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ICH 254 ASSIGNMENT 2.

1. Francis-Rowell Sectors
2. Industry Sales
3. Production Sector
4. Fixed capital-stock requirement
5. Pricing
6. Production Cost
7. Income
8. New Financing Required
9. Risk
10. Cost of Financing
11. Common Stock Valuation.

## 2. Casual Forecasting Methods

Regression analysis and autoregressive moving average with exogenous inputs are causal forecasting methods that predict a variable using underlying factors. These methods assume that a mathematical function using known current variables can be used to forecast the future value of a variable. For example, using the factor of ticket sales, you might predict the variable sale of movie-related action figures, or you might use the factor number of football games won by a university team to predict the variable sale of team-related merchandise.

Judgmental Forecasting Methods

The Delphi method, scenario building, statistical surveys and composite forecasts each are judgmental forecasting methods based on intuition and subjective estimates. The methods produce a prediction based on a collection of opinions made by managers and panels of experts or represented in a survey.

3. A number of factors influence the selection of a forecasting model. They include the following:

1. *Amount and type of available data*. Quantitative forecasting models require certain types of data. If there are not enough data in quantifiable form, it may be necessary to use a qualitative forecasting model. Also, different quantitative models require different amounts of data. Exponential smoothing requires a small amount of historical data, whereas linear regression requires considerably more. The amount and type of data available play a large role in the type of model that can be considered.
2. *Degree of accuracy required*. The type of model selected is related to the degree of accuracy required. Some situations require only rough forecast estimates, whereas others require precise accuracy. Often, the greater the degree of accuracy required, the higher is the cost of the forecasting process. This is because increasing accuracy means increasing the costs of collecting and processing data, as well as the cost of the computer software required. A simpler and less costly forecasting model may be better overall than one that is very sophisticated but expensive.
3. *Length of forecast horizon*. Some forecasting models are better suited to short forecast horizons, whereas others are better for long horizons. It is very important to select the correct model for the forecast horizon being used. For example, a manufacturer that wishes to forecast sales of a product ...

### 4. #1 Definition of your market segment

Here you need to define the specific areas or niche of the market that your product or service serves. Let’s say for example, you work in the automotive sector. Ask yourself if you target a specific segment of that sector? Is your product geared more towards the assembly of vehicles or after their distribution to the dealer? Are you serving a niche sector of the market? i.e. do you target high-end cars or more those available for general distribution.

#2 Choosing the Right Model

Now that you’ve got your basic preparation out of the way it’s time to choose the sales forecasting process that best fits your business.

#3 Collection and Validation of Sales Data

The next step in the sales forecasting process is to make sure the data you’re about to use to conduct your forecast is as clean and accurate as possible. Without it, even the most sophisticated sales forecasting process will struggle to give you any insight.

**5.Sales forecasting** is the process of estimating future **sales**.

**6.** In economics, demand is the quantity of a good that consumers are willing and able to purchase at various prices during a given period of time.

**7.** The importance of demand analysis in business decisions can be explained under following headings:

Sales forecasting :The demand is a basis the sales of the production of a firm. Hence, sales forecasting can be made on the basis of demand. For example, if demand is high, sales will be high and if demand is low, sales will be low. The firms can make different arrangements to increase or reduce production or push up sales on the basis of sales forecast.

Pricing decisions :The analysis of demand is the basis of pricing decisions of a firm.If the demand for the product is high, the firm can charge high price,other things remaining the same.On the contrary .If the demand is low, the firm cannot high price. The demand analysis also helps the firm in profit budgeting.

Marketing decisions :The analysis of demand helps a firm to formulate marketing decisions. The demand analysis analyses and measure the forces that determine demand. The demand can be influenced by manipulating the factors on which consumers base their demand on attractive packaging.

Production decisions: How much a firm can produce depends on its capacity. But how much it should produce depends on demand. Production is not necessary if their no demand. But continuous production schedule is necessary if the the demand for the production is relatively stable.If the demand is less than the quantity of production, new demand should be created by means of promotional activities such a advertising.

Financial decisions :The demand condition in the marker for firm's product's affects the financial decisions as well. If the demand for firm's product is strong and growing, the needs for additional finance will be greater. Hence, the financial manager should make necessary financial arrangement to finance the growing need of the capital.

