

SENSHU UNIVERSITY

PUBLIC LECTURE SERIES

Date 3, December 2005 **The Simple Economics of Investment**

In this lecture : Talk about key ideas in making better investment decisions

Relate the key ideas to examples from the art and other markets

Lecture3 Key ideas in investment (The importance of economic power)

Auction: get many information(artist's name/date)

<for example>Auction house 'sothebys' (www.sothebys.com)

In business , prices determine profits or net income.

Olive oil investment

Olive oil prices are currently high and rising(prices going up). So someone says; if you invest in my olive oil farm you are certain to make continually high returns, even in the long term. Cycle patterns and long-term profits.

But many people come, price goes down, and eventually your profits will fall.

Investment strategy

If entry by others into your market is very easy, then, you cannot control the market price of your product. You are price taker, can only expect to make normal profits. Sometimes time lags in a market can help your 'hit and run' strategy.

In a market, hit and run strategy is very useful.

We need extra information we need to understand leading indicators . Leading means in advance we can look at the tree planting plan by others.

If the price of the potatoes was high last year, then this farmer will plant more potatoes this year. So farmer A last year prices high you plant produce too much , price goes down. We planted much , we spent money, but when we all harvest price goes down. Next year you see price was low , so we plant less. If all of us plant less, price go up. Price good, you don't have much potato. So each year, our life is difficult. It's a cycle.

In this cycle, the important thing is looks what other neighbors doing.

Ownership of land

Suppose a government agency offers business assistance to farmers located in a rural community. The assistance helps local farmers to increase their profits by accessing new markets, and is only for farmers living in the local area.

Find the `limiting` resource. Develop or acquire limiting resources. Core competencies meet three criteria (value creation/product differentiation/extendability) The importance of your knowledge or information as limiting resources.

Time can be the limiting resources. Time is so important.