

Management Economics

Module code: LCBB5003

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INTRODUCTION

The branch of economics which helps the top level management in decision making process and policy framing is Managerial economics. It is a concept in which planning directing and controlling is done by applying economics models (Corrêa, and et al., 2019). In this report a product of a firm need to be chosen based on which described analysis need to be performed. The product's brief, demand and market Equilibrium. Further elasticity of demand need to be evaluated in context of the product taken.

MAIN BODY

1. Find a business, describe its products and services in which it does business.

The firm chosen is well known luxury brand Ferrari, manufacturer of world's recognized sports cars. The business entity is Italian auto-maker lately entered in apparel industry in the year 2021. parent organisation of Ferrari is **Exor**, Ferrari is not just car manufacturer it also deals in eyewear, Pens, pencils, electronic goods, perfume, clothing, high tech bicycles, watches, mobile and laptop and computers. From all the products manufactured by the company sports car is taken as the point of analysis for the report. Sports car of Ferrari is known for its high quality, durability, speed and uniqueness. The business entity is huge and have a very high quality cars and other product. The price of the product are primum which can be only affordable by high class people. The brand Ferrari is known for strong research and development, sports car which has unique design and quality, maximum level of customer satisfaction (Ioana, and Diana, 2019) .

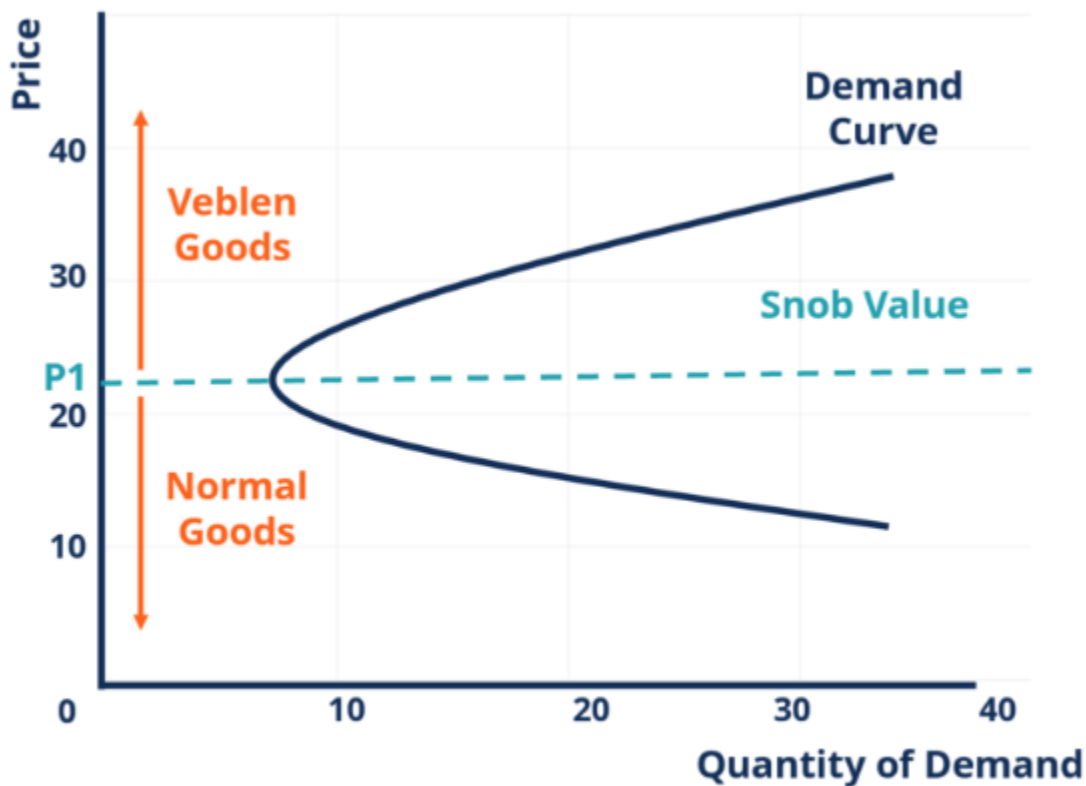
The brand is chosen is worldwide recognized, people of most of the country is well known about the brand. It uses various economics tools for analysis and interpretation. The brand is well known in auto maker industry. Ferrari is so popular among people, and wish to buy the product but due to its high price range people with middle range cannot afford such luxury. Company is has goodwill in international market and very popular among the investors. Company keeps a high level of research and development department. The product of this brand follows mission of the company which requires heavy investment and high maintenance constant.

2. Define Demand and Market Equilibrium, also effect of substitute and complements price. Other factor that influence demand of the product taken for analysis.

Demand for a product is willingness of the consumer to buy a product at given price at a particular point of time. “Law of Demand”states that increase in cost of the product will make a significant

changes in demand of the product and decrease in cost of good will decrease the demand, Ceteris Paribus. But this rule is not applicable in some exception cases, one of such exceptions is luxury. Ferrari is a luxury brand; therefore, the law of demand is not applicable to the product range (Jingyuan, Fuji, and Yamei, 2021).

