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High Quality Advertisement and Quality of a Product

Sangeetha M N[1] and Dr Mahesh E[2]

"All companies should invest heavily in advertising because high-quality advertising can sell almost any product or service".

Although high quality advertisement undoubtedly succeeds in creating a fancy flamboyant image of the products being advertised and also misleads at times by exhorting customers to buy the products, this effect is temporary and eventually fades off if not met with certain criteria. Moreover, this should not be the goal of any advertisement to falsely glorify a product rather than to introduce the product to the customers. We do not support the statement that heavy advertising can sell any product.

The issue is more a generalised one and needs to consider in specific. The parameters that determine the necessity and the extent to which a company invests in advertising are to be discussed. The kind of product it manufactures and its target customers play vitally in determining the importance a company gives to advertisements.

Though advertisement can help in initial establishment of the company and to introduce the product/service, but what greatly decides its sustenance in the market is its ability to cater to its customers needs and satisfaction and proving its credibility over its competitors. Keeping in mind what its competitors are offering and what best can be provided to the customers is the key to its monopoly in the market. Unless a company meets all the mentioned above, heavily investing on advertisement cannot be seen as a ticket to sell any poor product.

Emphasis given to advertisement differs by the kind of company. Company that provides products and services to the public (known as consumer goods) emphasizes more on advertisement and adopt various marketing strategies. But from my point of view, it is not necessary to invest heavily in advertisements but instead shift that money spent on advertisement to provide quality products at reasonable cost. This not only expands its customer pool by reaching out to a greater section of the society but also leads to faster marketing of the product as the satisfied customers themselves suggest the product to others which is highly regarded than the advertisements on media. Whereas the companies providing industrial products having other companies as its customer spends far less on the ads as its customer companies relies more on quality, functionality, compatibility, durability and on its past experience with the company to make its decisions and not on advertisements that run on televisions. On the other hand, companies in IT sector where technology changes at a much rapid rate, the advertisements can more often become obsolete even before it serves its purpose of publicity. Hence such companies see more fortune in spending its money in research and product enhancement than on advertisements believing that good technology will sell itself.

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It does not mean that no money should be spent on advertisement but it can be kept economical and not extravagant. Advertising and investing in it is important but not more than the product that needs to be advertised. Hence the generalisation that all companies should invest heavily in advertising is surely flawed since high-quality advertising alone cannot sell a poor product or service.

ALL EYES ON RBI: A Typical Review of Indian Economy

- Rishikant Kumar (MA Eco)

The real concern for the Indian economy is associated with macroeconomic factors, not just within its own geographical area but also impacting global developments.

The Indian Rupee has touched an all-time low against the US Dollar. The Indian rupee on Thursday, 20 June 2013, weakened to touch the 60-mark against the US Dollar, its all-time low. Since January 2013, it has declined 7.4 percent against the dollar since the start of May, 2013. India's Gross Domestic Product (GDP) grew at 4.8% in the fourth quarter of FY 2013, marginally lower than estimates of 4.9%. The GDP for the entire FY13 grew at 5%, which is a decade low number. The major concern we found is decline the contribution of agriculture and manufacturing sector towards GDP.

This has raised a question, are we going back in 1990s?

The followings are some other major concerns for Indian economy.

Twin Deficits:

With the decline in exports, India's merchandise trade deficit increased to US$ 190.92 billion in fiscal year 2013 from US$ 183.36 billion in FY 2012. The weak demand across the globe is the key reason for the decline in exports. The huge demand for the gold and crude oil is a reason for high imports. Along with current account deficit, fiscal deficit is also a big concern for the economy. The high fiscal deficit adds a pressure on liquidity, which boost the interest rate. The Reserve Bank of India (RBI) in its mid-quarter policy left the key rates unchanged as fall in currency poses an upward risk to inflation, besides an elevated current account deficit. The Reserve Bank of India also called for vigilance over global economic uncertainty, citing the perils of a reversal of capital flows from emerging markets. Such outflows would exacerbate the country's high current account deficit.

