

MACROECONOMIC AND INDUSTRY ANALYSIS

E - I - C FRAMEWORK

RESEARCHERS HAVE FOUND THAT STOCK PRICE CHANGES CAN BE ATTRIBUTED TO THE FOLLOWING FACTORS:

- **ECONOMY-WIDE FACTORS : 30-35 PERCENT**
- **INDUSTRY FACTORS : 15-20 PERCENT**
- **COMPANY FACTORS : 30-35 PERCENT**
- **OTHERS FACTORS : 15-25 PERCENT**

BASED ON THE ABOVE EVIDENCE, A COMMONLY ADVOCATED PROCEDURE OF FUNDAMENTAL ANALYSIS INVOLVES A THREE-STEP EXAMINATION, WHICH CALLS FOR:

- **UNDERSTANDING OF THE MACRO-ECONOMIC ENVIRONMENT AND DEVELOPMENTS**
- **ANALYSING THE PROSPECTS OF THE INDUSTRY TO WHICH THE FIRM BELONGS**
- **ASSESSING THE PROJECTED PERFORMANCE OF THE COMPANY.**

THE GLOBAL ECONOMY

IN A GLOBALISED BUSINESS ENVIRONMENT, THE TOP DOWN ANALYSIS OF THE PROSPECTS OF A FIRM MUST BEGIN WITH THE GLOBAL ECONOMY. THE GLOBAL ECONOMY HAS A BEARING ON THE EXPORT PROSPECTS OF THE FIRM, THE COMPETITION IT FACES FROM INTERNATIONAL COMPETITORS, AND THE PROFITABILITY OF ITS OVERSEAS INVESTORS.

THE GLOBAL ECONOMY

WHILE MONITORING THE GLOBAL ECONOMY BEAR IN MIND THE FOLLOWING:

- ALTHOUGH THE ECONOMIES OF MOST COUNTRIES ARE LINKED, ECONOMIC PERFORMANCE VARIES WIDELY ACROSS COUNTRIES AT ANY TIME.**
- FROM TIME TO TIME COUNTRIES MAY EXPERIENCE TURMOIL DUE TO A COMPLEX INTERPLAY BETWEEN POLITICAL AND ECONOMIC FACTORS.**
- THE EXCHANGE RATE IS A KEY FACTOR AFFECTING THE INTERNATIONAL COMPETITIVENESS OF A COUNTRY'S INDUSTRIES.**

MACROECONOMIC ANALYSIS

- **THE GOVERNMENT EMPLOYS TWO BROAD CLASSES OF MACROECONOMIC POLICIES, VIZ. DEMAND SIDE POLICIES AND SUPPLY SIDE POLICIES.**
- **TRADITIONALLY, THE FOCUS WAS MOSTLY ON FISCAL AND MONETARY POLICIES, THE TWO MAJOR TOOLS OF DEMAND-SIDE ECONOMICS. FROM 1980s ONWARD, HOWEVER, SUPPLY-SIDE ECONOMICS HAS RECEIVED A LOT OF ATTENTION.**

FISCAL POLICY

- **FISCAL POLICY IS CONCERNED WITH THE SPENDING AND TAX INITIATIVES OF THE GOVERNMENT. IT IS THE MOST DIRECT TOOL TO STIMULATE OR DAMPEN THE ECONOMY.**
- **AN INCREASE IN GOVERNMENT SPENDING STIMULATES THE DEMAND FOR GOODS AND SERVICES, WHEREAS A DECREASE DEFLATES THE DEMAND FOR GOODS AND SERVICES.**
- **BY THE SAME TOKEN, A DECREASE IN TAX RATES INCREASES THE CONSUMPTION OF GOODS AND SERVICES AND AN INCREASE IN TAX RATES DECREASES THE CONSUMPTION OF GOODS AND SERVICES.**

MONETARY POLICY

MONETARY POLICY IS CONCERNED WITH THE MANIPULATION OF MONEY SUPPLY IN THE ECONOMY. MONETARY POLICY AFFECTS THE ECONOMY MAINLY THROUGH ITS IMPACT ON INTEREST RATES.

THE MAIN TOOLS OF MONETARY POLICY ARE:

