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Industry: HORECA – Co-founder of coffee business, Saint Roastery

Country of Work: ROMANIA

This is a two-part assignment.

**Part 1. Instructions:** Use each of the 12 elements of economics to illustrate economics in action in your career field or country. Avoid personal illustrations.

**1. Incentives matter.**

One example of incentive is the discount on the tax for real estate that residentials in my country have to pay. The legislation mentions that every real-estate owner needs to pay an annual tax for that property (land, house, apartment etc). The payment has two deadlines:

- paying the entire amount before the end of the first quarter of the year, for the previous year, leads to a discount on the amount applied;
- paying before year's end implies paying the full amount for the previous year, no discounts;
- paying after year's end (thus the second year) implies a penalty is added.

People choose to pay full amount before end of the first quarter, so the state collects parts of the taxes in advance.

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**2. There is no such thing as a free lunch**

I will give an example the opportunity cost of taking the MBA at Hayek Global College instead of taking other courses for developing my skills in the industry I act on.

I have been an entrepreneur for 5 years, after being a corporate employee in IT for almost 15 years. The chosen industry for starting my business is horeca, a brand new domain for my skills and knowledge. The starting and take off for the business have been very difficult for me and I came to the conclusion that I need to enhance my business knowledge and administration skills in order to take the business to the next levels of development.

Also I have identified for myself the need to further develop my industry specific skills. Thus the choice has been between taking a global MBA and a Restaurant Manager course. I chose the MBA because it gives me a broader understanding of the business, and I identified the need to develop my skills in more areas: economics, financials, strategic planning, human resources and so on.

So I prioritized the MBA against the other industry specific trainings, which I will take at later stages of my development.

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**3. Decisions are made at the margins**

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In my business we are producers of coffee in different formats, one being cold brew tonic in cans. Currently, the process is manual and is quite time consuming, and it needs an employee full time during one day. We are currently selling in our coffee shop and based on orders performed via the website.

The production is performed once per week, based on the analysis of the previous week sales and on weather, since this is a seasonal product very much weather dependent.

The product is now being promoted more and more and the demand for it increases. There are cases when order come that exceed the production estimation, which leads to additional cost and human resources in order to produce it.

An analysis is being performed on how to increase the production rate, either hiring new employee (but this activity is not yet a full time job), either investing on new machinery to automate the production process (this leads to a bigger production space and more costs).

Proper analysis needs to be performed in order to decide the course of action for developing further more this product line.

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#### **4. Benefits of trade**

As an entrepreneur, when I first started the business I used to do all activities in the coffee shop, since at the beginning there wasn't enough money to outsource activities. As the business grew, I started to find collaborators for different activities and hire more employees that took over some of the tasks that I used to perform: manage reporting for different legal authorities, plan and organize events, stock management etc. Now I am paying money for the people that work for my business, in exchange for my time, that I am using to grow the business.

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#### **5. Transaction costs matter**

As business owners in the coffee industry, we need to use coffee distributors to import green coffee from the origins, so that green coffee can reach Romania from Africa ( Kenya, Ethiopia etc) or Central America (Guatemala, Costa Rica etc.). We collaborate with these distributors because they take care of all the additional costs, food regulations of importing coffee from outside the EU space., customs taxes and so on. Also the coffee import via distributors allows us to have a diversified variety of origins for a quantity that we request, without being forced to get a higher imposed quantity (e.g. we can get 10 of 60kg bags of 3 coffee origins, instead of having to get 100 of 60kg bags of the same origin in a container in case we would choose to import directly from the producer)

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#### **6. Prices create balance**

In my city, a real-estate crisis has started. The local authorities are not generating permits for new buildings, thus the demand exceeds the supply and the prices for housing have gone outrageously high. Also the bank are not giving loans as easily. This has lead to people not being able to buy a house and the existing houses remain unsold due to the high prices.

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**7. Profits are a guide to Productivity**

In my business I have learned the hard way which opportunities to seek out and which to let go, and I am still learning.

For example we would participate at events as coffee providers without being paid, going with for the promise that it would be good marketing, that we will gain visibility, new customers, new opportunities, especially important for a new startup. Based on analysis after these events, the cost for them (raw materials, human resources, time) was higher than the profit that came from these events, so we decided to charge all events, so this led to proper selection of events where we provide coffee and invest better the time, resources and energy, in order to gain profit.