Rupee loses the trail

Another concern for the economy is weak rupee, which causes an adverse impact on exports. The Indian rupee depreciated against major currencies, dropping the most against US dollar. Considering the global economic outlook and quantitative easing by the central bankers around the world, it is very much possible that Indian rupee may decline further against the USD. The Indian government is stuck in a dicey situation as they have to determine whether they should intervene in the monetary policies and counter the fall in rupee or do nothing and allow the rupee find its own story as a falling rupee helps to ameliorate the current account deficit but decreases the purchasing power. Fall in the rupee and reversal of FII inflows has put the rate cut in doubt for the RBI's next meet in July.

Inflation

India's wholesale price index (WPI) -based inflation rate dipped to 4.7% in May, stoking demand for an interest rate cut by RBI amid speculation that a normal monsoon and good harvest would bring down prices further.

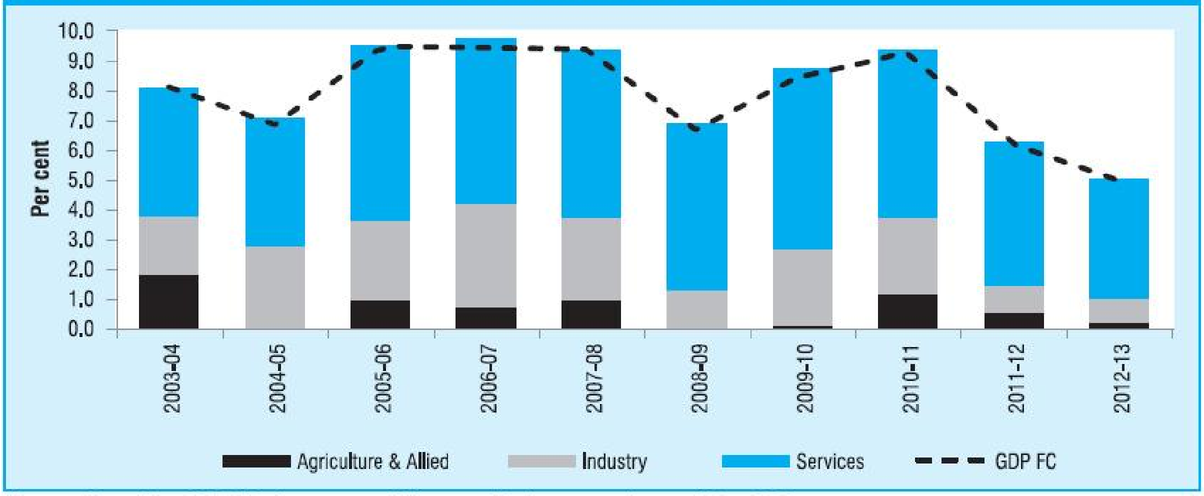
The decline in WPI inflation - the lowest in more than three years - comes on the heels of a moderation in May consumer price index (CPI) inflation, to a four-month low of 9.31%. But, a weaker rupee will fuel commodity prices, making RBI's job a challenging one.

The RBI is set to announce the monetary policy on 17 June. The substantial fall in inflation index has made a space for the RBI to reduce the Interest rates. Nevertheless, the rise is CPI along with rupee depreciation has restricted it. Moreover, the weak GDP growth rate is the major factor in favour of a rate cut.

GDP with various sectors

On expected lines for the government, the country’s GDP (gross domestic product) growth rate slid to 4.8 per cent in the fourth quarter (January-March) on account of dismal shows by the three major sectors — agriculture, manufacturing and mining — to finish the entire 2012-13 fiscal year at the decade’s lowest expansion of 5 per cent.

Figure 1.1: GDP growth and point contribution of different sectors



Note : Data for 2012-13 is as per Advance Estimates released by CSO.

Sources: Economic Survey 2012-13

Agriculture sector growth moderate

The growth of GDP emanating from agriculture, forestry & fishing sector has moderated to 1.9% during FY 13 as compared to 3.6% during FY 12 and 7.9% during FY 11.

The lower growth in crop production released by the ministry of agriculture in FY 2013 was caused below normal southwest monsoon during FY 2012.

Industrial sector

The industrial sector GDP growth moderated sharply to 2.1% in FY 13 from 3.5% in FY 12 and 9.2% in FY 11. However, on a positive note, the industry GDP growth improved to 2.7% in Q4 FY 13 mainly added by the construction sector. The major concern for the industrial sector is a consistence decline in the output of the mining sector.

