工商管理精要系列 · 影印版

经济学

（第二版）

THE ECONOMY

SECOND EDITION

约瑟夫 · G · 内利斯
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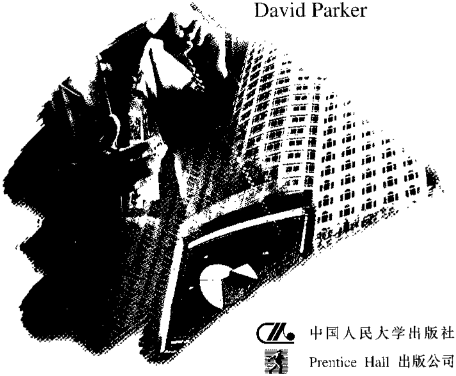

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《工商管理精要系列·影印版》

出版说明

《工商管理精要系列·影印版》是中国人民大学出版社和西蒙与舒斯特国际出版公司继《工商管理经典译丛》之后，共同合作出版的一套大型工商管理精品影印丛书。

本丛书由欧洲著名管理学院和管理咨询公司的教授和专家撰写，它将90年代以来国际上工商管理各专业的最新研究成果，分门别类加以精练浓缩，由享誉世界的最大教育图书出版商 Prentice Hall 出版公司出版。每一本书都给出了该专业学生应掌握的理论框架和知识信息，并对该专业的核心问题和关键理论作了全面而精当的阐述。本丛书虽然篇幅不长，但内容充实，信息量大，语言精练，易于操作且系统性强。因此，自90年代初陆续出版以来，受到欧洲、北美及世界各地管理教育界和工商企业界读者的普遍欢迎，累计发行量已达数百万册，是当今国际工商管理方面最优秀的精品图书之一。

这套影印版的出版发行，旨在推动我国工商管理教育和 MBA 事业的发展，为广大师生和工商企业界读者，提供一套原汁原味反映国外管理科学研究成果的浓缩精品图书。有助于读者尽快提高专业外语水平，扩大知识面，掌握工商管理各专业的核心理论和管理技巧。

本丛书可作为管理院校的专业外语教材和各类企业的培训教材，对于那些接受短期培训的企业管理者、MBA学生，以及想迅

速了解工商管理各专业核心领域的师生来说，本丛书更是极具价值的藏书和参考资料。

为了能及时反映国际上工商管理的研究成果，中国人民大学出版社今后将与 Prentice Hall 出版公司同步出版本丛书的其他最新内容并更新版本，使中国读者能借助本丛书，跟踪了解国际管理科学发展的最新动态。

1997 年 8 月

Preface to the first edition

As the world of business becomes more competitive, more dynamic and more global, there is a growing and indeed urgent need for managers to be critically aware of the events taking place in their wider economic environment. 'No business is an island' and, consequently, no manager can afford to ignore the importance of changes in the external economic conditions under which commerce and business must take place. Those conditions are not always friendly – think about the boardroom panic (to varying degrees) when headlines report increases in interest rates, inflation and taxes, or the unsteadiness of sterling. The reason for this panic is simply explained by the fact that events such as these are beyond the control of boardroom members and managers. Companies may feel they are in control of more domestic (i.e. internal) matters such as pricing policy, production levels, marketing expenditure, R&D, etc., but it is an inescapable fact that no company is able to control its external economic environment; and ultimately it is changes in the external environment that cause the death of many companies.

Recognizing the importance of the external economy on business decision making is one thing; responding to it is quite a different matter. To be able to reach sound business decisions in a dynamic economy requires managers to have a clear understanding of economic interrelationships and their impact upon business. For example, if interest rates go up, what is likely to happen to exchange rates, consumer spending, savings, prices, etc., and what will be the consequence for businesses? Or, if the balance of payments on current account collapses, what are the likely implications for the exchange rate, interest rates, taxes, etc., and ultimately, economic growth?

The aim of this book is to provide a clear and concise picture of the way in which an economy works and why different governments adopt different economic policies. This is not a book for those with a specialist interest in economics; it is a book for those interested in the economy in the widest possible sense. In particular, since every business is directly affected by economic events, every manager should find this book useful. In addition, since economics is a compulsory element in many professional management courses, participants on such courses should find the book attractive, including those on Master of Business Administration (MBA) and Diploma in Management Studies (DMS) programmes as well as practising managers attending continuing studies courses in which the economic environment of business is an integral part. The book is also suitably structured for students attending business studies and general economics courses at universities, polytechnics and colleges of further and higher education. More generally, the book is intended to provide a 'communication bridge' between managers and professional economists, and to this end we have avoided as far as possible the use of inaccessible jargon and esoteric debate.