Now the business has grown to the point where we choose where to redirect some of the profit as donations.

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**8. Incomes come from usefulness**

Transportation on two wheels is an example of incomes that come from usefulness.

Uber and Lime electric two wheel scooters are very popular nowadays throughout the world. They provide fast and efficient transportation, especially in the big cities, where there is a lot of traffic and for short distances people choose to use this alternative transportation technique, even if in some cases it might be more expensive than using the own car, but the speed and reduced time bring more advantages, also reduced time and stress for parking them, as opposed to the car.

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**9. Value creates income and wealth**

In Romania the 'Rabla' program allowed citizen to return the old used car in exchange for a voucher that could be used to buy a new car. Up to three used cars could be given to the 'Rabla' program. The aim of this program was to renew the car park in the country.

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**10. There are multiple sources of progress**

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**11. The usefulness of the 'invisible hand'**

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**12. Unintended consequences create problems.**

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**Part 2. Instructions:** Using a **decision tree** can be a useful way to examine an ethical dilemma because it helps to identify the various options available and the consequences of each option. Here is an outline of how to use a decision tree to examine an ethical dilemma:

1. Define the ethical dilemma in your career field in your country: The first step is to clearly define the ethical dilemma you are facing. This should involve identifying the conflicting values or principles that are at stake.
2. Identify the possible actions: Next, identify the possible actions that can be taken to resolve the ethical dilemma. For example, if the ethical dilemma involves a patient's right to privacy versus the need to disclose information to a family member, possible actions could include disclosing the information, maintaining confidentiality, seeking legal advice, etc.
3. Determine the consequences: For each possible action, determine the potential consequences. These may be positive, negative, or both. Consider both the short-term and long-term consequences of each action.
4. Assign values to the consequences: Assign values to the consequences based on their relative importance. For example, maintaining confidentiality may have a high value for the patient's trust in their healthcare provider, while disclosing information may have a high value for the family member's wellbeing.
5. Evaluate the options: Use the decision tree to evaluate the options by weighing the values assigned to the consequences against the likelihood of each consequence occurring. This can help to identify the option with the highest expected value.
6. Choose a course of action: Choose the option with the highest expected value and take appropriate steps to implement it.
7. Monitor and evaluate the outcomes: After taking action, it is important to monitor and evaluate the outcomes to ensure that the ethical dilemma has been effectively resolved and that the chosen course of action was appropriate. If necessary, adjustments can be made to improve the outcomes.

### **REAL – LIFE SITUATION**

1. In my business I am facing currently a great challenge in getting the licence to function. This is a permit that is granted once and then every year it is renewed based on a request submitted to the city hall before year end.  
After getting the licence the first time, which was difficult due to some issues with the building, that didn't come up during the renting negotiation process, the following year I applied for the renewal and everything went smooth, receiving the functioning licence renewal in a few weeks.  
For the renewal for 2023 I applied in dec 2022. After several calls and visits to the city hall and sending new papers each time upon request, I received a notification

mentioning that due to a new check that the local administration has added before issuing the renewal, some papers related to the issues from the first permit appeared.

Now the ethical dilemmas are:

- a. should I hire a 'consultant' / 'lobbyist' to handle this situation with the city hall ( a person that can 'open doors') in order to get the functioning licence, with a considerable expense. From my point of view this is a moral compromise, that once started it will keep on rolling and ethics might be lost along the way.
- b. Should I function without a licence, assuming that at some point a control might give a high penalty, or even the risk of closure;
- c. Should I hire a lawyer to force the landlord to make all the papers in order, with the risk of breaking the relationship with the landlord, and maybe risking being evicted when the contract expires.
- d. Should I find a new location to move the business? The investment is quite high in this location and I am soon to open a new location, in the same building, with the same landlord, so a solution is needed to get the functioning licence.

In each case, the business is in jeopardy one way or another, but it seems that option a) has the lowest risk, even though it is kind of unethical.

I really need ideas and guidance on how to solve this situation that puts a high risk on my business.