Services sector rises

The service sector GDP has further risen to 59.6% in FY 13 from 58.4% in FY 12, while the growth of service sector moderated further down to 7.1% in FY 13 as compared to 8.2% during FY 12.

Conclusion:

The Reserve Bank of India's decision to maintain a status quo on interest rates has been influenced by external sector considerations, specially widening current account deficit. The current account deficit (CAD) is high and more recently the rupee has been under pressure. This appears to have been a major factor influencing the RBI to pass this stand.

The Reserve Bank of India in its first mid-quarter policy review today kept the key interest rates unchanged because of elevated food inflation, rupee depreciation and uncertainty over foreign fund inflows. The price situation seems to be continuing and there have been some administered prices that need revision. But even the depreciation of the rupee will have some impact on the price situation.

The rupee had hit an all-time low of approx. 60 per US dollar last week on concerns that the US Federal Reserve might pull back its quantitative easing program in a phased manner.

External factors

The developments in the external situation in the coming six weeks will determine RBI's next policy review on July 30. "If the capital flows are resumed and if the rupee is not under the kind of pressure it has been in the last few weeks, RBI would have an increased space to operate.

CAD, which is the difference between the outflow and inflow of foreign currency, is estimated to be around 5 per cent of the GDP in 2012-13 fiscal. It had reached a record high of 6.7 per cent during October-December quarter.

RBI may ease the policy in the second half of 2013-14 conditional upon normalcy in monsoon and stability in currency.

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Economists @ work

- SUMMER INTERNSHIP AT R.P GOENKA GROUP, KOLKATA

“Someone’s sitting in the shade today because someone planted a tree a long time ago.” Said Warren Buffett, the most successful investor of the 20th century. Buffett is the primary shareholder, chairman and CEO of Berkshire Hathaway, the man who believes that patience and trust in the right company always bears fruit.

My summer of 2013 was at the RP Goenka group, CESC House. The RPG Group comprises over fifteen companies in the areas of infrastructure, tyres, technology, and speciality. Some of the companies it holds are tyre firm CEAT Tyres, information technology firm Zensar Technologies Ltd, infrastructure company KEC International Ltd, and pharmaceutical company RPG Life Sciences Ltd.

My internship coordinator was the investment manager of the company. The project assigned to me by him was “Warren Buffett’s investment principles”. The project involved tracking the business plan of Buffett, noting his business strategy which leads him to reach the top notch market caps, his business ventures and partnership criteria. When I heard this project, I was sceptical about whether I would be able to successfully complete the task at hand. But due to the guidance of my coordinator and others alike, I was able to complete this herculean task.

The 9 am-5 pm job every day for a month was an experience like no other. As a part of the research, I was required to read and analyse the balance sheet, annual report and shareholder letters of Berkshire Hathaway for the past 40 years, from the time the company came to being. My coordinator took time off his busy schedule every day; made sure I was on the right track, reviewed my research and gave me constructive feedback. Reading books, articles and reports on Warren Buffett and Berkshire Hathaway also formed a part of the study. Following that came research on his top 2 investments, Coca Cola and IBM. I was required to analyse what attracts him most to hold on to the shares of these two companies. The project also involved a study on Indian companies like Reliance which in spite of touching high market caps are not yet an investment option for Buffett. He stresses, "You can't get excited because other people are excited". According to Buffet, we tend to invest and disinvest according to the majority, pointing the flaws in the Indian mind-set of investment. Buffett believes in long term investment and good management. Corruption, stress on quantity and not quality, inadequate incentives and authority to potential managers are some of the flaws in India’s corporate sector which have kept him from looking at India for investment.

It was an amazing learning experience for me to study about Warren Buffett and his investment ideology. He is one investor who looks into the company’s management before anything else when he considers investing. As long as the management is in place, taking a risk has never been an issue and has never let him down. The study exposed the loopholes in our corporate and financial sector and highlighted areas that require to be worked on in order to reach similar market caps.

The project, at the end of the month, tracked business strategies and principles of Berkshire Hathaway which RPG intends to use, especially in their utility sector.

