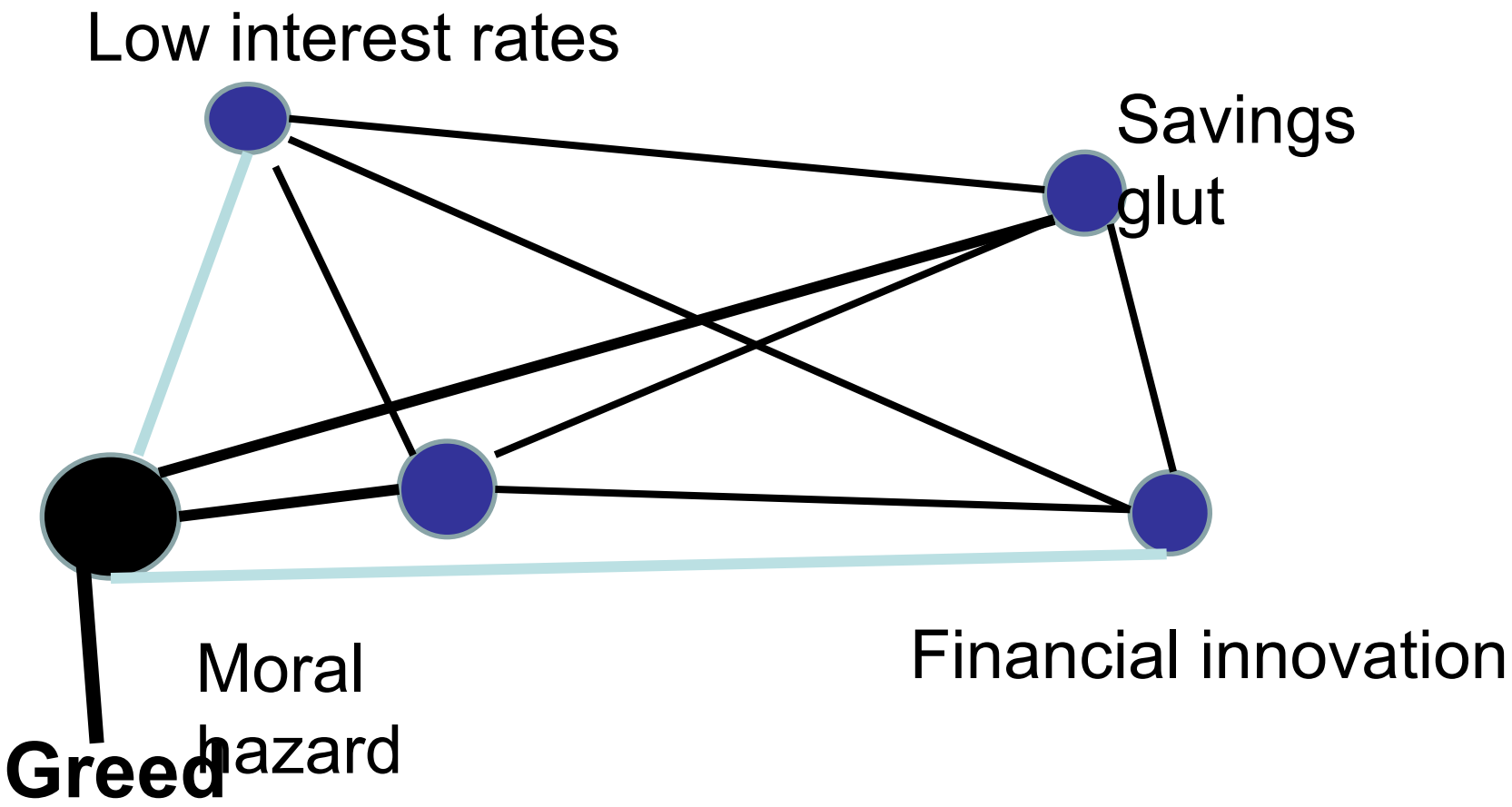
The financial tower of Babel: 21ST century