- OPEN MARKET OPERATION**
- BANK RATE**
- RESERVE REQUIREMENTS**
- DIRECT CREDIT CONTROLS**

MACRO ECONOMIC ANALYSIS

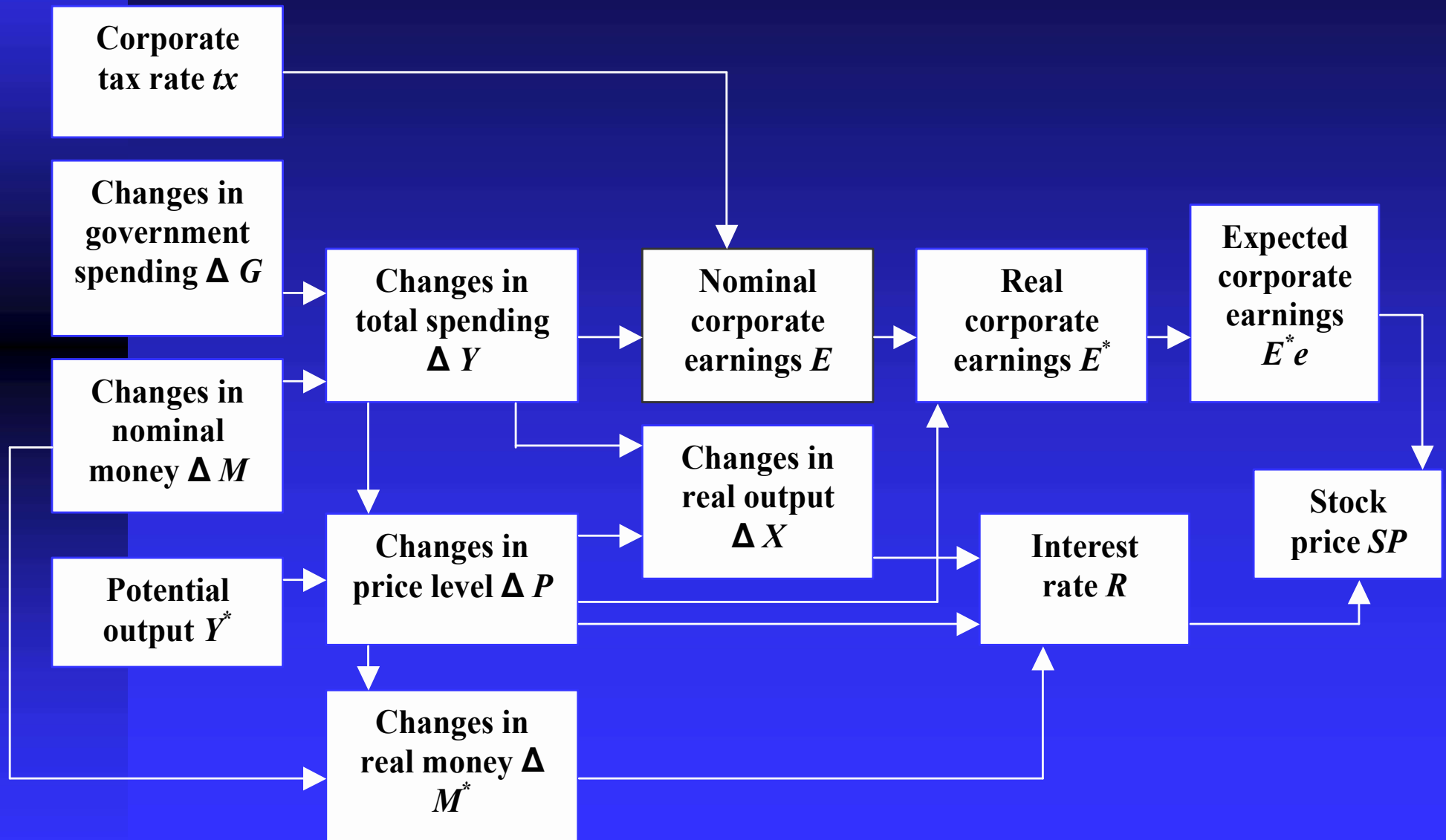
THE MACROECONOMY IS THE OVERALL ECONOMIC ENVIRONMENT IN WHICH ALL FIRMS OPERATE. THE KEY VARIABLES COMMONLY USED TO DESCRIBE THE STATE OF THE MACROECONOMY ARE :

- **GROWTH RATE OF GROSS DOMESTIC PRODUCT**
- **INDUSTRIAL GROWTH RATE**
- **AGRICULTURE AND MONSOONS**
- **SAVINGS AND INVESTMENTS**
- **GOVERNMENT BUDGET AND DEFICIT**
- **PRICE LEVEL AND INFLATION**
- **INTEREST RATES**
- **BALANCE OF PAYMENT, FOREX RESERVES, AND EXCHANGE RATE**
- **INFRASTRUCTURAL FACILITIES AND ARRANGEMENTS**
- **SENTIMENTS**

A FLOW DIAGRAM OF STOCK PRICE DETERMINATION

EXOGENOUS VARIABLES

ENDOGENOUS VARIABLES



Source : Michael W.Keran, "Expectations, Money, and the Stock Market, "Review Jan. 1971

INDUSTRY ANALYSIS

* **INDUSTRY LIFE CYCLE ANALYSIS**

- **PIONEERING STAGE**
- **RAPID GROWTH STAGE**
- **MATURITY & STABILIZ'N STAGE**
- **DECLINE STAGE**

* **PROFIT POTENTIAL OF INDUSTRIES**

- **FORCES DRIVING COMPETITION PORTER MODEL**