Personally, May was the most productive month I had in terms of learning and experience. I am extremely thankful to my mentors at the company for their inspiring guidance and encouragement, and the faculty of the Economics Department of Christ University, Bangalore to have given me such a great opportunity.

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Book Review

BREAKOUT NATIONS – IN PURSUIT OF THE NEXT ECONOMIC MIRACLES

The economic world can sometimes leave us all baffled. How China has become the world's second largest economy, how TATA of India rescued the ailing British Jaguar Land-Rover, how Russian money has transformed British football, and so on.

As the Head of Emerging Markets at Morgan Stanley, the author, Ruchir Sharma manages over $25 billion in assets. Breakout Nations is definitely one of the most prolific country by country accounts ever thread together. Sharma draws on two decades he spent touring the globe understanding the dynamics of how these global markets function. Ruchir is used to spending a week per month in the emerging economies under discussion to get the pulse. He relies heavily on his travels mostly by road in these places, his interaction with locals and underlines the importance of these to see beyond the Excel spread sheets.

Ruchir believes that the era of easy money and easy growth is over. He does not take the garb a psychic, but carefully builds up the case with sufficient data and experiences. Breakout Nations says that there is no magic formula or potion that guarantees growth. However, free market flow of goods, money, people, visionary and committed leadership, banks channelling to enhance productivity, better roads, and better schools among other ingredients serve as essential ingredients to continued success. Ruchir's explanations are very articulate. Analytical data is presented to substantiate his statements. Examples are reeled out to further elaborate points. The Breakout Nations as per him are Czech Republic, Turkey, South Korea, Nigeria, Indonesia and nations in East Africa. He digs deep to give his readers, the on underground account of these countries. He compares and contrasts these countries among their peer counties and economists' favourites-BRICS.

This book is an exhilarating read for any budding economist. It throws perspective into the elements no other would consider while writing such a detailed account. The author is hardly older than Sachin Tendulkar, so it is safe to say that age is on his side.

Neharika Puri

II PSEco

Undercover economist!

Question 1 - Should I carry a lunch box to college or should I rather buy food from the canteen?

Answer:

It's 1pm and the lunch bell rings. The acids in your growling stomach take over your brain and force your legs to move towards the Leela Palace of Christ University: the Gourmet. But then you walk in and instead of the steaming hot buffet you envisaged, you see the Kumbh Mela. There is no place to breathe, not enough place to just squeeze in and get those momos you were dreaming about in the previous hour. And to top it off, there's food dropped everywhere. Quite a let-down, eh?

Economics, being the all-consuming area that it is has a specific term for this frustrating phenomenon. Not the part where you go, expecting a certain something but get something else. That's just disappointment. I'm referring to the un-quantified costs that are undertaken to get the food. The costs involved in actually undertaking a transaction are called transaction costs. Meaning, the process of getting close to the food to actually buy it, i.e. all the energy, time and effort you put into satisfying your hunger is called transaction cost. Without paying these costs, the transaction cannot be carried out. There are several types of transaction costs, such as search and information costs, bargaining costs, policing and enforcement costs etc.

In the economy, transaction costs play a big role in the market because the higher the transaction costs, the lower the willingness to purchase the product/enter into the contract. The same thought process would apply to you, I'm sure. When you walk into Gourmet and see the hordes of people armed with money in their hands and hunger in their eyes, you back off. The cost of pleasing your stomach is too high to be undertaken and you retreat to safer grounds. The same strategy is used in markets when if the transaction costs are too high, the company is forced to let the project go. And in the case of low transaction costs, it is the exact opposite.

So next time your stomach's acids are eating your own stomach, stop yourself and think, are the transaction costs of stopping this too high? What would a large economic firm in the market do in my situation? Yes that's right, seek alternatives.

Question 2 – I hate going to the library. How can I motivate myself to go there when the mere utterance of library hours causes ripples of disgust throughout my body?

Answer:

Every time we hear the sentence "Go to the library", we make the utmost ugliest and saddest expressions, quite like a silent movie, mourning the loss of an hour that could have been perfectly and blissfully spent otherwise.

Ever looked at the other side of the coin?