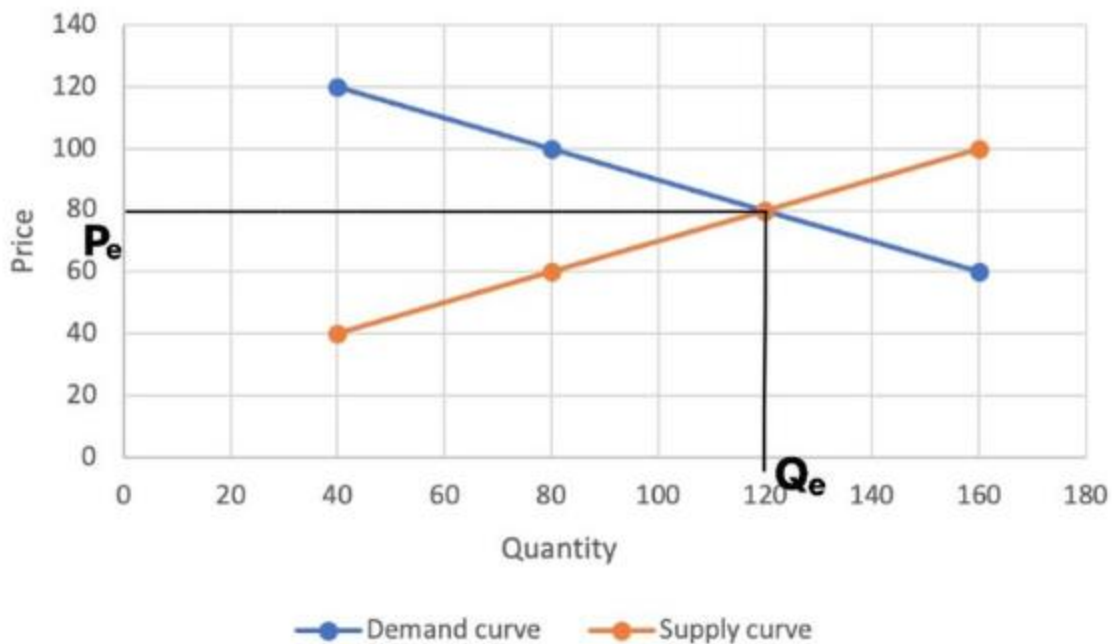
Veblen (Luxury) goods are an exception to the law of demand; the demand goes up with a rise in price. The demand curve is upward sloping due to this reason; people tend to buy these products due to their brand name and uniqueness in the product. A lowered price will not be so attractive as much as a product which is expensive for a particular category of people in the society. These products are designed in such a way that their targeted audience buys the product for their status in the society. The following graph will explain how the demand curve for Ferrari is.



Market equilibrium is a situation in which the company's production matches the quantity demanded. This is the point where the market is in equilibrium, assuming three things

- the behaviour is constant

- there is no incentive for change in behaviour
- equilibrium is influenced by dynamic process (Loyola, and Portilla, 2020).



In case of Ferrari it is same as the other any brand of car that when the quantity demand of the Ferrari goods are same as the supply of the product in the market.

Demand of Ferrari is quiet unpredictable so the company prepares itself to adapt to the raise in demand or decline in demand.

There are various factor that affect the demand of the product of Ferrari such as:

- Price of substitutes –Substitute goods are those product which can be purchased in absence of the main product. There are various other luxury brands of sports car in UK, such as Audi, Aston Martin Lagonda, Mercedes-Benz, Honda, Ford Motor, McLaren Technology Group, Bugatti and Porsche Automobil Holding. Though these all brands are strong competitors of the price of the cars are does not differ much. Due to this reason a price change in the substitute will not effect the demand much. Also consumer have their own preference and taste in luxury items like these. Therefore change in demand due to change in price of substitute product is not significant (Loyola, and Portilla, Nguyen and et al., 2019).

- Price of complementary goods – product that are related to each other, consumption of the product will directly affect the demand of the other. These goods add value to each other. Complementary goods of Ferrari Sports car would be equipments and accessories that are used while driving fuel that is used in Sports cars. The rise in the car prices will increase price of the complimentary good. Demand increment of the product will rise the demand of the complimentary good.
- Consumer income : Rise in life standard of the potential audience will increase demand of product. The decrease in overall income of the people will negatively affect the demand of the product. Ferrari products are expensive therefore income factor place a vital role in driving demand of the product (Nita, 2018).
- Consumer taste & preference : Ferrari being a luxury product is a lot depended on consumer choices. Freedom of choices between different brands are customers rights. However, Ferrari have been the most liked car by people, it is popular worldwide and the brand stands as status of luxurious life. Owning a Ferrari makes the consumer feel high standard. Therefore it is always in high demand by targeted audience.
- Consumer expectations : Ferrari is well known brand which is very popular in stock market also the share price of the company shows a significant raise in recent past. Rise in inflation has taken place all over world post pandemic. Rise in prices of fuel and other factors throws an impression that price will rise in upcoming future. Although the rise in price won't effect the demand very much (Pochtovyuk, and et al., 2020).
- Demographics : The major percentage of buyers are individuals male that is about 98%. The current target group of potential customer is between 35 and 55 year people. To make it more specific, mostly of them belong to self employed section of the age 51 year old. Basically most of them are self employed 80% is the estimated figure of the buyers. Rise in population and people income depicts that demand of the sport car will increase in the future. In China the population and demand of the car have been more.

