**ECO550 Week 1 Scenario Script: Models of Supply and Demand, and Non-Price Determinants of Each**

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| **Slide #** | **Topics** | **Narration** |
| Slide 1 | Scene 1An older cottage style family run business (Katrina's Candies) |  |
| Slide 2 | Scene 2Introduction PageTakes place in Ken’s office* Ken and Herb

**President of Katrina's Candies- Ken Sanders**Screen shot 2013-10-08 at 11.46.20 AM.png**Grad Student/ Part-time Data Analyst- Herb Jones**Screen shot 2013-10-08 at 11.48.43 AM.png | **ECO550\_1\_2\_Ken-1:** Hello, Herb! My name is Kenneth Sanders and welcome to Katrina's Candies. I can speak for my team and myself by saying how excited we are to work with you! But before we begin let me tell you about our company, Katrina's Candies. We are a small family owned candy-manufacturing company specializing in a variety of chocolate candies including a new sugar-free chocolate bar.  **ECO550\_1\_2\_Ken-2:** We mostly produce candy for domestic and international markets and we currently employ approximately three hundred employees in a variety of capacities. Because of our size, we conduct a significant portion of our business via the internet. Currently, we have a management team consisting of a manager, senior data analyst and financial officer. You will get a chance to meet all of them soon. So, now tell me a little about yourself; I have been out of the country for business and didn’t get a chance to review your new hire file.**ECO550\_1\_2\_Herb-1:** Thank you, Mr. Sanders!I am Herb Jones and I was recently hired to serve as the new part-time data analyst. Currently, I am a full-time Strayer University student finishing the last four courses of an MBA management program through the Global campus. I enrolled full-time in Strayer’s online program about three years ago. **ECO550\_1\_2\_Ken-3**: Yes, I do recall our Management Department supervisor Gigi Thomas, making a strong case to convert the position to part-time and hold the full-time position for you. Gigi told me your educational preparation impressed her. Do you have work experience, too, Herb?**ECO550\_1\_2\_Herb-2**: Yes, I have about four years experience working as a consultant for several proprietary firms much smaller than Katrina. Mostly, I served as liaison between the firms and their clients…verifying task descriptions conducting quality control reviews, and recording problems with defective products for sequential follow-ups after tasks were completed. I was the eyes and ears of my clients outside of their offices. Interesting jobs-- but I wanted something different.**ECO550\_1\_2\_Ken-4**: You’re in the right place to get a new experience—we’re at the threshold of making a change in our general mission. As you were talking, I reviewed our electronic version of your transcript. I see why Gigi was impressed! Strayer exposed you to the type of skills we need to round out our management team.   |
| Slide 3 | Scene 3Introduction, continuedTakes place in Ken’s Office* Ken and Herb

[Herb and Ken proceed towards the conference room] | **ECO550\_1\_3\_Ken-1**: So, let me tell you about where Katrina's Candies is heading now; then we can start our meeting with the rest of the team. For more than one hundred and fifty years, Katrina's Candies has primarily concentrated on supplying candy to the U.S. market; with our largest sales occurring during holiday seasons. However, our 2012 revenues from a pilot marketing project and general revenue trends in the first six months of this year suggest Katrina's Candies should consider broadening its market base.**ECO550\_1\_3\_Herb-1**: That is very interesting! **ECO550\_1\_3\_Ken-2**: As the Sanders' fifth generation Katrina's Candies president, *my challenge* is to decide whether or not to expand Katrina's Candies operations to add an international component that caters to consumers outside of the U.S. I’m really nervous about making such a venture because the international arena is unchartered territory for us-- except for the recent pilot project. **ECO550\_1\_3\_Herb-2**: Ken, what was the item Katrina's Candies piloted in the international market?**ECO550\_1\_3\_Ken-3**: Sugar free chocolate candy …it’s been a big success in a couple of international markets as well as among health conscious U.S. consumers. I’m just not sure the success we’re seeing isn’t just a new-kid-on-the-block phenomenon; as I will need to be completely sure before directing resources to the product! Anyway, you’re here to help Renee, our analyst, get me up to speed on the type of information I need to make a decision. Gigi’s going to give more details about your role in the project shortly. **ECO550\_1\_3\_Herb-3**: Thank you for the update Ken. I look forward to working on this project and I will do my best to see this project to completion!**ECO550\_1\_3\_Ken-4**: Well, let me get you to the conference room, the team meeting is scheduled to begin in a few minutes.  |
