

Ec. 162 To be Refrid

Cost & Price, concluded, 11/20, '81

1. S curve as ΣMC
 - a. 1st firm, slopes down briefly. Low cost firm.
 - b. 2d " , enters sloping up. (Incur more & extensive input, again.)
2. Logic of S + D. O.C. det. by other demands.
3. Kinds of price controls in our biggest industries.

a. Price supports. Tariffs. Farmer supports. Oil quotas.

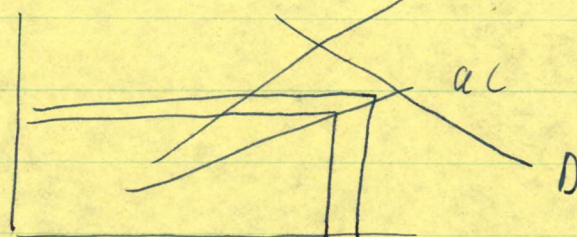
Imported energy. Self-necessitating.

b. Ceiling controls

Rents. Excess demand

B.C. Gas mktg.

c. Roll-in AC pricing



$$MC = y + x$$

New tragedy of commons. Pricing problem of our times.

Myse. Demand. Price discr. Gray mktts.

Re Demand, mktts, comp, mktg, etc. of scale.

1. Big producer advertises a lot, establishes brand.
(He may need front money for this - an aspect missing from Chamberlain etc.)
2. Producer finds local distributors, a chain of them.
3. Producer
 - a. Keeps product from non-designated distn.
 - b. ~~Keeps~~ Keeps distn. from handling other products.
 - c. Forces designated distn. to handle dogs.
He uses law to help

Okl. is jeopardizing 3. a/c by supplying non-designated wholesalers in Cal.

Until 1978, Cal. law held that wholesaler had to be designated agent of producer.

~~Producers~~ Now, Cal. indep. can order what they want from Okla. wholesalers. But Cal. Legisl.

Liquor War Over Oklahoma Imports Heats Up

By CARL CANNON, *Times Staff Writer*

California wholesalers are assessing the consequences of the latest sally in a liquor war that one side charges has cost them more than \$160 million in two years, and the other side contends has saved California consumers \$1 a bottle.

The latest thrust came last week from an Oklahoma court, which ruled that wholesalers there can ship alcoholic beverages to other states. The ruling upset an earlier one from the Oklahoma attorney general's office that required documentation be given distillers on the final destination of the products shipped to Oklahoma.

As a result of the latest ruling, Jos. E. Seagram & Sons had given up its Oklahoma license and refused to send any more products to that state, and Heublein Inc. announced it will appeal the ruling. Both distillers say they are taking the action to protect their wholesalers in other states.

Though seemingly distant and obscure, the ruling sent shock waves through the ranks of California's major liquor wholesalers, and gave a new lease on life to the smaller, independent wholesalers. The

two have been battling over the importation of liquor from Oklahoma since shortly after the California Supreme Court banned minimum pricing for liquor in 1978.

Designated Agent

Until then, state law held that a wholesaler had to be the designated agent of a distiller. When the state court knocked out minimum pricing, it also knocked out the designated agent provision, which opened the way for independent wholesalers in California to import liquor from Oklahoma wholesalers, instead of from the distillers.

Although liquor from the major distillers is sold to major or "franchised" wholesalers in both California and Oklahoma at exactly the same price, California's major wholesalers say the independents were able to import and sell alcoholic beverages more cheaply because of major savings in overhead.

"More than half of these products never say Oklahoma," says a major wholesaler who asks not to be named. "These fly-by-nights made sure they were ordered by an Oklahoma wholesaler, but the goods

were shipped directly to California."

The "franchised" distributors charge that the independents cut overhead costs by declining to bring in secondary brands and concentrating on only a few of the best-selling products. Thus, they need hire fewer salespeople, and have lower promotional, storage and delivery costs.

Oklahoma is the prime export state because it is one of only two or three in the nation in which a wholesaler can carry any product he chooses, without being a designated agent or "franchisee" of a major distiller. This allows an Oklahoma seller to provide almost any mix of products a wholesaler in California would require. Previously, only the franchised wholesalers could obtain the best-selling brands.

California is Oklahoma's biggest customer because it no longer has what is known as a primary source law. This, too, was knocked out by the death of fair trade on liquor. Up to then a California wholesaler could buy products only from a "primary source," which is the dis-

tiller. "The independents could not supply the complete market; they are merely cherry-picking. And any talk of their retailers passing on the savings to the consumer is a laugh," complained one franchised wholesaler.

Saved Consumers Money

But Joe Schwab, owner of Gold Coast Wines & Spirits in Cerritos, an independent distributor who imports from Oklahoma, says he and his fellow independents have not only saved the California consumer \$1 a bottle, but have forced the majors to hold their prices down to be competitive.

The "franchised" wholesalers were successful last year in having the California Legislature pass a measure barring such importation. But enforcement of the law has been suspended while an appeal awaits action by the U.S. Supreme Court.

