

Business Economics

Chapter 1 Nature and scope of Business Economics

unit -1 Introduction

Key words

- * Oikonomia
- * 1899
- * political Economy
- * The wealth of nations
- * Adam smith
- * 1776
- * wants are unlimited
- * relatively scarcity
- * Joel Dean
- * strategic, tactical and operational decisions
- * quantitative techniques

What is economics about.?

The term 'Economics' owes its origin to the greek word 'oikonomia' which means 'household'.

The book named 'An Inquiry into the Nature and causes of the Wealth of Nations' (1776) usually abbreviated as 'The wealth of Nations', by Adam Smith is considered as the first modern work of Economics.

From the textbook

example : we are stated that

- * Human wants are unlimited
- * Its depends upon our "priority"
- * It should give the greatest satisfaction .
- * wants are relatively scarce

The two fundamental facts that;

- 1) ' Human beings have unlimited wants '
- 2) The means to satisfy these unlimited wants are Relatively scarce '



Meaning of Business Economics

1.1

Business Economics also referred to as **Managerial Economics**

Needs to make strategic , tactical and operational decisions

Generally Business Economics defines as " the use of economic analysis to make business decisions involving the best use of an organisation's scarce resources".

Joel Dean

Defined as Business economics in terms of the use of economic analysis in the formulation of business policies . Business Economics is essentially a component of Applied Economics as it includes application of selected quantitative techniques such as linear programming , regression analysis , captial budgeting , break even analysis and cost analysis.

Nature of Business Economics

1.2

Divided into

Microeconomics
Macroeconomics

Key words

Microeconomic

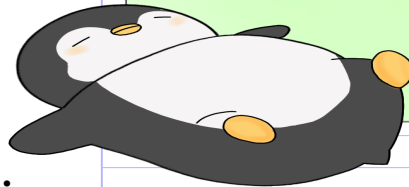
- * Study of the individual behaviour
- * allocate their scarce resources
- * Focus only on small or a group of units .

Microeconomics

- * Study of the behaviour of different individuals and organisations within an economic system.
- * The companies and individuals make decisions as to how to
- * focus on a small number of or group of units
- * It does not explain what is happening in the wider economic

We mainly study the following in Micro-Economic

- * product pricing
- * consumer behaviour
- * Factor pricing
- * The economic conditions of a section of people
- * Behaviour of firms and
- * Location of industry



Macroeconomics

- * Study of overall economic activities / large economic aggregates
- * allocate their scarce resources
- * Focus on overall economic decisions

Macroeconomics

- * The study of the overall economic phenomena or the economy as a whole
- * study of large economic aggregates such as , the overall levels of output and employment , total consumption , total saving and total investment , exports , imports and foreign investment .
- * which the firms , government and households operate and make decisions .
- * the overall effect of the innumerable decisions made by millions of different consumers and producers .

Study of the following

National income and National Output
The general price level and interest rates
Balance of trade and balance of payments
External value of currency
The overall level of saving and investment and
The level of employment and rate of economic growth.



Business Economics enables application of economic logic and analytical tools to bridge the gap between theory and practice.

- * Business Economic is a science
- * Based on Micro economic
- * Incorporates elements of micro analysis
- * Business Economic is also an Art
- * Use of theory of markets and private Enterprises
- * Pragmatic in Approach
- * Interdisciplinary in Nature
- * Normative in Nature

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Business Economic is a science

* Science is a systematized body of knowledge which establishes cause and effect relationships.

* The tools are Mathematics, Statistics and Econometrics.

Based on Micro economic

* Based largely on Micro-Economics

* As Business economic is concerned more with the decision making problem of a particular business establishment.

Incorporates elements of micro analysis

* A business unit is affected by external environment of the economy in which it operates.

* Business manager should consider such macro-economic variable which may affect present or future business environment.

Business Economic is also an Art

* It is related with practical application of laws and resource allocation in a capitalistic economy.

Use of theory of markets and private Enterprises

* It uses the theory of market and resource allocation in a capitalistic economy

Pragmatic in Approach

* Micro-economics is purely theoretical while, Business Economics is practical in its approach.

Interdisciplinary in Nature

* It incorporates tools from other disciplines like mathematics, statistics,

Normative in Nature

* Economic theory has been developed along two lines Positive and Normative.



Basis	Microeconomics	Macroeconomics
Study of	It is study of individual economics units.	It is study of the economics as a whole and its aggregates.
Deal with	It deals with individual income, individual prices and individual output, etc.	It deals with national income, price level, national output, etc.
Tools	Its main tools are demand and supply of a particular commodity.	Its main tools are aggregate demand and aggregate supply of the economy as a whole.
Central problem	Its central is price determination of commodities of factor of production.	Its central problem is determination of level of income and employment.
Prices	Prices determined under this are called 'relative prices.'	Prices determined under this are called 'absolute price.'
Type of analysis	It is partial equilibrium analysis.	It is general equilibrium analysis.
Scope	Its scope is limited	It is wider in scope.
Example	(a) Lock out in TELCO. (b) Finding the causes of failure of X and CO.	(a) Per capita income. (b) Corporate income tax. (c) Economy growth.

Positive science	Normative science
1. Robbins	Alfred Marshall
2. What it is	What should be or ought to be
3. Based on analysis, facts, realistic	Based on ethics
4. Will not pass value Judgement (not give Solution)	Will pass value Judgement (gives solution)
5. e.g. India is an over populated country	Family planning should be started to control population

Basis of Difference	Economics	Business Economics
Meaning	It involves the framing of economic principles to solve economic problems.	It involves the application of economic principles to solve economic problems.
Character	It is microeconomic as well as macroeconomic in character.	It is microeconomic in character.
Main Task	The fulfilment of needs of individuals as well as entities.	Proper decision making in a particular business entity.
Nature	It is positive as well as normative in nature.	It is only normative in nature.
Scope	It has a wider scope.	It has a comparatively narrow scope.
Branches	It has business economics as its applied branch.	It is an applied branch of economics.
Concerned with	All the theories from production to consumption including distribution.	It is concerned with only profit theory ignoring other theories.
Analysis Involved	It includes the analysis of macro level issues like growth, inflation and employment, etc.	It includes the analysis of micro level issues like demand, supply and profit etc.
Concentration	It concentrates only on the economic aspects of any business problem.	It concentrates on both economic as well as noneconomic aspects of any business problem.
Validity of Assumptions	It is based on certain assumptions.	Some assumptions become invalid when applied.

Scope of Business Economics

The scope of business Economics is quite wide.

There are two categories,

- * Internal or operational issues (through microeconomics can be solved)
- * External or environmental issues (this can be solved using macroeconomics)



1. Micro- economics applied to operational or internal; issues.

Issues like choice of business size of business, plant layout, technology, product decision, pricing, sales promotion, etc. are dealt by Micro- economic theories. It covers -

- Demand analysis and forecasting
- Production and Cost Analysis
- Inventory Management
- Market structure and Pricing Analysis
- Resource Allocation
- Theory of Capital and Investment Decisions
- Profitability Analysis
- Risk and Uncertainty Analysis.

2. Macro - economics applied to environment or external issues.

The major economic factors relate to ----

- the type of economic system
- stage of business cycles
- the general trends in national income, employment, price, saving and investment.
- Government's economic policies
- Working of financial sector and capital market
- Socio-economic organizations
- Social and political environment.

These external issues has to be considered by a firm in business decision and frame its policies accordingly to minimize their adverse effects.

Thank you

All the best

