

Chapter - 1

Nature and Scope of Business Economics

Unit - 1

* Economics arise from Greek word.

Oikonomia → "Law of household"

1) Father of Economic → Adam Smith

↓
"Nature and Causes of Wealth of Nation" (1776)

2) Economics →
Micro → Individual
Macro → Aggregate

* Economics is Multi-Disciplinary

1) Economics is applicable to
Profit making organisation
Non-profit making organisation

2) Economics is applicable to
Govt orgs
Private orgs

* Economics is also called as Applied Economics

1) Economics is Science and arts

2) Economics is pragmatic in nature
(practical)

Economics	Business Economics
↓ Adam Smith Defines ↓	we apply Economic Theory into practical Decision
(1) Production	making
(2) Consumption	
(3) Transfer of wealth	

*> Business Economics contains more of micro and less of Macro Economics.

*> Decision Making

⇒ Refers to the process of selecting an alternative which provides more efficient means to attain desired end.

⇒ Decision making is a complex process.

⇒ Not straightforward and easy.

⇒ Decision making is a dynamic process (ever changing)

⇒ Decision making is useful for managers at all level.

Fundamental Problem of Economics

→ Human wants are unlimited and Resources are Scarce.

Wants

→ Physical Needs (Food, Shelter)

→ Psychological Needs (TV, Fridge)

→ Social Needs (

→ Resources → 5M

Men, Money, Machine, Material, Method

Nature of Business Economics

→ Micro Economics

Macro Economics

→ Study behaviour of Individual

→ Study behaviour of aggregate

→ The focus is on small numbers

→ The focus is on large numbers

→ eg:- Behaviour of firm, location of industry, product pricing, consumer behaviour

→ eg:- National Income, National output, value of currency etc.

Unit - 2

Basic Problem of Economy

4 Question

What to produce



Every Economy must Decide

What to produce

Capital Goods

Consumer Goods

Eg: Guns

Eg: Breads



U.S.A
Germany

India

How to produce



Method of Production

Labour Incentive

Capital Incentive

For whom to produce



- ① Rich
- ② Poor

Allocation of Resources



For Current and Future Consumption



Economic System → It refers to the arrangement of production and distribution of goods in a society.

Economic System

Capitalism Economy

Social Economy

Mixed Economy

→ means of production is held by private entity

→ held by Govt (State)

→ held by both

→ objective is only profit

→ objective is to look for social benefits

→ Eg: - India

→ Labour Exploitation is present here.

→ Equality

→ Factor of production held by private as well as govt.

→ Growth is Speed

→ Absence of Competition

→ Technological progress is high

→ Consumer has no choice

→ Freedom of prosperity and choice.

→ There is high In-equality

→ Eg: North Korea

→ Consumer is benefitted

→ They have right to prosperity

→ There is Central planning Authority

→ Risk taking is Encouraged

→ Consumer is King (sovereignty)

→ It is a Planned Economy.

→ Corruption and wastage of Resource

→ Govt has less control

Price is determined by demand & supply

→ Labour efforts are not rewarded based on efficiency

→ Consumer has choice

→ No importance to labour

→ In a democracy, sacrifices

→ Every person share get minimum standard of living

→ It leads to monopolies