Answer on Question #51170, Management, Other

Should forecasts be stable or responsive? Why?

Explanation:

Public life is impossible without predicting the future, without predicting its development prospects. In the current circumstances, the economic forecasts are needed to determine the possible targets of social development and to ensure their achievement of economic resources, to identify the most probable and cost-effective options for long-term, medium-term and current plans, study the basic directions of economic and technical policies, anticipate the consequences of decisions and implemented in each currently activities. Therefore, the prediction becomes one of the decisive factors of scientific formulation of strategy and tactics of social development.

Forecasting is an important link between theory and practice in all areas of society. It has two different planes specificity: the actual predictive (descriptive, narrative) and other conjugated with it in the category of management - prescriptive. Prediction implies a description of possible or desirable prospects, conditions, solution to the problems of the future. Thus, the problem of forecasting has two aspects: epistemological and management associated with the possibility of taking on the knowledge management solutions.

Economic forecasting is the process of the development of economic forecasts, based on scientific methods of knowledge of economic phenomena and using the full range of methods, tools and techniques of economic prognostication.

Planning is the decision-making process to ensure the effective functioning and development of the company in the future. These solutions may be associated with setting goals and objectives, develop a strategy, distribution (redistribution) of resources, the definition of standards in accordance with which the company must act in the coming period.

In a narrower concept, planning is understood under special submission plans, which reflect forecasts of the enterprise; intermediate and final goals, objectives of the enterprise and its separate units; mechanisms for resource allocation and coordination of activities of the enterprise. Planning is based on the following fundamental principles: continuity; flexibility; elasticity; coordination and integration, completeness and clarity, detail, efficiency and others.

Principles - these are the rules that must be considered in the development plan. The principle of continuity is that plans are tailored to meet the development prospects of the company and is the basis for drawing up plans for the future, but it is also necessary to take into account the previous plans, the results of their implementation. The principle of flexibility implies the possibility of permanent corrective action in earlier decisions or review in accordance with the changing circumstances.

The principle of elasticity planning provides for the introduction of planned reserves, taking into account the elasticity of alternatives; eventual design planning for different events and data distributions, accounting deviations and planned use of deferral decisions, if necessary. The principles of coordination and integration are to observed unity and interconnectedness of

individual parts of the company. Coordination of planned activities carried out between units of the same level and the integration between the upstream and downstream levels. The principles of completeness and clarity of planning meant that the goals and objectives of planning should be simple and easy when playing wording that all the events and situations that are relevant to the decision should be included in the planning process.

Statistical methods are widely used in the development of a financial plan, for example, for the development of future income based on current investments and interest rates, are determined financial calculations.

Linear programming techniques make it possible to determine the optimum values of a number of variables based on solving a system of equations and inequalities. They are used in order to optimize the determination of certain resources. An example is the best definition of technology that allows us to get the required amount of product with a minimum of material resources or the determination of the maximum load of the equipment performing several types of work and maximize production.

It necessary to take into account, that the applications of these methods have some limitations:

Firstly, the changes associated with the environment, with the development of scientific and technical progress and lead to changes within the company, and hence to changes in the plans;

Second, various changes and innovations meet on the way bureaucracy and inertia of the company's employees, which hamper the development and implementation of plans.

These restrictions can be relaxed by reducing the stiffness and sketchy drawing up plans and their focus on strategic goals and objectives of the enterprise, specificity and increased complexity.

It is understood that in the simulation of the forecast can be prioritized different goals. The larger the "n" with response to the period, the more stable the forecast. A 2-period model will be more responsive to change. We must maintain balance stability with responsiveness.

It is understood that in the simulation of the forecast can be prioritized different goals. Depending on the choice of the parameters, it is possible to make the system more responsive to recent changes. At the other extreme, we can ensure that the system ignores most of the recent and provides a stable output. It is also possible that one can tune the system to be more responsive at particular times and stable at other times. By changing the model parameters in the moving average and exponential smoothening methods, it is possible to create a responsive or stable forecasting model.

Modeling is increasingly used for the development of macroeconomic forecasts, becoming a full set of tools for creating adequate predictive models studied objects and processes. Moreover, its main advantage is the ability to identify causation object parameters

and provide functional, point and interval evaluated. Therefore, it is often recognized by modeling the most effective method of forecasting.

At the same time, in terms of methodology, the important is to understand that the forecast should be focused not on unconditional its implementation (prediction), and full and constant assistance to optimize decisions and increase their efficiency. As a result, only a balanced and complementary use of different methods (as they are not so much opposed as complementary to each other) can achieve satisfactory results in the practice of forecasting and contribute to the goals of macroeconomic forecasting.

Thus, the accuracy of the prediction of financial ratios in the methods that are based on the construction of forward-looking statements, is always lower than the accuracy with which defined themselves forward-looking statements string values. Therefore, if the analyst, as it should be, has certain requirements for the accuracy of the determination of financial ratios, it should be chosen method of ensuring an even higher forecast accuracy reporting lines.

Before we can use the model to produce realistic forecasts, it is necessary to check the objectivity, in order to ensure the accuracy of the forecasts. This can be achieved in two different ways:

The results obtained by the model are compared to the actual values over a certain period of time when they appear. The disadvantage of this approach is that the verification of "impartiality" model can take a long time, as in the present model can only check the length of time interval.

The model is constructed on the basis of a truncated set of available historical data. The remaining data can be used for comparison with the forecast figures obtained using this model. This kind of test is more realistic because it actually simulates the forecast situation. The disadvantage of this method is that the most recent and hence most important process parameters are excluded from the formation of the initial model.

In light of the foregoing, with respect to validate the model becomes clear that in order to reduce the expected error will have to make changes to an existing model. Such changes are made throughout the period of application of the model in real life. Continuous changes possible in regard to the trend, seasonal and cyclical fluctuations, as well as any used causal relation. These changes are then tested using methods already described. Thus, the process of registration of the model involves several stages: data collection, development of the original model, test, refine and again all over again on the basis of the continuous collection of additional data in order to ensure the reliability of the model as a source of information about the prospective financial position.

In the development of any of the forecasting models assume that the situation in the future will not be much different from this. In other words, it is assumed that all relevant factors into account in the model, or predict, or remain unchanged during the entire period in which it is used. However, the model it is always a coarsening of the actual situation by the selection of an infinite number of factors operating a limited number of those who are considered the most

important because of the particular purposes of analysis. The accuracy and efficiency of the constructed model will depend on the correctness of the validity of this selection. When we use the model to predict the existence should be aware of factors, consciously or unconsciously not included in it, which nevertheless have an effect on the company in the future.

Users of forecasting systems need to decide whether they have to apply the responsive system or a stable system. During periods of significant happenings in the market, for example, the arrival of a new competitor, one may like to temporarily tune the system to be more responsive. After the effects of the external information diminish, the system could be resorted back to stability. A good performance measurement system to identify errors in the forecasts is valuable in helping the organization to periodically assess the need for either re-estimating the model parameters or changing the forecasting model itself.

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