



STEEPLE Analysis

1.5 Group Project

Political Opportunities and Threats

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Summary

- **Political stability** of a country and **government policies** provide both *opportunities* and *threats* to a business
- **Laissez-faire**: free market - the government rarely intervenes in business affairs
 - Leaves businesses alone and stimulates *competition* and *efficiency*
 - *Attracts foreign investment* as there are less legalities to go through
- **Interventionism**: Most countries are involved in their economies through **legislation and policies** that regulate business behavior often by restricting certain activities



Common Taxes

- **Income tax:** levy on personal incomes (wages, salaries, rent, etc)
- **Corporate tax:** levy on profits
- **Sales taxes:** levy on individuals' expenditure
- **Capital gains tax:** tax on surplus made from investments
- **Inheritance tax:** tax on value of assets passed onto a third party



Common Taxes

- **Excise duties:** levies on demerit goods (alcohol, tobacco, petrol, gambling)
- **Customs duties:** taxes on foreign goods to raise revenue and assist domestic business
- **Stamp duty:** paid when a commercial or residential property is bought; tends to be progressive, i.e. the higher the property value the greater the tax



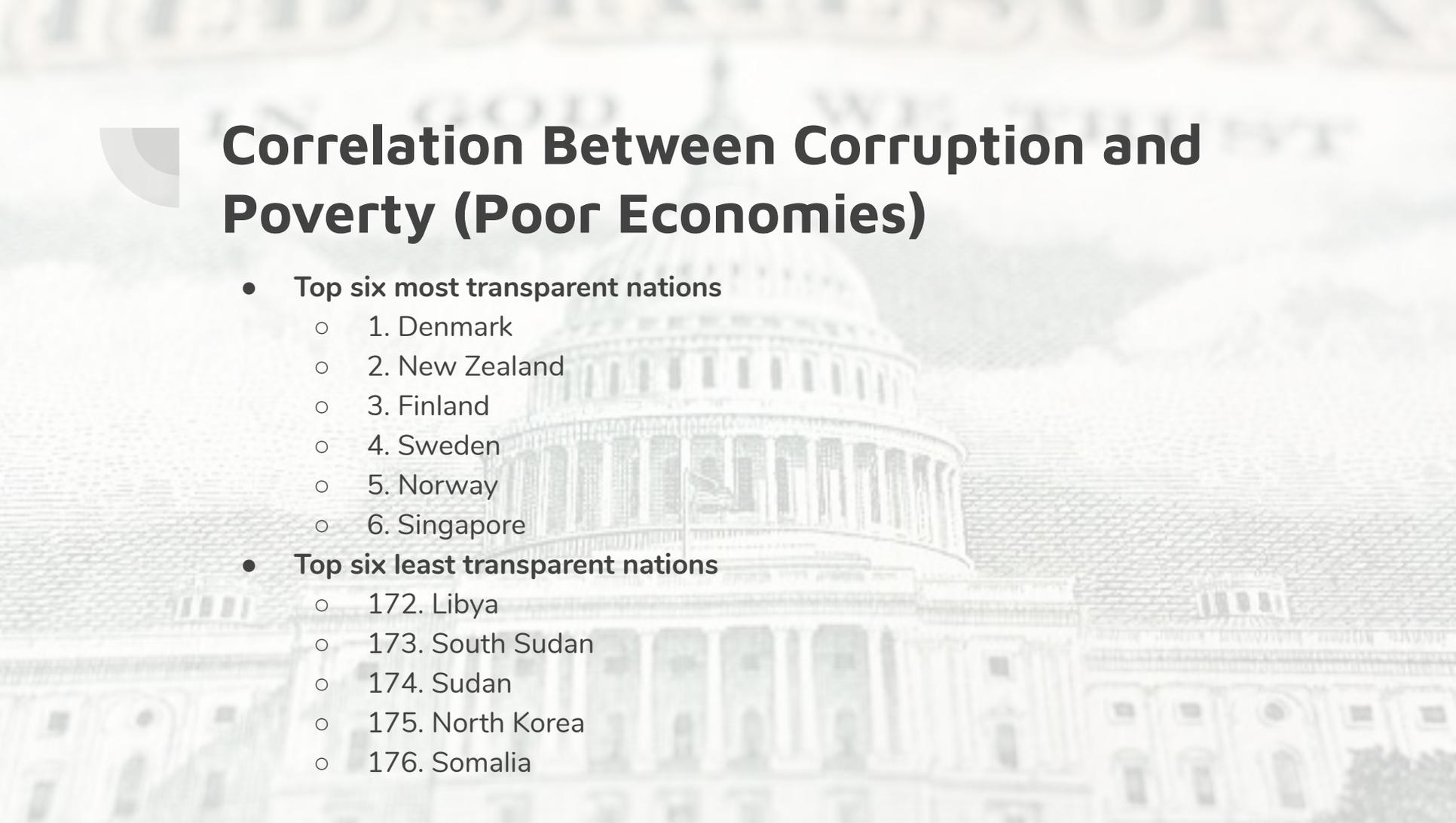
Government Policies

- **Fiscal policy:** use of taxation and government expenditure (spending) policies to influence business activity
 - Gov. spends revenue on social security, health care, education, transport, infrastructure, etc.
 - **Deflationary Fiscal Policy:** economy has high growth and inflation so government uses higher taxes and less spending to slow growth
 - **Expansionary Fiscal Policy:** economy has slow growth (possibly recession) so government cuts taxes and increases public spending
- **Monetary Policy:** use of interest rate policy to affect the money supply and exchange rates to influence business activity
 - Ex. if the economy is growing too fast, government will raise interest rates to combat inflation
 - Raising interest rates discourages borrowing and reduces individual disposable income



Government Policies cont.

- **Deregulation:** government removes rules and regulations (bureaucracy) to give businesses opportunities to prosper
