Answer on Question #37746 – Economics – Macroeconomics

A firm's financial performance can be evaluated on many different parameters. The most important being the industry in which the firm operates. It is also highly dependent on the nature of the market in which the firm competes.

Typical parameters would include:

• Top line growth
• Bottom line growth
• Operating margins
• Cost of Sales
• Net Profit
• Earning per share
• P/E ratio
• Current ratio
• Debt Equity ratio

A firm that is in a highly competitive market with many players will be primarily evaluated on top line growth. Since it is a mature market, it will be difficult for the firm to increase its margins but good top line growth will indicate that the firm is eating into the competition's market share. On the other hand a technology company will probably be evaluated on the basis of its growth in margins. This is because product life cycles are shorter and they need to get maximum bang for the buck.