

Answer on Question #39226 – Economics – Microeconomics

Assignment

What effect would each of the following have on the value of the firm?

- (a) A new advertising campaign increases the sales of the firm substantially.
- (b) A new competitor enters the market.
- (c) The production department achieves a technological breakthrough, which reduces production cost.
- (d) The firm is required to install pollution-control equipment.
- (e) The work force votes to unionize.
- (f) The rate of interest rises.
- (g) The rate of inflation changes.

Solution

(a) A new advertising campaign increases the sales of the firm substantially.

The value of the firm will also increase, as its revenue and profits increase.

(b) A new competitor enters the market.

The value of the firm will decrease, as the sales and revenue will decrease.

(c) The production department achieves a technological breakthrough, which reduces production cost.

The value of the firm will increase, as its profits increase.

(d) The firm is required to install pollution-control equipment.

The value of the firm will decrease, as its costs increase and profits decrease.

(e) The work force votes to unionize.

The value of the firm will decrease, as the salary costs increase.

(f) The rate of interest rises.

The value of the firm increases.

(g) The rate of inflation changes.

The value of the firm will increase or decrease according to the increase or decrease of inflation.