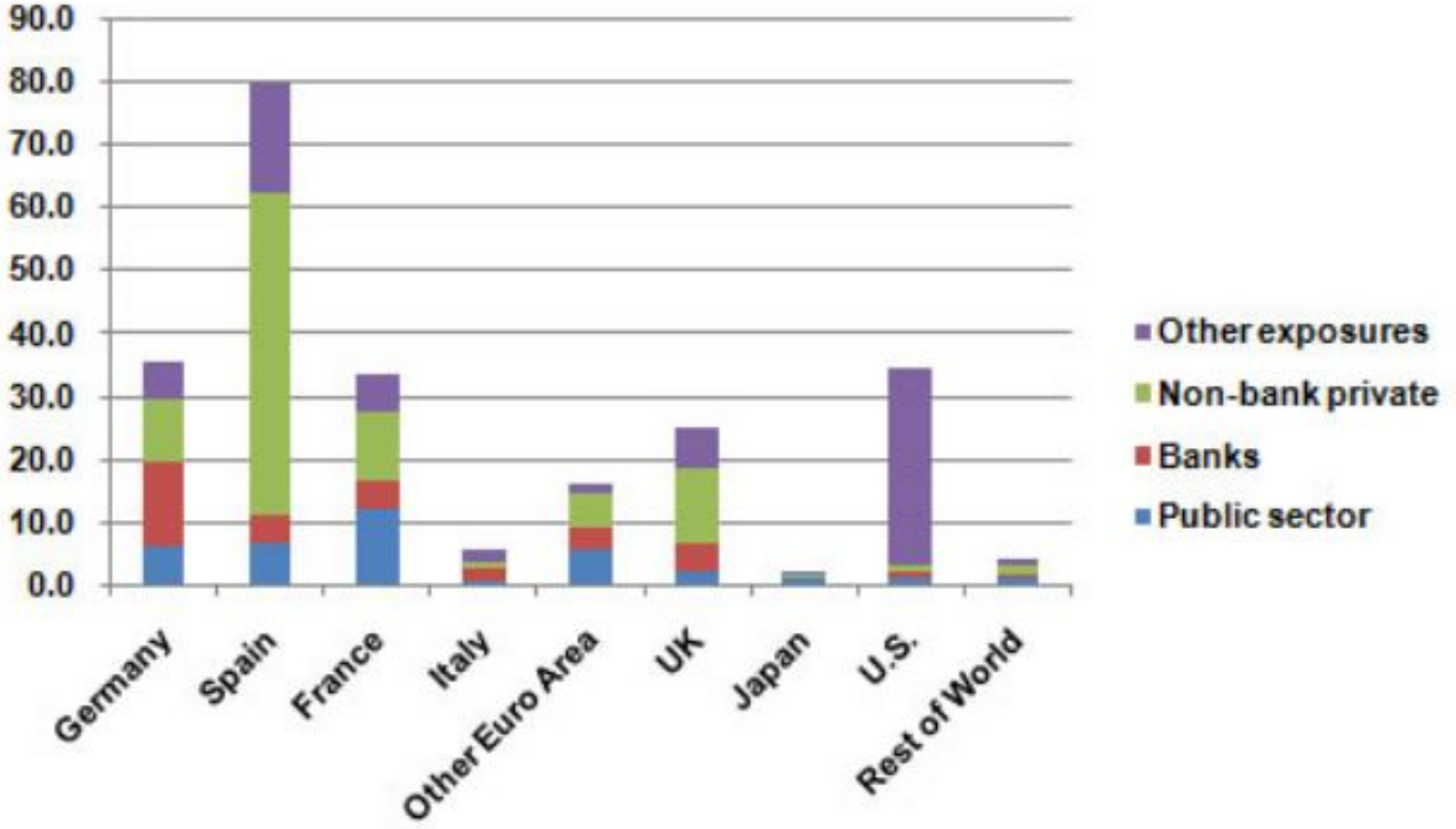


Causes of crises

- 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?



