

Answers to Pause for Thought Questions

Part A: Introduction

Chapter 1

Make a list of four possible aims that a manager of a McDonald's restaurant might have. Which of these might conflict with the interests of McDonald's shareholders?

Four possible examples are:

1. To provide customers with a good service.
This might prove costly in terms of staff time and thereby reduce profits. This would be against the interests of shareholders. (It might encourage more customers, however, which *would* be in the interests of shareholders)
2. To seek promotion to a more senior position.
If this results in the manager working harder and ensuring that the restaurant is run more efficiently, this is likely to be in the interests of shareholders. If, however, it results in the manager leaving in the short term, this could result in reduced profits as a new manager would have to be recruited. High staff turnover can be costly.
3. To ensure that staff work efficiently.
This could lead to staff discontent, high turnover and a drop in customer satisfaction, if targets become more important. These factors could all lead to a reduction in profits.
4. To have an easy life.
This is likely to mean that the restaurant is run less efficiently and profits could fall.

Identify a situation where you, as a consumer, are in a principal-agent relationship with a supplier. How can you minimise the problem of asymmetric information in this relationship?

When you go into a shop to buy a laptop, you are the principal and the shop assistant is the agent. You hope that the shop assistant will give you honest advice to help you choose the laptop best suited to your needs and budget. The shop assistant, however, may be on commission and be hoping to sell you a more expensive model, claiming that it meets your needs much better than a cheaper one: for example, it has more memory, a faster processor, more functions, etc. The less informed you are, and the less clear you are of your needs, the bigger the asymmetry of information between you and the shop assistant, and the more likely you are to spend more than you need in getting the laptop to meet your requirements.

You can minimise this asymmetry of information by doing research beforehand into the importance of these various functions and the prices you can pay at alternative shops or over the Internet. You could do an online search to compare prices; you could ask friends about their experiences; you could read magazines or Internet articles about the features of laptops and their significance.

1. *Under which heading of a PEST or STEEPLE analysis would you locate training and education?*

Like many factors affecting the business environment, training and education cuts across STEEPLE (or PEST) categories. Training and education is a crucial factor in shaping the long-term growth and productivity of an economy (E = economic), as well as being shaped and shaping the social/cultural (S) environment of society. In fact you might, in a period of rapid technological change argue that training and education could be driven by technological imperatives (T). The attitudes of politicians towards training and education may be changing (P).

2. *Identify at least one factor under each of the STEEPLE headings facing an electricity generating company.*

- S. *Social and cultural* attitudes towards electricity usage: e.g. growing concern not to waste energy
- T. *Technological* developments in generating methods and equipment: e.g. cleaner-burn technologies for coal-fired generation (see also environmental/ecological)
- E. The growth rate of the *economy* will in part determine the growth in electricity consumption.
- E. *Environmental concerns* could see a shift in demand towards electricity produced from renewable resources.
- P. In terms of *politics*, the government may sanction the production of new nuclear power stations. Whether it does so will depend very much on the political climate towards nuclear power.
- L. Generating companies will be constrained by a whole range of *laws and regulations* affecting safety at work, emissions, etc.
- E. A more *ethical* and socially responsible attitude of generating companies could see them addressing more seriously issues such as safety, emissions, working conditions, etc.

Using the STEEPLE categories, in what ways has the USA influenced the business environment in countries outside the USA?

- S. US products and companies have influenced social and cultural attitudes around the world. Big Macs, Coca-Cola and Levis are demanded throughout most countries of the world. US business practices are adopted widely, with many companies being subsidiaries of American multinationals.
- T. Many technological advances originate in the USA.
- E. The state of the US economy has considerable impact on other countries. The more rapidly the US economy grows, the more rapidly will its imports from other countries rise. US interest rates affect interest rates globally. The exchange rate between the dollar and other currencies will affect trade and investment flows between the USA and the rest of the world.
- E. US attitudes towards the environment (e.g. CO₂ emissions) influence other countries' attitudes. For example, developing countries may be unwilling to make substantial cuts in emissions if the USA does not take a lead.
- P. The USA has considerable political influence in many countries and on the businesses operating within them.
- L. US companies have sought favourable laws from foreign governments in return for investing in those countries
- E. US companies' attitudes towards their workers, consumers and other stakeholders can have a major effect in the countries in which they operate and in competitor firms, whether domestic to those countries or multinationals from other countries.

Into which of the three sectors would you put (a) the fertiliser industry; (b) a marketing agency serving the electronics industry?

- (a) Secondary. Fertilisers are manufactured.
- (b) Tertiary. Marketing agencies provide a service to their clients.

Why is a firm facing little competition from rivals likely to have higher profits, but also higher costs, than a firm facing intense competition?

With little competition, there is less downward pressure on prices. Thus profit margins are not squeezed as much. With higher profits, however, firms feel under less pressure to cut costs.

When you go into a supermarket, the shelves are normally well stocked. Does this mean that the problem of scarcity has been solved?

No. People would generally like to buy more but cannot afford to with their current incomes and at the current prices. In other words, prices act as a rationing mechanism to ensure that demand does not outstrip supply.

- 1. Assume that you have an assignment to write. How would you make a rational choice about whether to work on it today or whether to do something else?*

You should weigh up whether the time spent on the assignment is worth the sacrifice of the alternative. One issue here is the effect of putting off either the assignment or the alternative activity. Will the assignment be rushed if you put it off or, worse still, will you miss the deadline? Will the alternative activity still be available tomorrow or on another day? In other words, rational choice is not simply about whether to do one thing or another but about the timing of what you choose to do.

- 2. Assume that you are looking for a job and are offered two. One is more pleasant to do, but pays less. How would you make a rational choice between the two jobs?*

You should weigh up whether the extra pay (benefit) from the better paid job is worth the extra hardship (cost) involved in doing it.