3. Describe about the demand elasticity of product chosen with reference to the factor evaluate in above question.

Substitution effect is the contraction in sales revenue for a good or service that can result in potential costumer switching to cheaper options available in the market when the price of the good increases. The availability of a substitute for a product affects its elasticity. If there are no

good substitutes and the product is necessary, demand won't change when the price goes up, making it inelastic.

In case of Ferrari substitution effect does not affect much because it is luxury brand. The customer of high section of society keeps such products. Due to that rise in price of the car does not effect very much. Ferrari is known by its big name and good brand value it has earned all these because of its high quality and unique products. Though there is section of potential customer who tend to switch to other brand like Audi, Aston Martin Lagonda, Mercedes-Benz and others which are as good as Ferrari changes in price might cause people to shift to these brand. But this category people are not much because people taste and habit plays a vital role in decision making (Sandhu, and Kulik, 2019).

Luxury are the goods and services which are not basic necessities of the consumer the consumption is choice of consumer. The demand of these products are limited and rare. The psychological satisfaction is obtained from purchasing these product.

Necessary goods are bare necessities of the customer, these goods consumption cannot be avoided, these are much needed for survival. The demand of these products are more .

In the case Ferrari sports car is luxury product the consumption of sports car is not necessary. People tend to buy such product because of their own likeness, status and usage.

Income effect of consumer

This effect studies the effect of change in consumption by people with change in their income. The targeted audience of brand is niche market of high class mostly self employed audience. The company claims that its 80% of purchasers are self employed person. The premium brand is not affordable to every class of the society. The company aims to earn the good amount profit on offered premium goods. High class people increase in income or less income does not affect the sales of company. Though the section of society who have willingness to buy product but does not have enough required sum of amount. Increase in income of this section targeted audience might rise the sales of the company as know the number of potential consumer will increase (Vito, Simone, and Iandolo, 2018).

Price elasticity of the product is method by which change in demand in response to price changes is evaluated. There is five type of price elasticity:

- Unitary (1)– This type of elasticity describes that if the price changes demand of the product changes in the same proportion. Such situation is myth in business environment because is

a company rise its price by 10% that does not mean the demand of product will not fall by 10% because people preference and habit will not allow them to switch.

- Inelastic – This elasticity shows that product's price changes does not effect demand of the product at all. These type goods are basically necessities of life whose demand remains same irrespective of price change. These categories includes Giffen and Velben goods that demand remains unchanged with change in price. Examples milk, salt, water, luxury goods (Wang, and Wang,, 2021).
- Elastic – The product demand changes significantly if there is change in price. If the price rises demand decreases and increase in demand if price decreases. A good elasticity causes significant change in demand or supply of product. Generally it is so because substitute of the product are available in market. A small changes in the price might result in big loss of customer because they will switch to more economical brand. Example cookies, clothes and auto mobiles.
- Relatively less elastic – the demand of product changes but not much in response to change in cost of the product.
- Relatively more elasticity – in this case the product demand tends to change significantly in response to change in price. The proportion of change in demand is more than the change in price.

According this evaluation Ferrari has Inelastic demand, the rise in price does not effect sales of the cars. Most of the customer of the brand are self employed person, therefore high price and maintenance is affordable by them . This section of the society does not have much effect on buying based on rise in prices.

Pricing policy of the company

Pricing policy is strategy of the company to price that company is willing to get in exchange of goods and services. The price for product is decided based on the company's objective, profit expectation, type and other factors. There are various pricing policies such as skimming, competition based pricing, cost-plus and dynamic pricing. The type of pricing of product meets profit earning motive of business entity.

In the case discussed above about Ferrari it targets customer who are able to pay a very high price for the product. Therefore the pricing strategy of company is **premium pricing strategy**. A premium pricing strategy includes setting the price of a product higher than same goods and work. This

strategy is sometimes also referred as skim pricing because it is an attempt to “skim the cream” off the top market (Zameer, Wang, and Saeed, 2021).

Ferrari manufactures luxury goods which are very high price cannot be afforded by each class of the society. They make goods that provide luxury when people use therefore keep a very high price.

CONCLUSION

The product chosen for this report is Ferrari, an Italian manufacturing company of sports cars. The brand taken is premium brand and world recognized name it is known for its high quality and unique product. Demand of the product is all over the world, high class people who are able to pay a higher price for the product. The demand of the product is inelastic demand, the rise in the price does not effect the product demand not very much. Because it is a luxury brand. There are various factors which effects the demand of the product. The consumers income does effect the demand of the goods and services. The people with higher price can only afford the product. The law of demand is not applicable on the product of the Ferrari because it comes under Veblen goods category.

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