We are indebted to our secretary, Christine Williams, for typing the various drafts of the manuscript. Again, she has amazed us by maintaining her joviality when confronted with two authors for whom the deadline for work was always yesterday. We are also grateful to our colleagues, Dr Frank Fishwick and Professor Adrian Buckley, for their advice and many helpful suggestions during the writing of the book. Thanks are also due to those students and managers who have attended Cranfield School of Management in recent years. Their contributions to classroom discussions were invaluable both in encouraging us to write this book and, perhaps more importantly, in helping us to focus on the key issues and topics.

Lastly, we are thankful to our families for their support. This book has in every sense been a joint effort, and it is dedicated to them.

JOSEPH G. NELLIS
DAVID PARKER
Cranfield School of Management

Preface to the second edition

Since the publication of the first edition of *Essence of the Economy* much has happened in the macroeconomy nationally and globally: the major industrialized nations have gone through a 'boom-to-bust' cycle of economic activity (particularly in the UK and the USA); new trading blocs have been formed (the most prominent one being NAFTA); the exchange rate mechanism of the European Community has been under intense pressure prior to and following the UK's departure from the mechanism in 1992; Germany has unified while Central and Eastern Europe have struggled with the process of liberalization and marketization. At the same time, the newly industrialized economies of the Far East have continued along an economic boom followed by a host of developing nations, including China. The balance of world economic power is rapidly changing and will continue to do so in the years ahead as the telecommunications explosion and increasing technology transfer alter the structure and relative competitive position of economies.

It is against this background that we have produced this second edition. While it has not been possible to incorporate details of all the major developments of recent years, we have taken the opportunity to totally rewrite Chapter 2 and move the focus away from the UK to the international environment, putting many of the changes outlined above into a global macroeconomic context. Much of the rest of the book remains in its original format but with all examples and statistics updated. In addition, the case studies in Chapter 10 have been revised to update the information and to include new material where appropriate.

Once again, we would like to acknowledge the administrative assistance of Chris Williams in preparing this new edition. Finally, we are grateful, as

always, for the support of our families who we hope have forgiven us for our many days of absence from home.

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Contents

1

The essence of the economy: an overview

Business and the economy

The success or failure of a business is, to a large extent, dependent upon how its managers perform in terms of financial controls, marketing strategies, product design, research and development, etc. A great deal of time and effort is spent by successful firms in ensuring that the right decisions are made in a competitive environment with the greatest attention being paid to the immediate environment in which the firms are operating – to the workforce, to the production line, to the marketplace for products, to direct competitors. This immediate environment is described as the *microeconomic* environment of a firm and involves prices, revenues, costs, employment levels and so on.

There are, however, other facets of a firm's environment of which the most notable comprise the general social and economic conditions of the larger system of which each firm forms a part. Changing social values (for example, with regard to the natural environment) combined with social movements powerfully condition economic activity and, hence, the way in which companies are operated by the managers and workers within them. The political and legal frameworks of a country also have a significant impact upon the business sector and the way in which firms attempt to carry out their activities. In this book our attention will be focused mainly on the more direct economic facets of the firm's wider environment, that is the *macroeconomy*. In contrast to the microeconomy, this refers to the factors which are external to the immediate environment of the firm: it involves changes in general inflation and employment, for example, rather than changes in the firm's own product prices and workforce.

Macroeconomics, therefore, refers to the aggregate national and, increasingly, international economy of which the firm is a subunit.

By definition, since each firm is a subunit of the larger economic system, it is unable to exercise control over the macroeconomic environment in the way that it has control (though perhaps limited) over its microeconomic environment. Yet a plain truth stares every firm in the face: failure to adapt to a changing, dynamic macroeconomy inevitably results in business failure. Nevertheless, how many managers actively seek to keep themselves informed of the key developments within the wider economy? How many managers actively seek to monitor and forecast wider economic trends and plan investment and production accordingly? One thing is certain: successful firms pay considerably more attention to these external economic factors than those firms that struggle to survive. Ultimately, the changing macroeconomy determines growth in the nation's income and its ability to expand demand for products. Far too many managers 'keep their heads down', making sure that the day-to-day things are going smoothly. Day-to-day things are important, but success requires critical awareness and a vision of future economic prospects.

The aim in this book is to provide managers with the basic skills and understanding of the macroeconomy upon which they can build this critical awareness and vision. There are, of course, no simple right or wrong answers: instead, we hope to build a foundation of understanding and enthusiasm to learn more about the way in which the macroeconomy operates and the impact it has upon the business world in order to assist managers in their decision making.