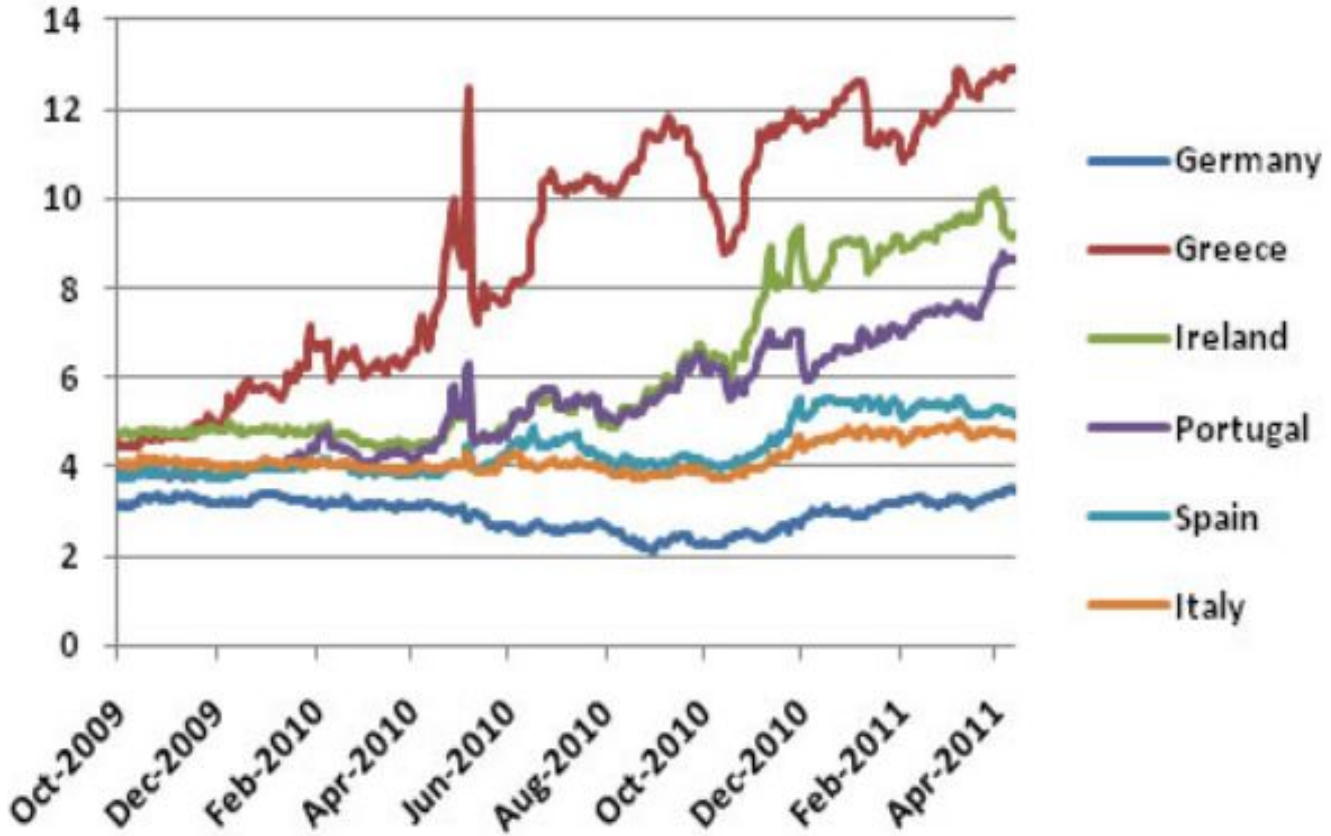


Note: Ultimate risk basis except Germany

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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