Both Seagram and Heublein said they opposed the Oklahoma court ruling because it would upset the traditional three tier system of the industry—supplier, wholesaler and retailer.

Bethlehem Steel will boost some steel prices by 6%.

The nation's second-largest steel company said the increase in prices of structural shapes and piling would become effective with shipments Sept. 27. Carbon and high-strength plate prices will increase 4%. Other steel companies were studying the move. A steel analyst called the increase "normal," but added, "Just about any price increase is sort of iffy in today's market." Structural steel and plates accounted for about 20% of Bethlehem's 1980 shipments. In an unrelated move, top-ranked U.S. Steel Corp. and eighth-ranked Wheeling-Pittsburgh Steel Corp. raised prices on tin mill products by about 6%. "We're meeting the competition," a U.S. Steel spokesman said.

The FTC sought details about an Allied acquisition of Fisher.

Allied Corp. and Fisher Scientific Co., which reached an agreement July 30 for Allied to take over Fisher in a deal valued at \$330 million, said the Federal Trade Commission has asked for more information.

Both companies said they intend to comply with the request. Allied, based in Morris Township, N.J., produces chemicals, plastics, fibers and other products, and explores for oil and gas. Fisher Scientific, based in Pittsburgh, is a manufacturer of laboratory and hospital equipment. Allied has announced plans to build "a major new core business in scientific health products."

Leisure spending will rebound soon, Chase Econometrics said.

Spending on leisure products will recover from its current mini-recession and soon will begin to outpace overall consumer spending as it did in the 1960s and early 1970s, the Bala Cynwyd, Pa.-based subsidiary of Chase Manhattan Bank said. The trend toward home-centered leisure spending will continue, and will account for about 42% of the total leisure market next year, the forecast said. Chase said the major reasons for the leisure spending rebound are shifts to smaller, older and richer households, and the increase in two-income families with more discretionary income and fewer children.

A world industrial index rose to a new high for the year.

The Conference Board, a New York-based business research group, said its complete index of leading economic indicators for the world's seven major industrial countries reached a new yearly high. The group said the latest economic readings from the United States, Canada, Japan, West Germany, the United Kingdom, France and Italy confirm that progress toward recovery from the 1980 recession is continuing. The annual growth rate for the seven-country leading index was running at 6% in May, up sharply from 2% at the end of 1980 and the negative figures recorded last summer.

National Semiconductor said earnings for its first quarter ending Sept. 20 will be "marginal at best, and more than likely this situation would continue into the second quarter." . . . A federal judge's ruling on **Western Airlines'** request for a preliminary injunction to limit **Air Florida's** purchases of Western stock, originally scheduled for Fri-

day, was postponed until today . . . Following extensive modifications on its St. Louis assembly plant, **Chrysler** began calling back 1,500 plant employees . . . Preliminary merger talks between the **Minneapolis Star & Tribune** and the **Des Moines Register & Tribune** were suspended temporarily . . . **UMET Trust** shareholders approved its plan of financial restructuring . . . **PSA** reported July traffic was down 6% from the same month last year . . . **Central Federal Savings & Loan**, San Diego, extended to Sept. 4 its tender offer for **First Savings & Loan**, Fresno . . . **Pan Am** is considering moving its headquarters to Miami from New York, the Miami Herald reported . . . **Detroit Edison's** cash flow problems may force it to shut down major construction projects and idle 6,000 workers . . . **Tracor** completed its acquisition of **Flight Systems** . . . France reported an unadjusted current account surplus of 1.6 billion francs during the second quarter, compared with a year-earlier deficit of 992.5 million francs . . . Canadian consumer prices rose 0.9% in July, and 13% during the last 12 months.

Forecasting

F81

Topics

1.

l. r.

S of K, liquid

Swig. a) Publ. b) Business c) Instl: Pension funds, ins. co.
Recoveries Public authorities

Imports.

B for K (Lag in perception, let this be understood. Keynesian.)

Acc. in Ruins

Govt. deficits

Energy, new sources

P.U. expansion. Telephone e.g.

Sewage, water

Export

Corp. short term debt

Fed. " " "

Mousing

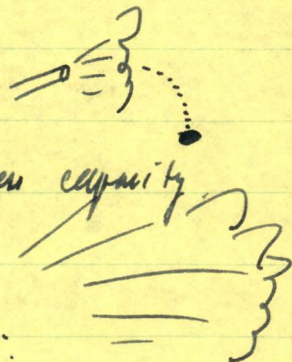
2.

~~Advance plan, large in constant lead time.~~

~~Projection Technique. No e of demand.~~

~~No-risk~~

... always have excess capacity



~~2. Motive to bid. ahead. a. Aggregate demand
b. Ecs. of scale
c. Best infln.
d. Reduce risk of non. service.~~

3. Naive models.

~~Project, do not explain.
Some assume continuity e.g. cars. Some assume cycles.
Promotes assume growth of demand.~~

4. Dm. by + seasonal patterns are easy.
Trends: secular, cyclical, seasonal.
When you adjust for trends, you get away from
"naive". "Seasonal ratio to trend" is the concept.