| Slide 4 | Scene 4Introduction, continuedTakes place in Conference Room* Kenneth Sanders
* Herb Jones
* Gigi Thomas

**Supervisor of the Management Department- Gigi Thomas****Screen shot 2013-10-08 at 11.49.32 AM.png** | **ECO550\_1\_4\_Ken-1: Goo**d Morning, Gigi. I see the team is here and ready to go.**ECO550\_1\_4\_Gigi-1**: Good Morning, Ken. Yes, the team is ready to go. **ECO550\_1\_4\_Ken-2**: Well, here’s Herb, he’s ready, too. I’m going back to my office—I have a lot of work to do before I leave tomorrow for China. **ECO550\_1\_4\_Ken-3**: Congratulations again on joining Katrina's Candies, Herb. **ECO550\_1\_4\_Herb-1**: Thank you, Ken. (Ken leaves)**ECO550\_1\_4\_Gigi-2**: Hi, Herb. Good to see you here. The management team is really excited about you joining us!**ECO550\_1\_4\_Herb-2**: Hello, Gigi. I’m excited to be here as well! **ECO550\_1\_4\_Gigi-3**: [Looks down at her phone… reads, then says] Ken just texted me. He said your meeting went well and that he briefed you about Katrina's Candies history and briefly mentioned changes in our revenues. **ECO550\_1\_4\_Herb-3**: Yes, my meeting with Ken went really well. He’s an interesting person; warm and friendly. I was nervous about meeting him but he put me at ease right away! **ECO550\_1\_4\_Gigi-4**: Good! We want you to feel comfortable working here at Katrina's Candies. Let’s start off with some introductions from the rest of the team.  |
| Slide 5 | Scene 5Introduction, continuedTakes place in Conference Room* Herb Jones
* Gigi Thomas
* Renee Smith
* Maria Scott

**Senior Level Data Analyst- Renee Smith**Screen shot 2013-10-08 at 11.50.45 AM.png**Supervisor of the Finance and Accounting Department- Maria Scott**Screen shot 2013-10-08 at 11.51.41 AM.png | **ECO550\_1\_5\_Gigi-1**: Good morning, everyone! You remember Herb Jones, our new part-time analyst who’s going to assist Renee. Herb was our number one candidate for the full-time analyst position we advertised. However, since Herb has to finish his last quarter at Strayer University, where he’s a graduate student, we decided to convert the position to part-time until he finishes. It’s been about a month since Herb has seen either of you so before we get started, let’s remind him of who we are and our roles on the team. Let’s start with you, Renee.**ECO550\_1\_5\_Renee-1**: Hi, Herb! Welcome to the team! Thrilled to have you here! I’m Renee Smith, a Senior Level Data Analyst. I have an MBA –also from Strayer! And have been at Katrina's Candies for eight years. I’m going to be directing you on the project Ken discussed with you. **ECO550\_1\_5\_Herb-1**: Hi, Renee, I remember you from my interview. You asked those difficult questions about which tools to use for analyzing data. **ECO550\_1\_5\_Renee-2**: [Laughter] Yep, that was me!**ECO550\_1\_5\_Gigi-2**: Maria, you’re next.**ECO550\_1\_5\_Maria-1**: Hello, Herb, good to see you again. I’m Maria Scott; I supervise the Finance and Accounting Office. I graduated from Strayer too, with an MBA in Accounting and am also a Certified Public Accountant. I’ve been at Katrina's Candies for about nine years. For the project you’re going to work on, I’ll direct you to any data you’ll need. Either Renee or you can request the data as needed. Do not hesitate to let me know If I can do anything else as you’re progressing through the project.**ECO550\_1\_5\_Herb-2**: Thank you and nice to meet you again, Maria. **ECO550\_1\_5\_Gigi-3**: Thanks, Maria and Renee! That leaves me. I’m Gigi Thomas, Senior Manager, and team-manager for this project. I’ve been with Katrina's Candies for about fifteen years. My educational background is management and I have an MBA degree from the College of France- in Paris, France.**ECO550\_1\_5\_Herb-3**: That is very neat! I’ve always wanted to go to Paris and see the sights.