Considering the alternate options that we have, going to the library might not seem such a bad idea when you consider the things we can stock up on. For instance, a visit to gourmet or freshteria, would result in an hour spent on relentless gossiping *and not to mention the money spent on food (food is a must with entertainment!). Then a gathering (of sorts) on the bleachers in the basketball court, debating and discussing matters of utmost import ranging from the bombings in Iraq to the inflated prices in college products. Not to forget, the innumerable plans made for trips and outings, planning expenditures and all the places that we can see in the short span of a weekend holiday that we get (personal experience indicates that 99% of those plans fail, resulting in emotional trauma!).*

In short, spare yourselves the monetary and emotional loss and go to the library, as Walter Cronkite said, "Whatever the cost of our libraries, the price is cheap compared to that of an ignorant nation".

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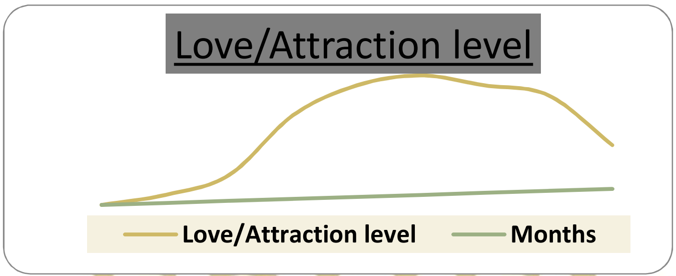
Alumni speak!

The Economics of Relationships

As students of economics, we repeatedly come across the statement that "man is an economic agent". Yet we always find it difficult to conceive that even our heart is an economic agent. After days of deep contemplation over my friends' history of failed and fulfilled relationships and also my own, I came to realize that heart is capable of taking both rational and irrational decisions.

Did you ever realize that the graph (below) of a love/attraction follows the path of Total Physical Product (TPP) function, (an inverted parabola to be precise)? In the initial six months, the feeling of love intensifies at an increasing rate, the next six months the emotion tends to increase at a decreasing speed, gradually reaches its pinnacle and then starts falling.



Whenever there is recession in the relationship why do we need to take monetary measures to get it back on track? Spending on gifts, cards, dates, not to forget the umpteen calls and messages. It's a price we pay for a product thinking it has no close substitutes which is a false impression because actually there are other opportunities waiting with better returns.

In financial economics we are taught never to keep all our eggs in one basket and that diversification of an asset portfolio is essential to mitigate risk. Is it sane to suggest the same logic in relationships? Why can't a person diversify his portfolio in a relationship? Why should someone stick to only one investment and stop him/her from investing on two-three assets at a time? Why are there expectations of high return when the certainty varies every moment?

We think twice before making any financial investment but when it comes to relationship, we don't look for the intrinsic value. By spending indiscriminately, we increase the liability of our personal Balance Sheet!

The pivotal point is whether there be a rational deal in such complex relations? Most people fail to realize that it's a perfect competition market but we have an illusion of it being a natural monopoly market where we behave like helpless price takers rather being price makers. It has been observed that success rate of relationships follows a Poisson distribution with less chances of success because of its discrete attribute!

The concept of comparative advantage also makes good sense here. An individual realising his comparative advantage is likely to make a mature and rational deal. Giving the other person an absolute advantage to influence our decisions is nothing less than suicidal in a relationship.

As students we disregard the central Bank (Parents) that we depend upon and its investment (time and money) on us expecting decent returns in the future. All said and done, investing on relationships is not irrational per se but it is preferable to assess the opportunity cost involved and then react.

If we can maintain an indifference curve with the best combination of investment (i.e. time and parents' money) on opportunities (relationships, career, etc.) to get above-average returns, we can push ourselves on a higher IC. Higher Indifference curve assures the perfect blend of sustainable career and a successful relationship.

As Marina Adshade, an economics professor at the University of British Columbia says, "Everything is based on choices individuals actually make, not the choices they say they would make when given options." If only you could train your heart to the tune of rationality!

Ankush Agarwal

M.A. Applied Economics (2011-13)

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Campus Speaks!

With the start of the academic session, the most pressing issue for majority of the parents is the expenditure on education & related activities. The question we posed to students of Christ University is whether schools with extravagant facilities and lofty budgets create more value than regular schools which focus on quality of education rather than the extra facilities provided?