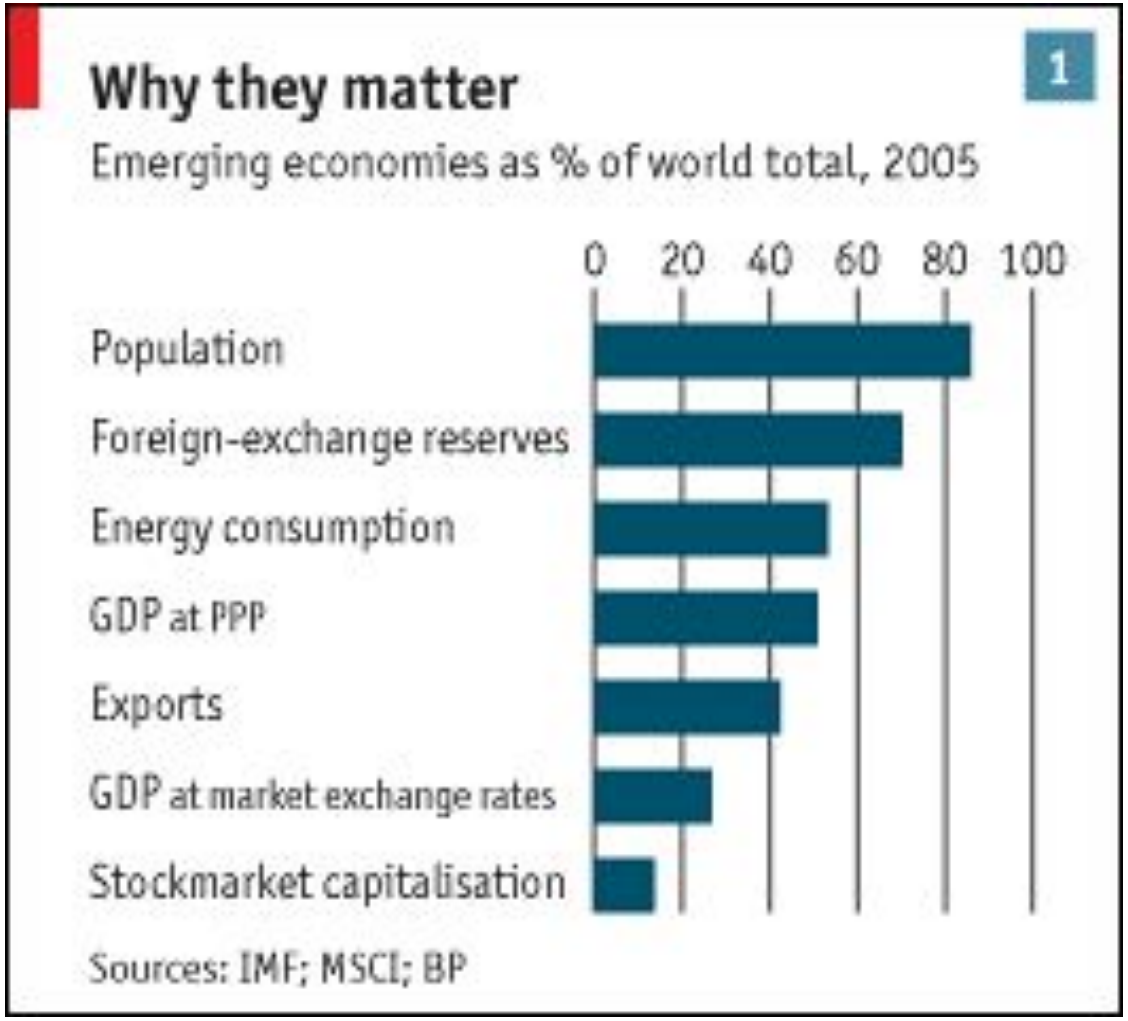
Emerging nations

Back to the past



Economist Sept 17 2006

Why they matter

1

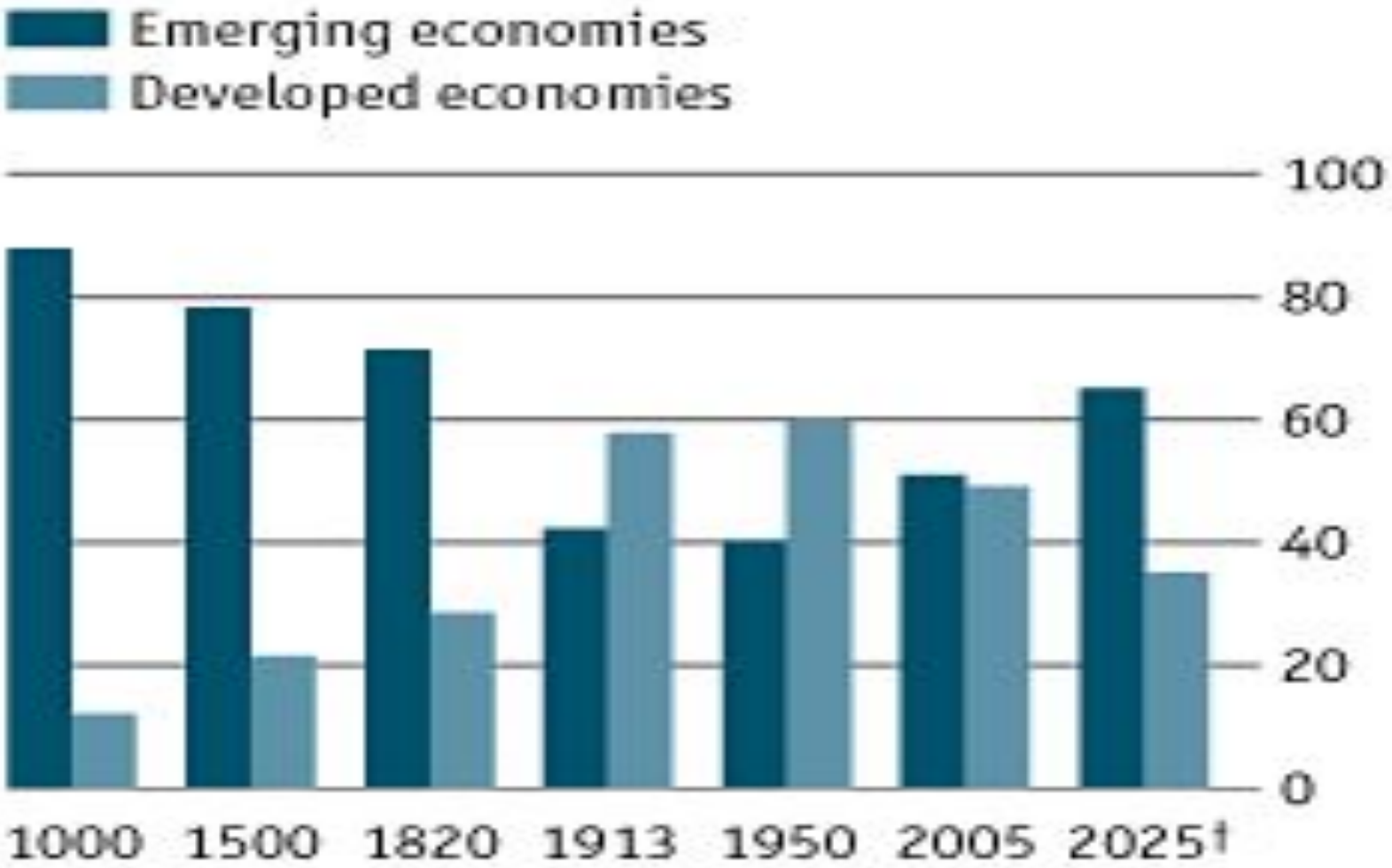
Emerging economies as % of world total, 2005