In this chapter the scene is set for the discussion of the wider economic environment and analysis of economic principles and policy in subsequent chapters. In particular, we outline the major economic problems facing countries today and the different policy measures that governments can adopt to tackle these problems. We also consider the nature of the economic problem which lies at the heart of the study of economics and introduce the concept of opportunity cost. Lastly, we present a brief overview of the role of government in the economy. The precise degree to which governments need to involve themselves in managing the economy is a recurring debate in economics.

Introducing the macroeconomic environment of business

It is not difficult to identify which aspects of the macroeconomic environment are of greatest importance to business decision making: *all* aspects are important. This is readily confirmed by asking a group of managers to decide whether or not changes in each of the following macroeconomic variables are likely to have an impact upon their businesses (recognizing that some variables will have a more immediate and direct impact than others):

- economic growth;
- inflation;
- interest rates;
- availability of credit and monetary growth;
- total investment;
- public expenditure plans;
- taxation, personal and corporate;
- total consumer expenditure;
- total savings;
- wages and earnings at the economy level;
- employment trends;
- imports, exports and the balance of payments.

The list could be extended considerably but the message is that firms operate within an environment that is extremely complex and dynamic.

In addition, all of these economic variables are interrelated to some extent. For example, changes in monetary growth affect interest rates; changes in taxation have implications for the level of public expenditure as well as consumer spending and investment; changes in the exchange rate affect the price of imports and exports and hence can have an impact on the volume (and value) of goods traded. Furthermore, all of these variables are either directly controlled by the government or indirectly affected by government economic policies. These policies may be summarized under the general headings of:

- fiscal policy;
- monetary policy;
- exchange rate policy;
- international trade policy;
- supply-side policy;
- prices and incomes policy;
- employment policy.

The extent to which firms are vulnerable to both domestic and international macroeconomic factors is summarized in Figure 1.1.

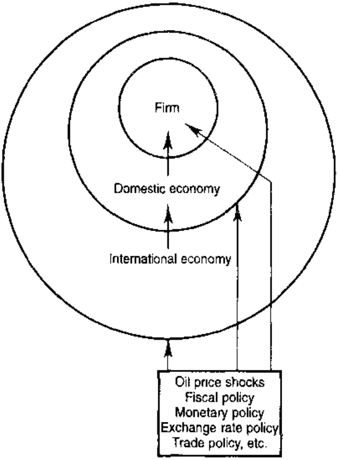

Figure 1.1 The business environment.

Fiscal policy

Fiscal policy is concerned with the composition of and changes in the levels of public expenditure and taxation. Changes in the UK are generally announced once a year. Public expenditure figures for the current fiscal year (1 April to 31 March) and targets usually for the following three years along with changes in the level and structure of taxation (personal and corporate) are announced in the Chancellor of the Exchequer's budget speech in November (prior to 1993 the main budget speech was presented in March of each year).

Monetary policy

Monetary policy is defined as government measures to influence the cost (i.e. the rate of interest) and availability of credit in the economy thereby affecting the overall supply of money. While fiscal changes are usually announced annually, monetary policy measures are continuous. For example, the government may announce interest rate changes at any time, and these rapidly affect the level and structure of competing interest rates generally (such as bank and building society mortgage and deposit rates).

Exchange rate policy

Exchange rate policy refers to government intervention on the foreign exchange markets to influence the level and direction of the external value of a country's currency. The degree of intervention depends upon the government's specific exchange rate objective: whether to have a fixed, freely floating or managed rate and, where the exchange rate is fixed or managed, at what level to 'peg' the rate. Exchange rate policy has important implications for trade and capital flows in and out of the country, i.e. for the current and capital accounts of the balance of payments. It also has an impact upon domestic monetary policy since interest rate levels may have to be set to protect the exchange rate by influencing international capital flows.

International trade policy

Trade policy involves measures taken by government, in addition to exchange rate policy, to influence the magnitude and direction of foreign trade. There may be many reasons for these measures, notably correction of balance of payments problems, preserving domestic employment, encouraging economic growth and promoting foreign co-operation (for example, within the European Union). The measures may take the form of subsidies for exports, tariffs (duties) on imports and other protectionist measures such as import quotas.

Supply-side policy

Supply-side policy arises out of what is often termed supply-side economics. It refers to those government policies that are directed at tackling problems involving the aggregate supply (i.e. production) of goods and services in the economy. Supply-side policy, therefore, contrasts with the policies described above, especially fiscal and monetary policies, which are usually concerned with affecting the level of total or aggregate demand for goods and services – i.e. the demand side of the economy. Measures used are directed specifically at influencing productivity and output costs. These may involve the introduction of new technology, the encouragement of competition and enterprise,