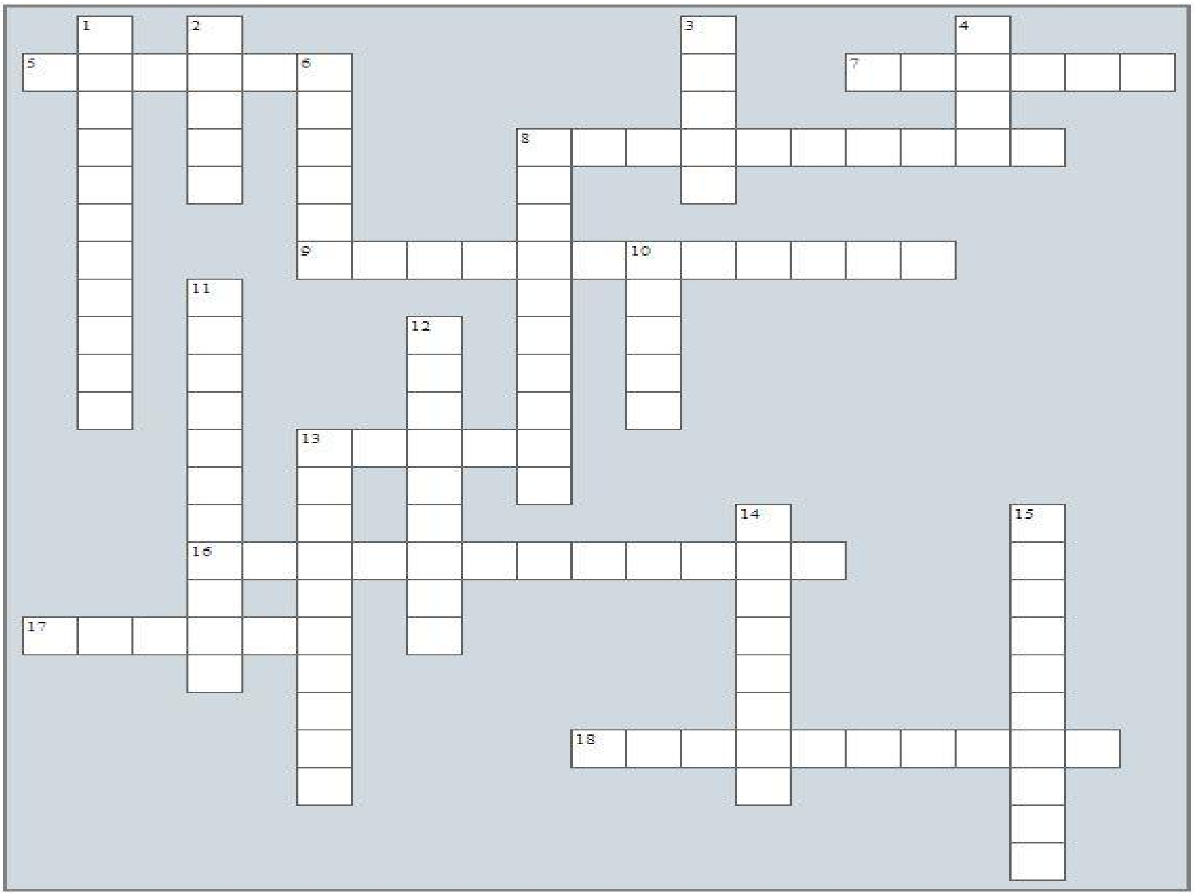
The difference in the expenditure pattern on education between Nandini Gupta & her younger sister has crossed over Rs. 100000. But she feels that the opportunity cost of education foregone for infrastructure and other Extra Curricular Activities has infact made her sister smarter, bolder and has enhanced her awareness about her surroundings.

On the contrary, students like *Batman, Anoop & Sachin, after undertaking a cost-benefits analysis, are of the opinion that the present trend of emptying pockets of helpless parents for mere infrastructure & activities like horse riding, skating, swimming, smart classes, etc., won't be of any use if the quality of education is being sacrificed. They said that they were provided with minimum necessities yet they have turned out to be normal responsible adults. Hence, in their opinion, beautifying the education system is definitely not the need of the hour.