Sources: IMF; MSCI; BP

2

Re-emerging

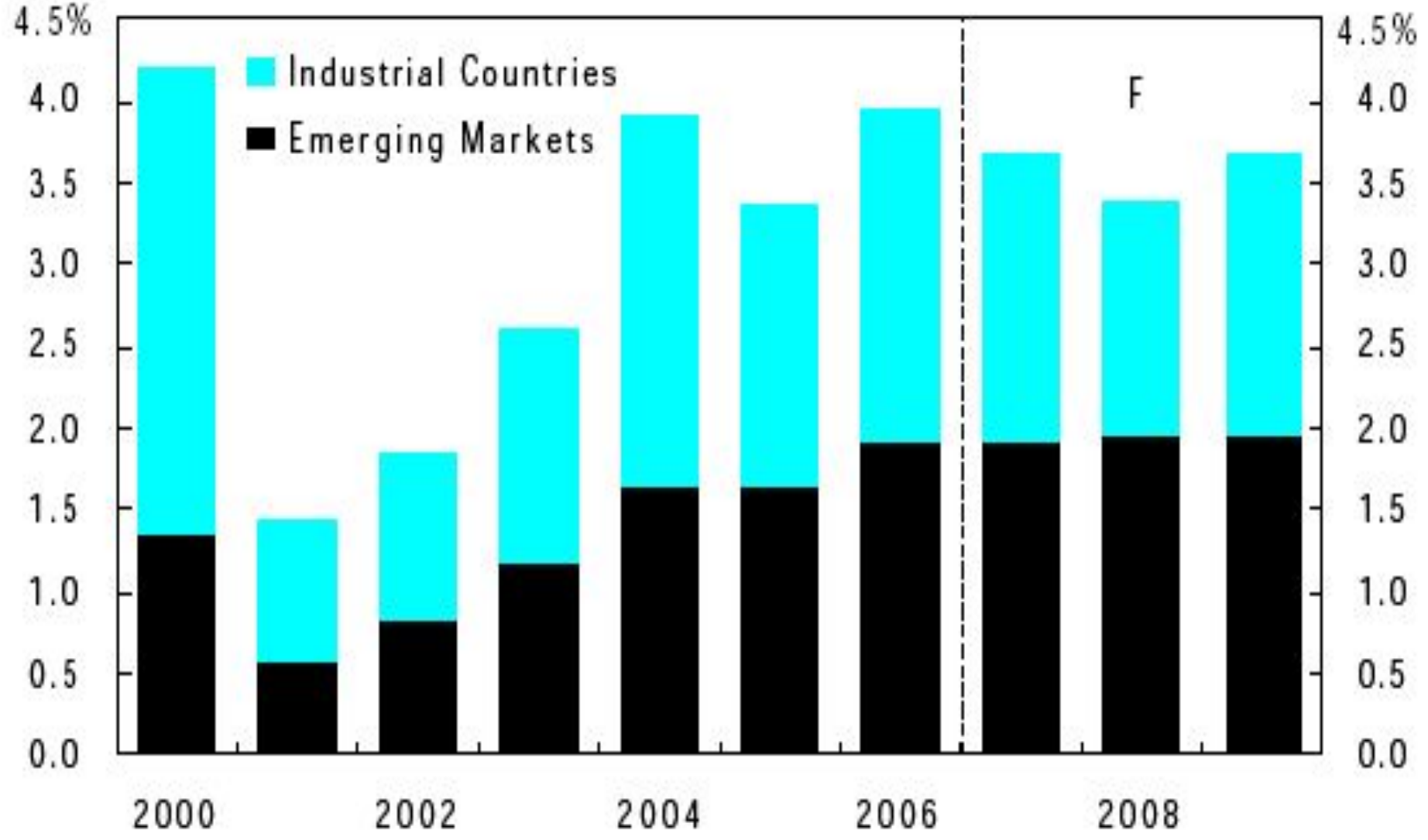
Share of global GDP*, %



*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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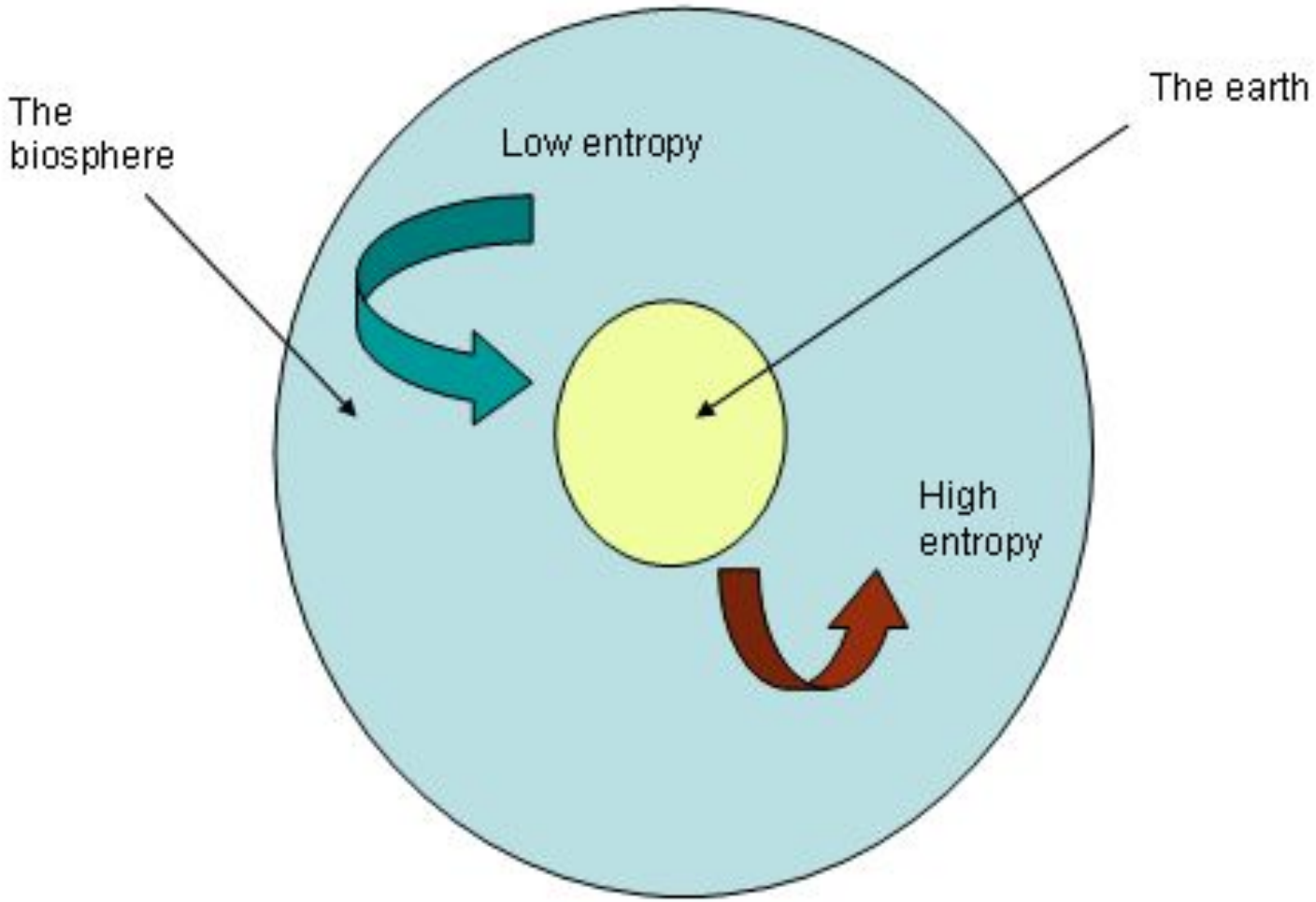
The environment

