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Difference between financial and economic analysis

What is the difference between economic analysis and financial analysis. Difference between financial and economic analysis of a project. The principal source of difference between scb analysis (economic analysis) and financial analysis.

Economic Analysis
-A systematic approach to determining the optimum use of scarce resources,involving comparison of two or more alternatives in achieving a specific objective under the given assumptions and constraints.Economic analysis takes into account the opportunity costs of resources employed and attempts to measure in monetary terms the private and social costs and benefits of a project to the community or economy.
Empirical Economics
- publishes high quality papers using econometric or statistical methods to fill the gap between economic theory and observed data. Papers explore such topics as estimation of established relationships between economic variables, testing of hypotheses derived from economic theory, treatment effect estimation, policy evaluation, simulation, forecasting, as well as econometric methods and measurement. Empirical Economics emphasizes the replicability of empirical results, and authors are expected to make their data available for readers who might wish to replicate published work. The journal publishes replication studies that report on both positive and negative aspects of previously published results in the literature. Officially cited as: Empir Econ Now listed with ISI
Econometrics
-is the application of mathematics, statistical methods, and, more recently, computer science, to economic data and is described as the branch of economics that aims to give empirical content to economic relations.[1] More precisely, it is "the quantitative analysis of actual economic phenomena based on the concurrent development of theory and observation, related by appropriate methods of inference." [2] An introductory economics textbook describes econometrics as allowing economists "to sift through mountains of data to extract simple relationships." [3] The first known use of the term "econometrics" (in cognate form) was by Pawel Ciompa in 1910. Ragnar Frisch is credited with coining the term in the sense that it is used today.[4]

Difference between financial and economic analysis pdf. What is financial and economic analysis.

Project economic analysis and financial evaluation both involve the identification of project benefits and costs during the years in which they occur and converting all future cash flows to their present value using the technique of discounting. Both analyses generate net present value (NPV) and internal rate of return (IRR) indicators, termed economic NPV (ENPV) and economic IRR (EIRR) in the case of economic analysis and financial NPV (FNPV) and financial IRR (FIRR) in the case of financial evaluation.

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However, the perspectives and objectives of the two analyses differ. Financial evaluation is carried out from the perspective of the project, and considers incremental cash flows (both revenues and costs) generated by the project. The purpose of financial evaluation is to assess the ability of the project to generate adequate incremental cash flows to recover its financial costs (capital and recurrent costs) without external support. On the other hand, economic analysis is carried out from the perspective of the entire economy, and it assesses overall impact of a project on the welfare of all the citizens of the country concerned. The purpose of project economic analysis is to assess whether a project is economically viable for the country. The different perspectives and objectives between the two analyses mean that there are major differences in the specification and valuation of project benefits and costs. Financial evaluation is based on market prices that are actually paid or received by a project, and it focuses on financial values of project costs and benefits. Economic analysis uses economic prices, also called "shadow prices," and it focuses on economic values of project costs and benefits. Deviations of financial values from economic values of project costs and benefits arise from two major sources: price distortions and nonmarketed impacts [1]. Therefore, the main traits of the financial and economic analysis respectively are [2]: Financial Analysis: 1. Investor's perspective 2. Based on market prices 3. Including taxes, tariffs, subsidies etc. 4. Does not include externalities Economic Analysis: 1. Society's economic perspective 2. Applies economic prices excluding taxes, tariffs, subsidies etc. to reflect the value of the project to society.

Main purpose	Description and typical objective	Urban sanitation examples	Type of cost typically used
1. Full economic evaluation	Cost-effectiveness analysis or cost-benefit analysis (costs vs. outcomes for 2+ options)	Hutton et al. (2014) six-country East Asia study	economic
2. Partial economic evaluation	Costs only for 1+ options (e.g. assess service delivery efficiency)	CBSA (2018) study of three members' costs	economic or financial (depending on objective)
3. Long-term planning	City-level master planning, national-level programmatic planning	Maputo sanitation master plan (2015-2040)	financial
4. Short-term budgeting	Resource requirements (e.g. budgeting for proposals, service provider annual budget)	Municipal annual budget	financial