**ECO550\_1\_5\_Gigi-4**: Yes, Paris is quite the place, no other place like it! Now that we’ve reintroduced ourselves, let me explain, again, why Herb was hired and why our team was formed.As many of you know, Katrina's Candies Board of Directors has asked Ken to explore and consider expanding into the international markets where our new sugar free chocolates are doing well. Before Ken can respond to the Board, he needs to know what’s causing the increase in revenue and whether the increase is sustainable. That’s where we come into the picture. Does anyone have any questions? **ECO550\_1\_5\_Maria-2**: Yes, I have a question about the Board’s directive to Ken. Is it the board’s responsibility to tell Ken how Katrina's Candies should operate?**ECO550\_1\_5\_Gigi-5**: Good question, Maria. Actually, although Ken’s family owns Katrina's Candies, as president, Ken is considered a manager and the Board is considered the owner. Theoretically, owner’s and manager’s goals diverge. Owners want managers to act in the best interest of shareholders; while manager’s act in their own self-interest. This situation is known as the **principal-agent problem**. We have a new board that isn’t aware Ken is an owner. So, the board is just making certain Ken is considering decisions that are best for shareholders. **ECO550\_1\_5\_Maria-3**: Thanks, Gigi. I understand now. **ECO550\_1\_5\_Gigi-6**: Any other questions?**ECO550\_1\_5\_Herb-4**: Yes, how long do we have to get something to Ken?**ECO550\_1\_5\_Gigi-7**: Renee, you can answer this one. **ECO550\_1\_5\_Renee-3**: About the timeline, excluding this week, it should take us nine weeks at most. Ken is leaving it up to us to determine the type of information that best tells the story. At this point, our first tasks are to *build a model of the demand for our sugar free chocolate candy, estimate the model, and analyze the results.* Results from estimating the model will guide the remainder of our process.**ECO550\_1\_5\_Gigi-8**: Fantastic, Renee! So, is everyone ready to begin? We have a lot to do.**ECO550\_1\_5\_Herb-5**: Yes!**ECO550\_1\_5\_Renee-4**: Yes!**ECO550\_1\_5\_Maria-4**: Yes!**ECO550\_1\_5\_Gigi-9**: Well, let’s get going. Herb, go with Renee, she has things laid-out in her office to get you started.**ECO550\_1\_5\_Herb-6**: Okay, sounds great!**ECO550\_1\_5\_Gigi-10**: Great, the meeting is adjourned. |
| Slide 6 | Scene 6Renee’s office to get started on the Ken projectRenee should be writing these five (5) basic categories of variables that affect consumer purchases.Price of substitute goodsPrice of complementary goodsIncomePreference or tastes, advertising expendituresNumber of buyers | **ECO550\_1\_6\_Renee-1**: Are you ready to begin?**ECO550\_1\_6\_Herb-1**: As ready as one can be. (laughing) It’s great to be here and have the opportunity to learn how a firm conducts an analysis.**ECO550\_1\_6\_Renee-2**: Did you study managerial economics in your graduate program at Strayer?**ECO550\_1\_6\_Herb-2**: Yes, I did. So, now I want to apply what I have learned. **ECO550\_1\_6\_Renee-3**: Actually, you’ll find there isn’t much difference between what you learned theoretically and what Katrina's Candies does in reality. We do want to observe some best practices when it comes to analyzing our data. We first and foremost want to make certain our approach is consistent with our rivals. In fact, we pretty much follow what economic theory recommends as the best way to evaluate changes in revenue.**ECO550\_1\_6\_Herb-3**: Oh, I see. I can understand that by using economic theory it can really make things a little easier on us. **ECO550\_1\_6\_Renee-4**: It definitely makes things a lot more simplified when investigating these changes. Let’s get started. Do you recall studying supply and demand theories?**ECO550\_1\_6\_Herb-4**: Yes, I remember studying both theories. **ECO550\_1\_6\_Renee-5**: Good. Tell me, what do you remember about demand theory?