

Preface

In recent years the USA and global economy have been shocked by financial crises that severely damaged credit markets and financial institutions. The upshot has been unprecedented in post-Great Depression era declines in output, capital stock, and profits among business firms around the world. Critics point to a variety of potential culprits to explain the current economic and financial crises, such as poor corporate governance mechanisms, excessive management compensation incentives, short-run wealth maximization, irresponsible financial practices, lack of regulatory oversight of systemic risk, and macroeconomic and monetary policy breakdowns. Naturally, a debate is emerging about how to instill more prudent management practices in an effort to avoid repeating the catastrophes of the last few years. These difficult times therefore provide an opportunity to consider new ideas and see whether they are useful in better managing business practices in the future.

This book seeks to contribute to this debate by carefully examining the role of profit in business firms in particular and the economy in general. It combines the efforts of a macroeconomist (Ali Anari) and finance professor (James W. Kolari), who share a common interest in business and economic analysis, forecasting, and stock valuation. The authors' previous work experiences in business firms, as well as consulting and academic research activities, motivated the development of a profit system model that takes into account interactions between fundamental business variables, including output, capital stock, profit rate, profit margin, and total profit. The profit system model is a tool that business firms can use to analyze and forecast these fundamental variables. To our knowledge, no such model exists that integrates these important business variables, even though they are inextricably dependent on one another. We believe that the profit system model has many practical applications to business firms and industries, in addition to the aggregate business sector and national economy. Also, stock investors can utilize the profit system model for estimating and forecasting the valuation of the stock market as a whole in addition to individual firms' stocks. It is our hope that readers will implement this new model in their daily business and investment practices and find other innovative applications also.

We would like to thank our editor, Nicholas Philipson, for his enthusiastic support during this project. We met briefly with him in Houston a few years ago, explained the basic ideas to him, and immediately gained a friend who understood what we were trying to do. Also, we thank Charlotte Cusumano, who provided editorial assistance.

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The Power of Profit

Business and Economic Analyses, Forecasting, and
Stock Valuation

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