8. The **law of demand** states that other factors being constant (cetris peribus), price and quantity **demand** of any good and service are inversely related to each other. When the price of a product increases, the **demand** for the same product will fall.
The three **characteristics** of a **demand** are price, quantity, and **demand**.

1. 9. **Individual Demand and Market Demand:**The individual demand refers to the demand for goods and services by the single consumer, whereas the market demand is the demand for a product by all the consumers who buy that product. Thus, the market demand is the aggregate of the individual demand.
2. **Total Market Demand and Market Segment Demand:**The total market demand refers to the aggregate demand for a product by all the consumers in the market who purchase a specific kind of a product. Further, this aggregate demand can be sub-divided into the segments on the basis of geographical areas, price sensitivity, customer size, age, sex, etc. are called as the market segment demand.
3. **Derived Demand and Direct Demand:** When the demand for a product/outcome is associated with the demand for another product/outcome is called as the derived demand or induced demand. Such as the demand for cotton yarn is derived from the demand for cotton cloth. Whereas, when the demand for the products/outcomes is independent of the demand for another product/outcome is called as the direct demand or autonomous demand. Such as, in the above example the demand for a cotton cloth is autonomous.

#### 10. **Law of Demand: Exception # 1.**

**Speculative Demand:**

In a speculative market (such as the stock market), a rise in the price of a commodity (such as, share) creates an impression among buyers that its price will rise further. So people start buying more of a share when its price rises..

**Law of Demand: Exception # 2.**

**Snob Appeal or Veblen Good:**

People sometimes buy certain commodities like diamonds at high prices not due to their intrinsic worth but for a different reason. The basic object is to display their riches to the other members of the community to which they themselves belong. This is known as **‘snob appeal’**, which induces people to purchase items of conspicuous consumption.

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**Law of Demand: Exception # 3.**

**Using Price as an Index of Quality:**

Most consumers do not have the capacity or technical knowledge to examine the physical properties of a product (such as, reliability, durability, economy, etc.,) as in the case of an item such as a motor car or a VCR. So, in the absence of other information, price is taken as an index of quality. Thus, a high-priced car is more valued than a low-priced one.

**Law of Demand: Exception # 4.**

**Giffen Good:**

A **‘Giffen good’** is a special variety of inferior good. Sir Robert Giffen of Scotland observed in the 19th century (1840s) that poor people spent the major portion of their income on a staple item, viz., potato. If the price of this good rises they will become so poor that they will be found to spend less on other items and buy more potatoes in order to get a minimum diet and keep themselves alive.

**Law of Demand: Exception # 5.**

**Possibility of Future Rise in Prices:**

If a consumer anticipates that the price of a commodity will rise in future he will purchase more of that commodity now. The consumer will purchase more even if current price is high.Thus, the law of demand breaks down.

11. **Fixed Costs (FC)** The costs which don’t vary with changing output. [Fixed costs](https://www.economicshelp.org/blog/glossary/fixed-costs/) might include the cost of building a factory, insurance and legal bills. Even if your output changes or you don’t produce anything, your fixed costs stay the same. In the above example, fixed costs are always £1,000.

**Variable Costs (VC)** Costs which depend on the output produced. For example, if you produce more cars, you have to use more raw materials such as metal. This is a [variable cost](https://www.economicshelp.org/blog/glossary/variable-costs/).

**Semi-Variable Cost.** Labour might be a semi-variable cost. If you produce more cars, you need to employ more workers; this is a variable cost. However, even if you didn’t produce any cars, you may still need some workers to look after an empty factory.

**Total Costs (TC)  = Fixed + Variable Costs**

12.

The first factor of production is land, but this includes any natural resource used to produce goods and services. This includes not just land, but anything that comes from the land. Some common land or natural resources are water, oil, copper, natural gas, coal, and forests.

The second factor of production is labor. Labor is the effort that people contribute to the production of goods and services.

The third factor of production is capital. Think of capital as the machinery, tools and buildings humans use to produce goods and services. Some common examples of capital include hammers, forklifts, conveyer belts, computers, and delivery vans. education services. The income earned by owners of capital resources is interest.

The fourth factor of production is entrepreneurship. An entrepreneur is a person who combines the other factors of production - land, labor, and capital - to earn a profit.