**ECO550\_1\_6\_Herb-5**: I recall that the law of demand states that *price and quantity demanded are ~~is~~ inversely related*. Meaning, if Katrina's Candies was to lower the price of one of its chocolate products, consumers would purchase more. However, if Katrina's Candies increased the price of one of its chocolate products, the amount of chocolate consumers would purchase would decline. **ECO550\_1\_6\_Renee-6**: Yes, that’s right! We certainly understand the law of demand. A few years back, after posting losses for a few months, our management team voted to raise prices. Well, what a mess that was! Our sales declined within days! We really had to scramble to inform the public that the price would return to its original price. But in the current case, where our revenue is increasing, Katrina's Candies didn’t lower the price of existing products. Also, for our new sugar free chocolate candy, we’ve sold that product at the same price as one of our other chocolates. **ECO550\_1\_6\_Herb-6**: Since price doesn’t explain the revenue trends you’ve seen recently, that’s the reason you want to build the demand model to see what other factors might explain demand for Katrina's Candies new candy. **ECO550\_1\_6\_Renee-7**: Yes, absolutely. Managers make better decisions when the decisions are based upon the results of formalized models. My thinking is that we need to build a model of the demand for our sugar free chocolate. Let’s review the list of other determinants that might explain the demand for Katrina's Candies sugar-free chocolate. Can you identify those determinant categories?**ECO550\_1\_6\_Herb-7**: Sure, according to theories I studied, there are five basic categories of variables that affect consumer purchases.**ECO550\_1\_6\_Renee-8**: Let me write down the determinants as you say them. I want to make certain we don’t forget something later.**ECO550\_1\_6\_Herb-8**: Good thinking! These five categories consist of the **price, income, prices of related goods, preference or tastes, expectations and the number of buyers.** **ECO550\_1\_6\_Renee-9**: Let’s see if there’s something on the internet we can use to verify that we selected the correct terms. Just in case our memories are fuzzy. (laughs)**ECO550\_1\_6\_Herb-9**: That sounds good to me. Let’s check it out!**ECO550\_1\_6\_Renee-10**: I’m still looking, did you find something?**ECO550\_1\_6\_Herb-10**: Yes, I think I found a YouTube video that’s pretty informative. Check it out on your iPad! Here’s the link.  |
| Slide 7 | Scene 7Ipad image with video embedded with inDeterminants of Demand  |  |
| Slide 8 | Scene 8Renee’s office to get started on the Ken project | **ECO550\_1\_8\_Herb-1**: I thought the video was very informative. I think we got all of the demand determinants correct. **ECO550\_1\_8\_Renee-1**: I agree, the video was great and we got the verification for the demand determinants. Now we can put our demand model together.**ECO550\_1\_8\_Herb-2**: Here’s what I have for the demand model. I have the quantity demanded of ~~for~~ Katrina's Candies new sugar-free chocolate being determined by:The price of the sugar-free chocolate;The price of caffeinated coffee;The price of water;The median income of consumers; andThe number of buyers in the market.**ECO550\_1\_8\_Renee-2**: That’s a great model! We can even add or delete determinants, if necessary.**ECO550\_1\_8\_Herb-3**: Thank you, I’m glad my training from Strayer really came in handy working on this model. **ECO550\_1\_8\_Renee-3**~~:~~ All right, I think this is a good place to stop for today. I need to go to my office to review the model to make certain we’ve properly prepared everything. Then I need to speak with Maria, to let her know which data we need. Can you and I set a follow-up meeting for next week, same day and time?**ECO550\_1\_8\_Herb-4**: Sounds good to me! **ECO550\_1\_8\_Renee-4**: Before we go I would like for you to go through some review materials that will really reinforce the key concepts we discussed this morning. |
| Slide 9 | Slide 9 Interaction Slide (tabbed interaction with videos included for selected topics)* **Revenue** – the amount a firm receives from selling products; known formally as Total Revenue (TR) and calculated as price times quantity demanded (TR = PxQd)
* **Demand**: [**http://www.youtube.com/watch?v=ZMYLgoCdZB4**](http://www.youtube.com/watch?v=ZMYLgoCdZB4)
* **Supply:**[**http://www.youtube.com/watch?v=6Q\_XxwqtwxY**](http://www.youtube.com/watch?v=6Q_XxwqtwxY)
* **Principal-Agent Problem**: [**http://www.youtube.com/watch?v=uzS3F8MgbK0**](http://www.youtube.com/watch?v=uzS3F8MgbK0)