 - Because rules and regulations restrict business activity, removing such restrictions creates healthy competition and growth
- **Political Corruption:** there tends to be a correlation in countries between poverty and corruption
 - High levels of corruption jeopardizes domestic companies' competitiveness on the international stage



Correlation Between Corruption and Poverty (Poor Economies)

- **Top six most transparent nations**

- 1. Denmark
- 2. New Zealand
- 3. Finland
- 4. Sweden
- 5. Norway
- 6. Singapore

- **Top six least transparent nations**

- 172. Libya
- 173. South Sudan
- 174. Sudan
- 175. North Korea
- 176. Somalia



Common Mistakes

- Higher interest rates are not incentives for people to save money.

People often think that higher interest rates create a larger incentive for people to save money. However, most governments change these rates at an extremely slow rate (0.25% each time) which is not really any incentive to save more. The population without mortgages, credit card bills, and loans might save more, but for house and business owners, a higher interest rate does not mean much. In the end higher interest rates mostly change the amount of money houses and firms can spend at one time (spending ability).



Amazon

- Tax Cuts and Jobs Act, signed by Trump in December 2017, lowered the corporate tax rate from 35% to 21%
- Many companies have reported paying zero federal taxes after this cut
- Amazon claims they pay everything they own but many articles claim they owed zero in federal income tax on over \$11 billion in profits
- In reality, taxes are much more complex but the key takeaway is that many corporations under the Trump administration have been experiencing vastly decreased taxes





Tesla

- The trade war with China has been constantly escalating tariffs on various goods
- A large portion of the automotive industry has experienced losses in profits and stocks due to the tariffs and the fact that China is part of the global supply chain
- Analysts say it has been three years since the automotive peak - when automotive sales were at their highest
 - Now, customers hold on to automobiles for longer
- Tesla had increased prices on Model S and Model 3 by \$20,000 in July, then decided to cut it back and absorb the damage





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