3. Externalities (positive and negative) are included and quantified in monetary terms (such as reduction in GHG emissions). References: [1] [2] Virtually same question was already addressed at quantitative finance stack by user Matthew Gunn. The answer there can be summed as: Financial economics is what economics calls finance. Finance is what finance calls finance. Less flippantly though, there's a long debate on whether finance is a subfield of economics, ... Prof. Milton Friedman famously opposed awarding Markowitz a PhD in economics from the University of Chicago for his portfolio theory because while Markowitz's work was brilliant, Friedman didn't consider it to be economics. ... Myron Scholes also express views that finance is to some extent distinct from economics. By many economists finance is not considered to be part of economics but rather to be a separate discipline. For example, according to Journal of Economic Literature (JEL) classification (which is authoritative source for classification in economics), there is no sub-field of finance in economics. There is only subfield of financial economics. This classification has a following guideline: Guideline: Covers studies about issues related to various sub-fields in financial economics: general financial markets (both domestic and international) dealing with securities (stocks, bonds, and commodity and other futures); financial institutions and services; and corporate finance and governance. This is something that probably most people who are in finance would recognize as subject matter of their field. However, I would argue there is a subtle difference. People who study finance often do that in more practical way with larger emphasis placed on analysis from the investors/financial firm point of view and applying concepts to some particular cases. While financial economics focuses much more on generalization and studying financial markets from much wider perspective than would be necessary for practical operation of financial firms. I will use a crude analogy but I think it is at least partially correct, many economists would consider economics to have similar relationship with finance as physics and engineering or biology and medicine. This is admittedly a crude analogy as I think when it comes to finance/financial economics the distinction is more subtle and less obvious but that is the best analogy I can think of. Financial analysis is the process of evaluating businesses, projects, budgets, and other finance-related transactions to determine their performance and suitability. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to warrant a monetary investment. If conducted internally, financial analysis can help fund managers make future business decisions or review historical trends for past successes.If conducted externally, financial analysis can help investors choose the best possible investment opportunities.Fundamental analysis and technical analysis are the two main types of financial analysis.Fundamental analysis uses ratios and financial statement data to determine the intrinsic value of a security.Technical analysis assumes a security's value is already determined by its price, and it focuses instead on trends in value over time. Financial analysis is used to evaluate economic trends, set financial policy, build long-term plans for business activity, and identify projects or companies for investment. This is done through the synthesis of financial numbers and data. A financial analyst will thoroughly examine a company's financial statements—the income statement, balance sheet, and cash flow statement. Financial analysis can be conducted in both corporate finance and investment finance settings. One of the most common ways to analyze financial data is to calculate ratios from the data in the financial statements to compare against those of other companies or against the company's own historical performance. For example, return on assets (ROA) is a common ratio used to determine how efficient a company is at using its assets and as a measure of profitability. This ratio could be calculated for several companies in the same industry and compared to one another as part of a larger analysis. There is no single best financial analytic ratio or calculation. Most often, analysts use a combination of data to arrive at their conclusion. In corporate finance, the analysis is conducted internally by the accounting department and shared with management in order to improve business decision making. This type of internal analysis may include ratios such as net present value (NPV) and internal rate of return (IRR) to find projects worth executing. Many companies extend credit to their customers. As a result, the cash receipt from sales may be delayed for a period of time. For companies with large receivable balances, it is useful to track days sales outstanding (DSO), which helps the company identify the length of time it takes to turn a credit sale into cash. The average collection period is an important aspect of a company's overall cash conversion cycle. A key area of corporate financial analysis involves extrapolating a company's past performance, such as net earnings or profit margin, into an estimate of the company's future performance. This type of historical trend analysis is beneficial to identify seasonal trends. For example, retailers may see a drastic upswing in sales in the few months leading up to Christmas. This allows the business to forecast budgets and make decisions, such as necessary minimum inventory levels, based on past trends. In investment finance, an analyst external to the company conducts an analysis for investment purposes. Analysts can either conduct a top-down or bottom-up investment approach.

What is the difference?
Financial analysis - Estimates the profit accruing to the project-operating entity or to the project participants. - Includes only project participants. - Uses financial prices. Economic analysis - Measures the effect of the project on the national economy. - Includes all members of society. - Uses economic prices. ➤ Financial analysis and economic analysis are therefore two sides of the same coin and complementary. ➤ In most cases, it is the level of domestic taxes and subsidies, and trade taxes and controls, that cause financial and economic prices to differ.