Gaia or exploitation


The
biosphere
Low entropy
The earth
High
entropy

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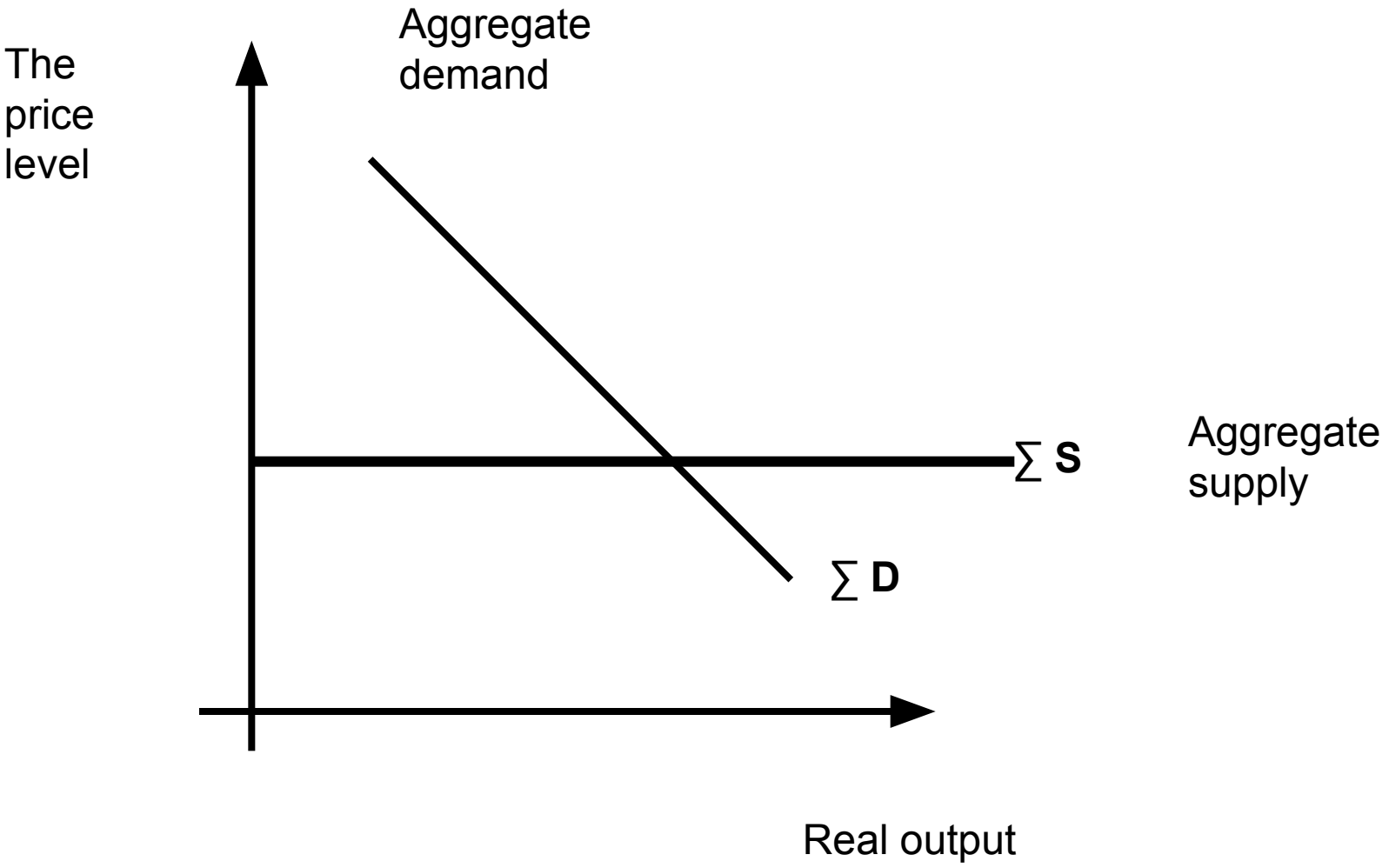
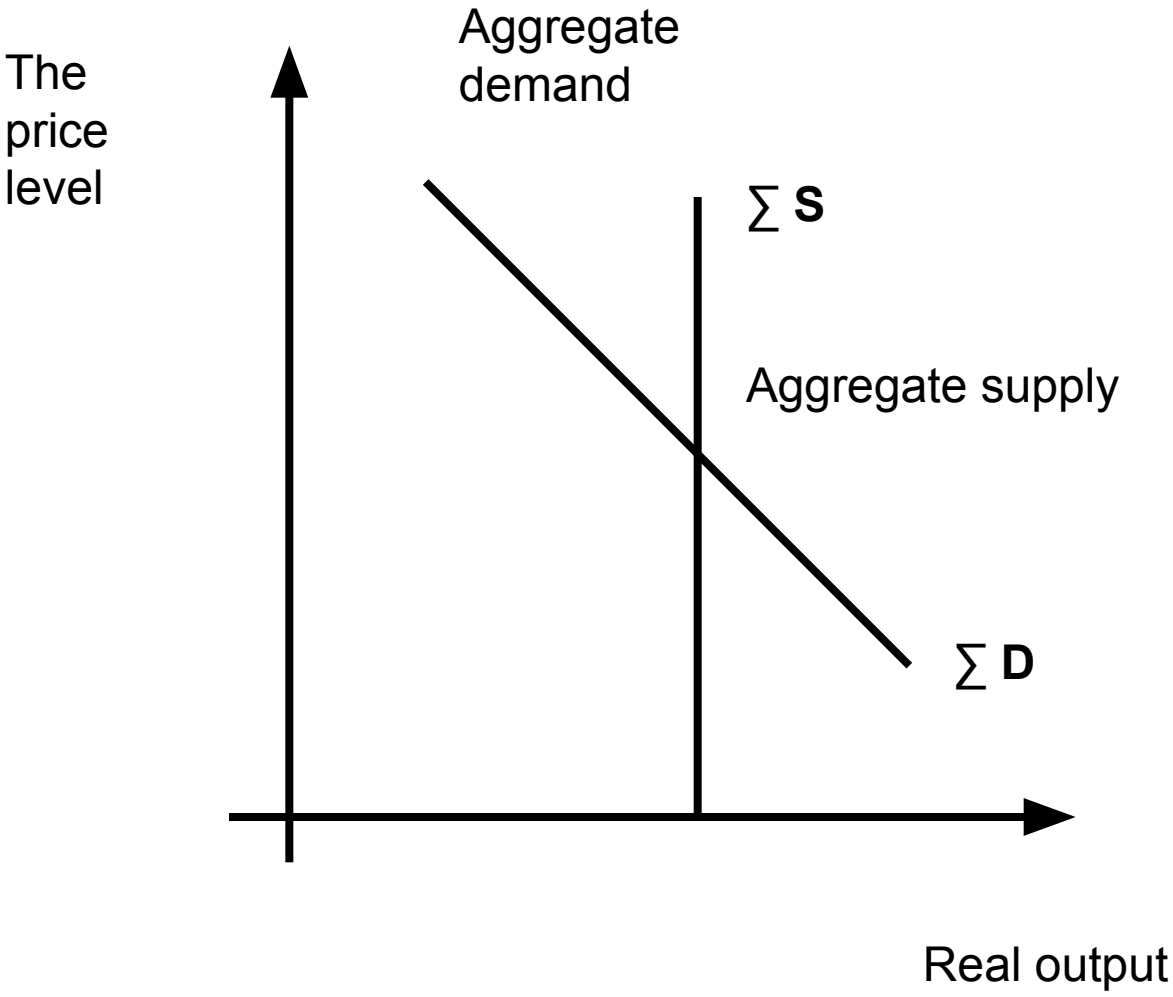
Cryptic models