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| Slide 10 | Scene 10Check Your UnderstandingScenario-based and will use folder structure to present scenario, then have tabs to represent options for answersNarrations will be provided for scenario overview and choices (feedback included as well) | **ECO550\_1\_10\_Renee-1**: Herb, to help us review what we have covered today, let's think through the following scenario. Joe Smith, CEO of LG Gardner Apple-butter Company (ABC) recently received a letter from ABC’s Board of Directors requesting that he reduce the jar size for cranberry flavored apple-butter. Joe was offended by the Board’s venture into the arena where he solely controlled and made decisions about company ventures. As a consequence, Joe ignored the Board’s request. On the way to the office about six months later, Joe heard a news report that 12 months into the future, twenty Fortune 500 companies were expected to expand executive personnel by an estimated 35 percent. During the next week, Joe implemented plans to reduce the jar size as ABC’s Board had directed.**ECO550\_1\_10\_Renee-2** (**Option 1)**: In the provided scenario, Joe’s attitude about and disregard of the Board’s request was appropriate. CEO’s have complete responsibility for decision-making. So although the Board oversees the CEO’s action, the Board over-stepped its authority by making the request.Furthermore, Joe must have felt that maintaining the status quo of the company would not directly harm him in either the short or long run so he delayed implementing the request to show the Board who was actually in charge.**ECO550\_1\_10\_Renee-3 (Incorrect feedback for Option 1):** Keep in mind that the Board does hold authority over Joe. Please try again.**ECO550\_1\_10\_Renee-4 (Option 2):** In the provided scenario, Joe’s attitude about and disregard of the Board’s request was inappropriate. Although Joe has more knowledge about market situations and superior decision-making skills, as CEO, Joe still had an obligation to follow the Board’s directive since the requested change would have improved ABC’s profits. Joe’s decision to implement the request late was made without regard to personal impact. **ECO550\_1\_10\_Renee-5 (Incorrect feedback for Option 2):** Keep in mind that Joe considered the personal impact of ignoring the directive and six months later when he finally implemented the directive. Please try again. **ECO550\_1\_10\_Renee-6 (Option 3):**In the provided scenario, Joe’s attitude about and disregard of the Board’s request was inappropriate. Although Joe has more knowledge about market situations and superior decision-making skills, as CEO, Joe still had an obligation to follow the Board’s directive since the requested change would have improved ABC’s profits. Although Joe may not have fully understood his role vis-à-vis the Board and ABC, Joe recognized that it was in his best interest to implement the request, after learning about the anticipated changes in the Fortune500’s demand for executives. **ECO550\_1\_10\_Renee-7 (Correct feedback):** Yes, Joe had an obligation to pursue strategies that would improve profits since he does report to the Board and is only an agent who is to act on behalf of ABC. Additionally, Joe decided to implement the request because he had always wanted to work for a bigger Fortune 500 company and realized after hearing the news report that he needed ABC to be more profitable so he could include the successful outcome on his resume as an example of outstanding managerial skills. |
| Slide 11 | Scene 11Concluding scene taking place in conference room | **ECO550\_1\_11\_Renee-1**: Thank you for going over the review materials, I hope they helped solidify things for you! Let’s now go over some of the key concepts we discussed today. After receiving our task to provide Ken with information to make a decision about expanding Katrina's Candies, we created a model of demand for Katrina's Candies new sugar-free chocolate candy. We then talked about the different types of determinants to include in our demand model. **ECO550\_1\_11\_Herb-1**: I then helped out by selecting five determinants to use for our demand model and we began developing data to assist Ken with his decision.**ECO550\_1\_11\_Renee-2**: You did a great job today Herb! I think we are definitely making progress on this project. I know Ken will be very happy with our results thus far. Until we meet again, don’t forget to complete your weekly threaded discussion questions based on the key concepts we covered this week. I’m now on my way to meet with Maria; we need to discuss our data needs.**ECO550\_1\_11\_Herb-2:** Thanks for working with me today Renee! You were very helpful and I’m excited to work on other parts of this project with you.Take care! |