5. ~~Importance, Techniques. "Higher form of naive".
Mainly are.
Exponential smoothing p. 145-47.~~

6. "Barometeric". Use of leading indicators.
E.g. bldg. permits lead housing starts
Backlog of orders " prodn., expansion. ΔP
Snowpack leads runoff.
Hi stock prices lead new issues
 ΔM leads infln.
NBER uses index of 100 leading indicators.

7. ~~Survey of opinions.
Elections~~

8. A. Inv. "plans". (may be marketing, e.g. GM)
McGraw Hill

(May not distinguish buying old cars from new.
E.g. oil firms, longer exp. is same argu.)
(Lack of info. on net & gross

B. Inv. plans. Several surveys.

C. Cons. plans
Survey res. center, etc.

Lots of info. It all helps.

9. Econ.

Ful. relations -- seek to explain.

Thus tell you what to manipulate, e.g. change production
and sensitivity, e.g. home sales to i.r.
also, quantitative.

10. Mkt. are equilibrating, things tend to get
back in line. E.g. Vancouver & Seattle.

11. Good results w. single eqn. forecasting models
p. 155, $\hat{Y}_{t+1} = a + b_1 I_{t+1} + b_2 D_t + b_3 A_t$

$\hat{I}_{t+h}$ = sales forecast, beer cans

$\hat{I}_{t+h}$ = inc. forecast

D_t = drink; estab.

A_t = factor rep; age distr.

12. Mult. equ. models.

Where many simul eqn. involved.

Rif forecasting models.

Recent record poor.

Problems.

Practitioners become fascinated w. the art itself.

Mon. 11/30/81

Forecasting, II

1. Another forecasting tool: surveys.

Lots of problems here: people don't always do what they say they will. "Free will." ~~that~~ Bias toward propriety. Election forecasts have gotten pretty good, tho. And people never quit trying, there are all kinds of surveys.

A. Plans for cap. inv. McGraw-Hill, widely used.
Problems:

1. Plans may be murky. GM recently, cancelled some, postponed others. "We always have more plans than we implement."

Losers: Kaman City
Poletown

Suppliers who had capacity.

Reasons for cutbacks:

Cap. crunch

Slow sales

Hi i

Lower credit rating

Underest. infln. of costs.

Gold plated some plants, shoddy plans.

2

The use of "plans" to forecast invt. is based on old ~~supply side~~ demand mgmt. idea, anyone can get K, the key ~~data~~ is bottleneck is mgt. plans. New reality: you can't spend what you don't have.

2. For macro forecasts, cap. spending tells nothing of net v. gross. There are no data on cap. recovery.

Tendency is to identify M-H inv. w. 100B net inv. But most of it is replace. (an ongoing process.)

E.g. yr. it costs more to replace things.

E.g. yr. there is great disinv. "Cons. in Ruins". This is "invisible disinv."

3. Data fail to distinguish buying old assets from new.

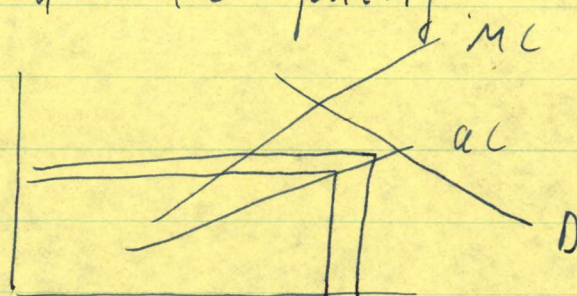
Household acqu.

Mobil buying Marathon.

So for micro + macro, there are least useful.

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New tragedy of commons. Pricing problem of our times.

B. Ivory plans.

Several surveys. OK.

C. Commerce plans.

Survey research center.

Lots of info. It all helps - but needs lots of
lifting + digesting.

D. Family plans. Bad record.

2. Age dist. of pop.

Highly useful. Based on events already occurred
in large part.

E.g., bulge in S.S. pop.

E.g., housing needs forecasts.
toys.

3. Disequilibrating forces.

E.g., housing slump in Seattle, 1910-75.
Boom in Vancouver.

4. Add up S + D forces.
Most important is i.r.

Supply:

- Cap. recovery.

Low level, bcs. of stretchouts.

inflation.

Diffused responsibility for replant., so

cash flow is consumed.

- Savg.

Low level

- Import.

Demand.

Look for lags in perception, + their effects. E.g. the case of AM, not perceived, blocked out by a powerful ideology.

Same line. Powerful ideology has said demand always short, so increase it. Now look!

- Am. in Ruins

- Fed. deficit

- New energy

P.U. expansion

Obsolescence, retooling needs

Sever, who supply.

Cap. reports

Housing.

Popular perception, Fed. & Volcker control.
B.S.

Msol.

1. How to forecast i.r.
To answer, must know what det. i.r. $\neq$
S + D

Elements of supply.

- recoveries

- saving

Corp.

Indiv.

Govt.

- ΔM

Elements of demand

- replacements

- expansions

- govt.

- dissaving -- e.g. consumer.

$\neq$ Thus, get this impt. macro. topic into msol.