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A top-down approach first looks for macroeconomic opportunities, such as high-performing sectors, and then drills down to find the best companies within that sector. From this point, they further analyze the stocks of specific companies to choose potentially successful ones as investments by looking last at a particular company's fundamentals. A bottom-up approach, on the other hand, looks at a specific company and conducts a similar ratio analysis to the ones used in corporate financial analysis, looking at past performance and expected future performance as investment indicators. Bottom-up investing forces investors to consider microeconomic factors first and foremost. These factors include a company's overall financial health, analysis of financial statements, the products and services offered, supply and demand, and other individual indicators of corporate performance over time. Financial analysis is only useful as a comparative tool. Calculating a single instance of data is usually worthless; comparing that data against prior periods, other general ledger accounts, or competitor financial information yields useful information. There are two types of financial analysis: fundamental analysis and technical analysis. Fundamental analysis uses ratios gathered from data within the financial statements, such as a company's earnings per share (EPS), in order to determine the business's value. Using ratio analysis in addition to a thorough review of economic and financial situations surrounding the company, the analyst is able to arrive at an intrinsic value for the security. The end goal is to arrive at a number that an investor can compare with a security's current price in order to see whether the security is undervalued or overvalued. Technical analysis uses statistical trends gathered from trading activity, such as moving averages (MA). Essentially, technical analysis assumes that a security's price already reflects all publicly available information and instead focuses on the statistical analysis of price movements. Technical analysis attempts to understand the market sentiment behind price trends by looking for patterns and trends rather than analyzing a security's fundamental attributes.

The Chart of difference between Economic and Non-economic activities		
Points of Differences	Economic	Non-Economic activities
Meaning	Activities which are performed by the people with the purpose of obtaining profit are called economic activities.	Activities that are related to the psychological satisfaction of the people are known as non-economic activities.
Purpose	Earning Profits or gains.	For getting Psychological satisfaction.
Result	Production of goods and services.	Human got Mental satisfaction.
Examples No. 1	Business, profession and employment.	Religious, social service and other welfare activities.
Examples No. 2	It involved Selling and buying activities.	Cooking food for family members or providing free food to poor people etc.
Role of money	The money is the basic element and without money, no activity would be completed.	There is no function related to money.
Knowlege/degree	Doctors, lawyers, teachers, managers need special knowledge and degree to do their activities.	The non-economic activity can be performed by any person and there is no need to do any special degree.
Basis of risk	Risk and uncertainty are involved in the business.	There is no risk regarding any activity.
Regularity in activities	Regularity is a must in the business.	It may or may not be regular in nature.

When reviewing a company's financial statements, two common types of financial analysis are horizontal analysis and vertical analysis. Both use the same set of data, though each analytical approach is different. Horizontal analysis entails selecting several years of comparable financial data. One year is selected as the baseline, often the oldest. Then, each account for each subsequent year is compared to this baseline, creating a percentage that easily identifies which accounts are growing (hopefully revenue) and which accounts are shrinking (hopefully expenses). Vertical analysis entails choosing a specific line item benchmark, then seeing how every other component on a financial statement compares to that benchmark. Most often, net sales is used as the benchmark. A company would then compare cost of goods sold, gross profit, operating profit, or net income as a percentage to this benchmark.

Companies can then track how the percent changes over time. In the nine-month period ending Sept. 30, 2022, Amazon.com reported a net loss of \$3 billion. This was a substantial decline from one year ago where the company reported net income of over \$19 billion.

Amazon.com, Q3 2022 Statement of Operations. Financial analysis shows some interesting facets of the company's earnings per share (shown above. On one hand, the company's EPS through the first three quarters was -\$0.29; compared to the prior year, Amazon earned \$1.88 per share. This dramatic difference was not present looking only at the third quarter of 2022 compared to 2021. Though EPS did decline from one year to the next, the company's EPS for each third quarter was comparable (\$0.31 per share vs. \$0.28 per share).

Analysts can also use the information above to perform corporate financial analysis. For example, consider Amazon's operating profit margins below.

2022: \$9,511 / \$364,779 = 2.6%2021: \$21,419 / \$332,410 = 6.4% From Q3 2021 to Q3 2022, the company experienced a decline in operating margin, allowing for financial analysis to reveal that the company simply earns less operating income for every dollar of sales. The financial analysis aims to analyze whether an entity is stable, liquid, solvent, or profitable enough to warrant a monetary investment. It is used to evaluate economic trends, set financial policies, build long-term plans for business activity, and identify projects or companies for investment. Financial analysis can be conducted in both corporate finance and investment finance settings. A financial analyst will thoroughly examine a company's financial statements—the income statement, balance sheet, and cash flow statement.One of the most common ways to analyze financial data is to calculate ratios from the data in the financial statements to compare against those of other companies or against the company's own historical performance.

A key area of corporate financial analysis involves extrapolating a company's past performance, such as net earnings or profit margin, into an estimate of the company's future performance. Analysts can use vertical analysis to compare each component of a financial statement as a percentage of a baseline (such as each component as a percentage of total sales). Alternatively, analysts can perform horizontal analysis by comparing one baseline year's financial results to other years.Many financial analysis techniques involve analyzing growth rates including regression analysis, year-over-year growth, top-down analysis such as market share percentage, or bottom-up analysis such as revenue driver analysis.Last, financial analysis often entails the use of financial metrics and ratios. These techniques include quotients relating to the liquidity, solvency, profitability, or efficiency (turnover of resources) of a company.

