DO IT YOURSELF CRAFT SUPPLIES – QUESTIONS (Summer 2020 III)

Suppose you are Chris Oliver. You have just confirmed that, for all practical purposes, Mrs. Bella will be unable to work at all during the next ten years, including *all* of 2006. Write a report, addressed to Alex Ivy, Chief Administrator of Craft Supplies, which covers the questions below. Be sure to follow the guidelines for writing a report found in the Gateway Web Site.

Q. 1. The data from Exhibit 3 is also in the Excel file *income.xls* on the course website. Use Excel, along with this file, to determine Mrs. Bella’s *real* income for the last fifteen years. Do this by first converting each price index from percent by dividing by 100. Then, divide gross income by your converted (adjusted) price index. Using Excel, find the mean, median, standard deviation, and coefficient of variation of her past *real* income. Explain the meaning of these statistics. Can you use the nominal mean income to forecast future earnings? Take into account both statistical and non-statistical considerations.

Q. 2. How do you interpret the price indices in Exhibit 3? How do economists construct them?

Use Excel regression to analyze the relationship between the adjusted price index (dependent variable and year (independent variable). Interpret your regression findings by discussing the coefficient of determination (R-squared), the regression coefficient, the regression equation, and the p-value. Can you use the regression equation to predict the price indices? Take into account statistical, macroeconomic, and other considerations.

Q. 3. Assume that Mrs. Bella’s real income will not change over the next ten years. Use the mean real income from question 1 to determine projected real income for the future ten years of Mrs. Bella’s work expectancy. Use the regression equation from question 2 to project adjusted price indices for the next ten years. Assume that Mrs. Bella pays 20% of her actual income in taxes and that Green will not provide significant state assistance. Use the projected real income and adjusted price indices to estimate Mrs. Bella’s net actual income for the next ten years. What would be the likely amount of an award to Mrs. Bella based on a present value rate of 5%? Discuss the factors that could cause Mrs. Bella’s future income to differ from your estimate.

Q. 4. Would the merchant’s defense relieve Craft Supplies from liability under the cause of action of false imprisonment?

Q. 5. Assuming that Craft Supplies is liable for false imprisonment and assuming that Mrs. Bella is deemed unable to locate another job for life due to her present medical condition, is a court likely to award her compensation for loss of future income? What standard will a court consider in determining whether Mrs. Bella is entitled to compensation? In your opinion, is Mrs. Bella’s settlement offer reasonable? Is she entitled to anything else in her damage claims? Support your opinions with a discussion of the legal and practical possibilities.

Q. 6. What actions would you recommend should be taken to prevent a reoccurrence of a situation similar to that involving Mrs. Bella? What company policies need to changed or added? Discuss the relevant management issues.