Keynesian and monetarist



Keynesian case with liquidity trap



The pure classical case
Reagonomics and crowding out

Simple Keynesianism

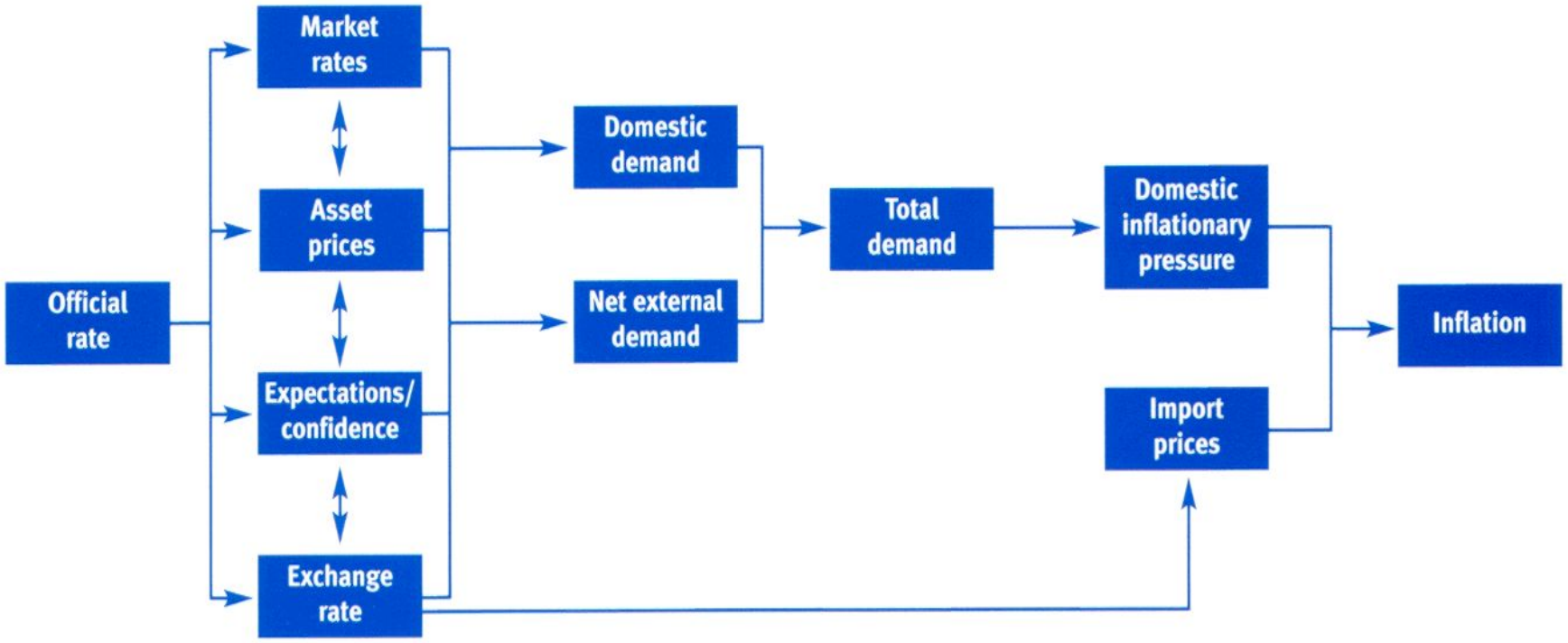
- The multiplier
- The marginal propensity to consume
- The importance of aggregate demand

Keynes: sources of unemployment

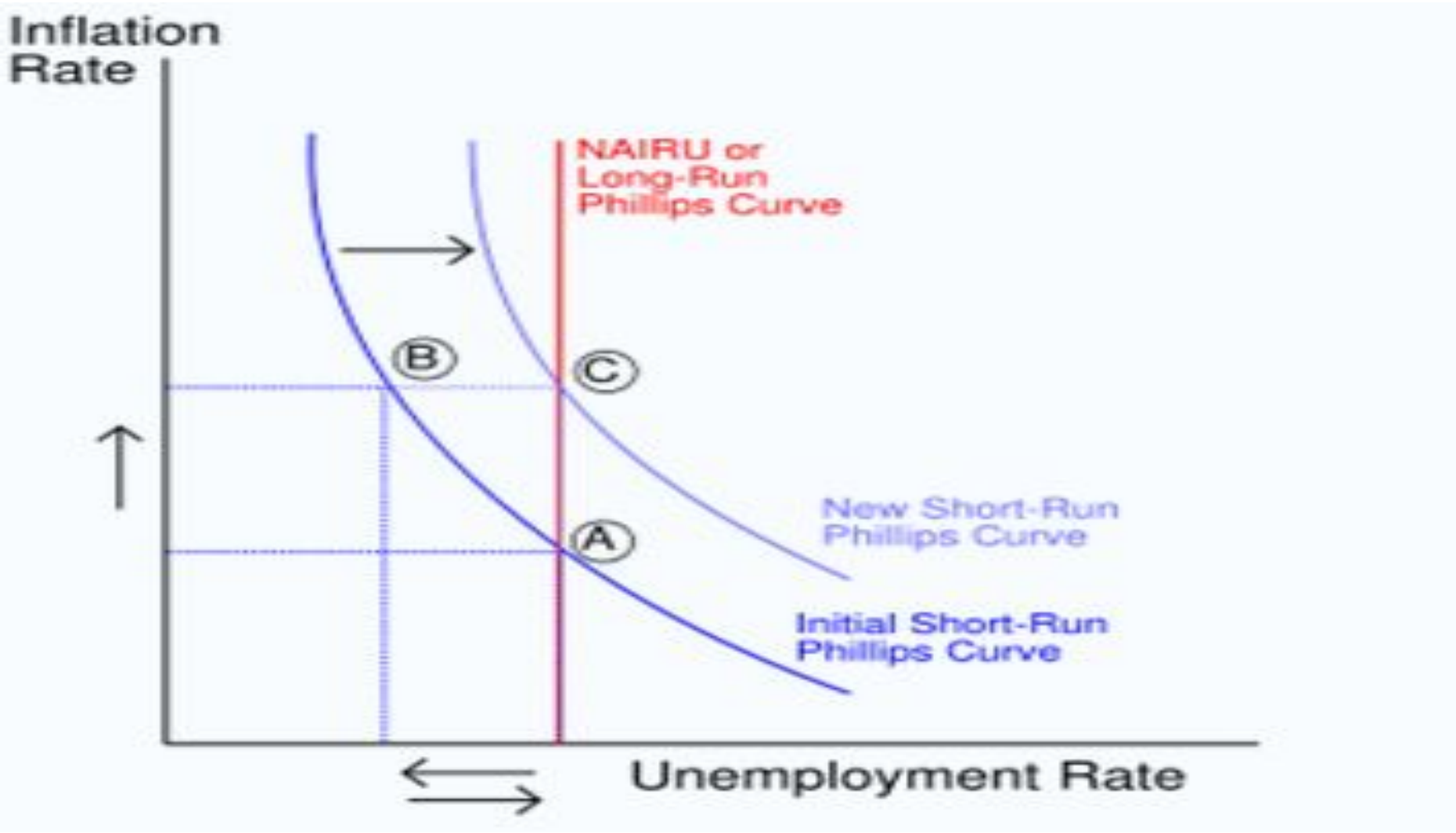
- The liquidity trap
- Inconsistency between savings and investment
- Rigid money wages