Fundamental analysis uses ratios gathered from data within the financial statements, such as a company's earnings per share (EPS), in order to determine the business's value. Using ratio analysis in addition to a thorough review of economic and financial situations surrounding the company, the analyst is able to arrive at an intrinsic value for the security. The end goal is to arrive at a number that an investor can compare with a security's current price in order to see whether the security is undervalued or overvalued. Technical analysis uses statistical trends gathered from market activity, such as moving averages (MA). Essentially, technical analysis assumes that a security's price already reflects all publicly available information and instead focuses on the statistical analysis of price movements. Technical analysis attempts to understand the market sentiment behind price trends by looking for patterns and trends rather than analyzing a security's fundamental attributes. Financial analysis is a cornerstone of making smarter, more strategic decisions based on the underlying financial data of a company. Whether corporate, investment, or technical analysis, analysts use data to explore trends, understand growth, seek areas of risk, and support decision-making. Financial analysis may include investigating financial statement changes, calculating financial ratios, or exploring operating variances. Economics and finance are two industries that are essential to our understanding of the world around us. Both economists and financial analysts play important roles in these industries, but there are also several key differences between these two professions. In this article, we compare and contrast economists and financial analysts, and we provide information on what you can expect from each profession. Economists conduct research, prepare reports, and analyze economic issues for governments, businesses, and individuals. They collect and interpret data, using statistical techniques and software, to identify trends and relationships. Economists develop theories to explain economic phenomena and forecast market trends.

They also design and test economic models. Economists typically specialize in a particular area, such as microeconomics, macroeconomics, econometrics, or international economics. Financial Analysts work in a variety of industries to provide insights into investments and other financial decisions. They use their skills in mathematics, accounting and financial analysis to assess opportunities and risks associated with different investments. Financial Analysts typically have a bachelor's degree in finance or a related field. They use their knowledge of financial analysis and modeling to make recommendations to their clients or employers about the best course of action to take. Financial Analysts typically work in banks, insurance companies, accounting firms or investment firms. Here are the main differences between an economist and a financial analyst. Economists and financial analysts share some job duties, such as researching data to develop economic or financial models. However, economists focus more on research than analysis. They use the data they collect to make broad predictions about economic trends.

Financial analysts use the data they collect to assess a company's performance and help decision makers determine how to improve it.Another key difference between these two professions is that economists rarely act on the data they collect. Instead, they publish their findings in reports that reach government officials, business leaders and other stakeholders in the economy.

Financial analysts, however, are often responsible for implementing the recommendations made by economists. This may involve communicating with departments throughout a company to explain changes in policy and helping decision makers decide how to spend their resources.

Economists typically need a bachelor's degree in economics, although some entry-level positions may only require an associate degree. Many economists also pursue a master's degree or doctorate in economics to qualify for more advanced positions. These programs usually take two to four years to complete and include coursework on topics like microeconomics, macroeconomics and econometrics. Some programs also allow students to specialize in a particular area of economics, such as labor economics or international trade.Financial analysts usually need at least a bachelor's degree in finance, accounting, business administration or a related field. However, many employers prefer candidates who have a master's degree in business administration (MBA) or a master's degree in finance. These programs usually take two to three years to complete and include coursework on topics like financial accounting, investment analysis and corporate finance. Financial analysts can also pursue certifications through professional organizations, such as the Chartered Financial Analyst (CFA) program offered by the CFA Institute. Economists and financial analysts work in different environments. Economists typically work for the government or a private company, depending on their specialty. For example, an economist who specializes in agriculture might work for a farming company to help them make decisions about how to increase productivity. An economist who specializes in transportation might work for a shipping company to help them determine which routes are most efficient.Financial analysts usually work for banks, insurance companies or other financial institutions. They may also work for corporations that need assistance with budgeting or forecasting. Financial analysts often work regular business hours, but they may have more irregular schedules than economists because of the nature of their jobs. Both economists and financial analysts use skills like critical thinking, math and analysis to perform their jobs. Economists typically conduct research on economic trends and develop theories about how the economy works, while financial analysts usually focus on analyzing data to make recommendations about investments.Economists need to have strong research skills to collect data and information about economic trends. They also need to be able to effectively communicate their findings in writing and verbally. Financial analysts need to be able to understand and interpret data, as well as identify patterns and relationships. They also need to be able to clearly communicate their recommendations to clients or investors. The average salary for an economist is \$94,244 per year, while the average salary for a financial analyst is \$71,352 per year.

Both of these salaries can vary depending on the type of company you work for, your level of experience and your location.