So after conducting this small survey, we leave our readers with this question: Is India moving in the right direction by choosing fancy education system over quality of education?

***certain names have been changed on request**

Crosswords



Across

5. The transition point between economic recession and recovery.
7. What someone must make when faced with two or more alternative uses of a resource
8. Control the money supply and the rest of the economy will take care of itself.
9. The running down or payment of a loan by instalments.
13. Reducing your risks.
16. One who organizes, manages, and assumes the risks of a business or enterprise.
17. direct trading of goods and services without the use of money
18. Factors that motivate and influence the behavior of households and businesses.

Down

1. Business situation in which total cost of production exceeds total revenue; negative profit.
2. A legal limit on the quantity of a particular product that can be imported or exported.
3. The payment resource earners receive for their labor.
4. Business situation in which total cost of production exceeds total revenue; negative profit.
6. An ancient system of moving money based on trust.
8. a change in spending produces an even larger change in income.
10. A certificate reflecting ownership of a corporation.
11. Products that are used with one another
12. People who use resources to make goods and services
13. Lagging; slow to respond.
14. Products that are used with one another
15. Anything of value that is acceptable to a lender to guarantee repayment of a loan.

EcOn- FuN FaCtS!!!!

1. ***Despite the overall population doubling, more babies were born in the U.S. in 1956 than were born in 2009, 2010, or 2011.***

2. According to the Telegraph, "Four in 10 girls born today is expected to live to 100. ... If trends continue, the majority of girls born in 2060 — some 60 per cent — will live to see 2160."

3. Apple's cash and investments are now equal to the GDP of Hungary and more than those of Vietnam and Iraq.

4. Netflix surged more than 50% on Jan. 24 from the previous day's low. $1,000 invested in short-term call options would have been worth $2 million in less than 24 hours. (Please don't try this at home.

5. In December, a start-up called Contrail Systems was purchased for $176 million two days after it launched.

6. U.S. charitable giving was $298 billion in 2011, according to the Giving USA Foundation. That's more than the GDP of all but 33 countries in the world.

7. According to Bloomberg, "The 50 stocks in the S&P 500 with the lowest analyst ratings at the end of 2011 posted an average return of 23 percent [in 2012], outperforming the index by 7 percentage points."

8. "Globally, the production of a given quantity of crop requires 65% less land than it did in 1961," writes author Matt Ridley.

9. Thanks in large part to cellphone cameras, "Ten percent of all of the photographs made in the entire history of photography were made last year," according to Time.

10. Internal emails caught a team of Morgan Stanley employees sarcastically naming a subprime CDO in 2007. "Nuclear Holocaust," "Mike Tyson's Punchout," "Hitman," "Meltdown," and "Sbag" were all considered.***

11. Since 2008, Americans have donated $19.1 million to the U.S. Treasury to help pay down the national debt.

12. Fortune magazine published an article titled "10 Stocks To Last the Decade" in August, 2000. By December 2012, the portfolio had lost 74.3% of its value, according to analyst Barry Ritholtz.

13. From 2005 to 2012, total student loans outstanding increased by $539 billion, according to the Federal Reserve.

14. According to a study by Environics Analytics WealthScapes, the average Canadian household is now richer than an average American household for the first time ever.

15. The 100 largest public pension funds alone have $1.2 trillion of unfunded liabilities, according to actuarial firm Milliman.

16. According to a study by four economists from Cornell, Carnegie Mellon, and Vanguard, "the number of investors who check their accounts drops by 8.7% following a market decline compared to a market increase."

17. The average new American home was 1,535 square feet in 1975 and 2,169 square feet in 2010, according to the Census Bureau.

18. Cambridge Associates estimates that 3% of venture capital firms generate 95% of the industry's returns. It adds that there is little change in the composition of those 3% of firms over time.

19. Growth in America's energy output since 2008 has surpassed that of any other country in the world, according to energy analyst Daniel Yergin.

20. Two news headlines published on the same day last September summed up the U.S. economy perfectly: "U.S. Median Income Lowest Since 1995," and "Ferrari sales surge to record highs."

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