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

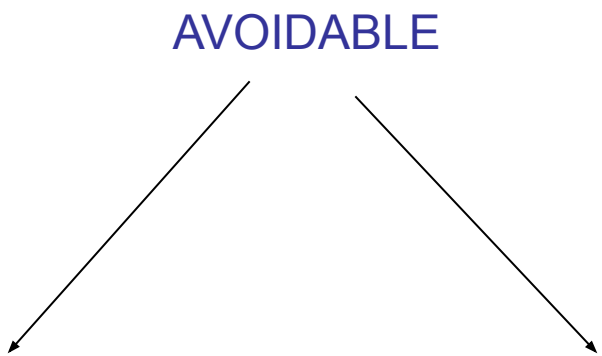
NPV AND NCF
NET PRESENT VALUE and NET CASH FLOW

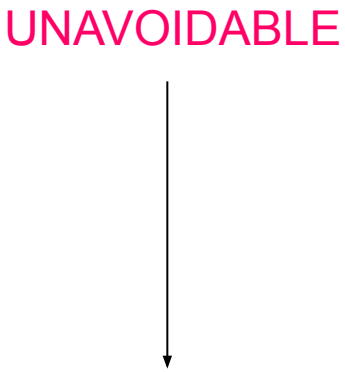
- Net Present Value
- Net Cash Flow
- Fundamental Equation

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

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

costs





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

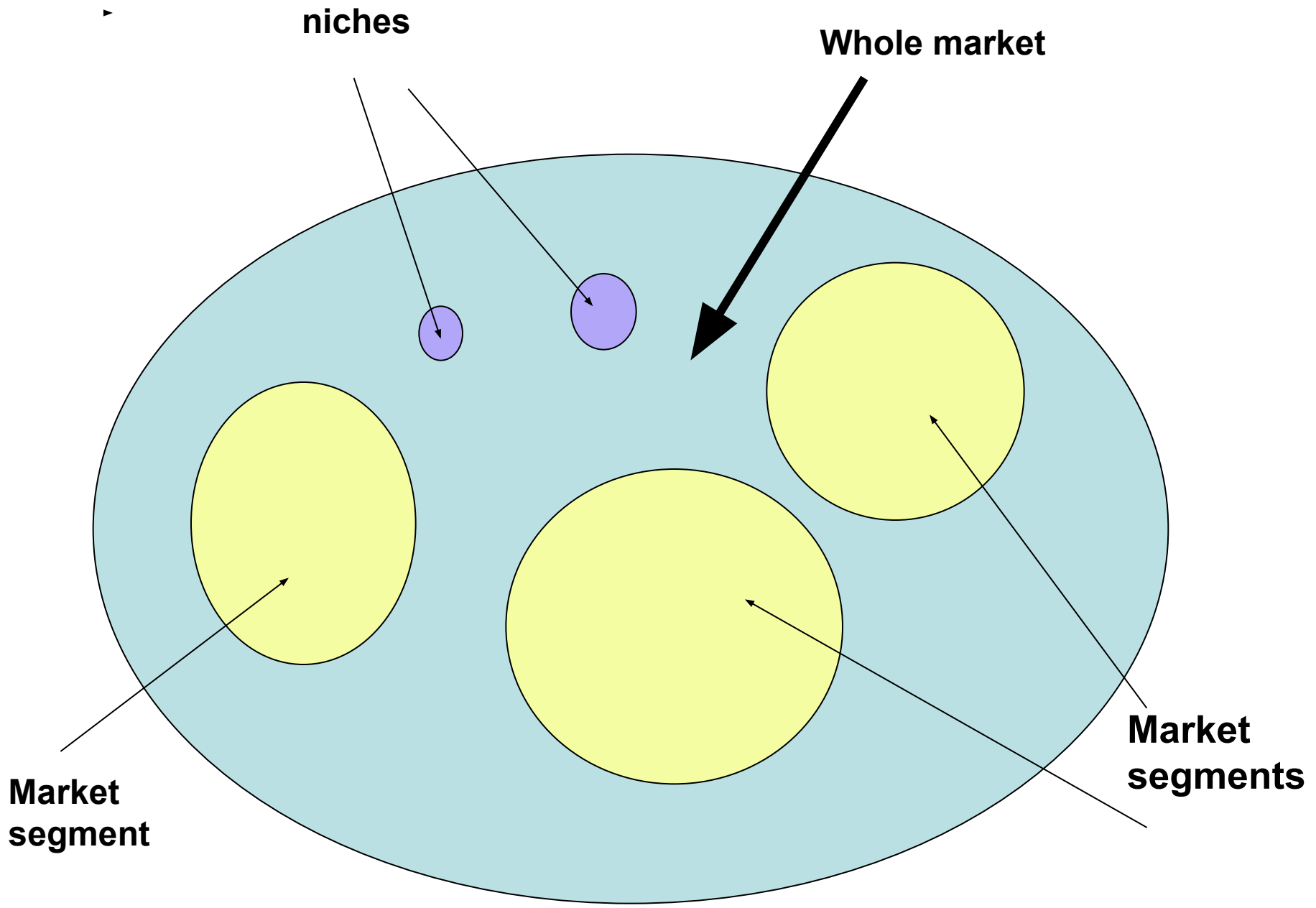
E_y = income elasticity

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

$$E_{y=} \frac{\%change\ in\ quantity\ demanded}{\%change\ in\ income}$$

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

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


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.**