Chapter-1

Nature & Scope of Business Economics

Unit 1 – Introdution

What is Economics about ?

- Greek word Oikonomia which means Household
- 19th Century Economics was known as "political Economics"
- An inquiry into the Nature and cuses of the wealth of Nations (1776) The wealth of Nation by Adam Smith (first modern work of Economics)

- Two fundamental facts

  - Human beings have unlimited wants and
  - The means to satisfy these unlimited wants are relate scare.

Mean – Resources
Scare – limited

Meaning of Business Economics ?

- Decision making refers to the Process of selecting an appropriate alternative that will provide the most efficient means of attaining a desired end, from two or more alternative course of action.

- Decision making is not simple and straighforward. It is highley complex and dynamic.

- Business economics integrates economics theory with business practice.

- Business economics is also referred as managerial economics.

Difination of Business economics ?

- The use of economic analysis to make business decision involving the best use of an Organisation's scarce resources. It is also known as Managerial Economics.
- Joel Dean defined business economics in terms of the use of economics analysis in formulation of business policies. Business Economics is essentially a component of Applied Economics

Nature of Business Economics

Micro Economics

- study of the behavior of different individual (consumer and firms) and Organisation within an economic system.

Macro Economics

- Study of the overall economics phenomena or the economy as a whole.

Micro — Macro

Only one — individual Agrigate — All of you

Short trick for understanding

Describing the nature of Business economics

- Economics world is complex and interdependence
- Economics theories are hypothetical and simplistic in nature
- Business economics is a science
- Based on macro Economics
- Incorporates elements of Macro Analysis
- Business Economiss is also an Art
- Use of theory of Market and private enterprises
- Pragmatic (practical way of dealings with problems) in approach

- Interdisciplinary in Nature
- Normative in Nature (ought to be, descriptive in nature, involves value judgement)

Positive in nature (what is, no value judgment, cause and effects relationship)

Scope of Business Economics

1. Microeconomics applied to Internal or Operational issues:- that arise within the organisation and fall within the purview and control of management.

- Demand analysis and forecasting
- Production and cost analysis
- Inventory management
- Market structure and Pricing Policies
- Resource allocation
- Theory of capital and investment decisions
- Profit analysis
- Risk and uncertainty analysis

2. Macroeconomics applied to external or Environmental issues
- Economic System
- Business cycle
- National Income, employment prices, Saving and Investment
- fiscal policy, foreign trade policy, economics policies
- Central banks
- Union and cooperatives
- Social and political enviroment

Unit : 2

Bisic problem of an Economy

Central Problem of Economy

- What to produce (क्या बनाए)
  - what goods to be produced
  - How much quantity to be produced
- How to produce (कैसे बनाए)
  - Labour intensive
  - Capital intensive
- for whom to Produce (किसके लिए बनाए)
  - Rich
  - Poor
- what should (what provision should be made for economics growth)
  - जो भी Resources हैं उसको बचा के रखो for future

Capitalist Economy (eg: united states and united kingdom Hong kong, South Korea)

characteristics :

(i) Right to private property
(ii) freedom of enterprise
(iii) freedom of economic choice
(iv) Profit motive
(v) Consumer Sovereignty ⟶ Power
(vi) Competition
(vii) Absense of goverment interference

How do capitalist economies solve their central problems?

* Deciding what to produce - Capital goods
- Deciding how to produce - Capital intensive
- Deciding for whom to produce - rich
- Deciding about consumption, saving and Investment - higher the level of income and interest rates, higher will be the savings. Greater the profit expectation greater will be investment.

Merit of capitalist Economy

- Self regulating
- Profit motive
- Economic growth is faster
- optimum allocation of resources
- Operating efficiency
- Cost of production is minimized
- Incentive for efficient economic decision and implementation
- Quality goods due to Competition
- Incentive for innovation
- fundamental right to property and right to freedom
- Democratic framework

Driving force - जितना काम करेंगे उतना पैसा कमाएंगे

Democratic - कोई control नहीं कर रहा है

Demerits of Capitalism

- Economic inequality and social injustice
- Property rights over human rights
- Economic inequalities
- Ignores human welfare
- Income inequality
- Exploitation of labour
- Consumer Sovereignty is myth
- Missallocation of resourses (for luxury goods)
- Less of merit goods (education and health)
- Unplanned production
- Enormous waste of Productive resources
- formation of monopolies
- Excessive materialism as well as conspicuous and unethical Consumption

SOCIALIST ECONOMY (Eg: china, North korea)

The concept of socialist economy was propounded (introduce) by Karl marx and frederic Engels in their work 'the communist Manifesto' Public in 1848. Socialist economy is also Called as Command economy or centrally planned economy.

Characteristics:

- Collective ownership
- Economic planning
- Absense of consumer choice
- Relatively equal income distribution
- Minimum role of price mechanism or market forces

- Absence of Competition

Merit of Socialism

- Equitable distribution of wealth and income
- Rapid and balanced economic development
- Better utilization of resources
- Unemployment is minimised
- Co-operative mentality
- Right to work and minimum standard of living
- Social Security

Demerits of Socialism

- Predominance of bureaucracy, corruption, red tapism
- Restrict freedom of individual
- Right to property not available
- Administered prices are not determined by market forces
- Does not provide incentive
- state monopolies
- Limited freedom of choice

MIXED ECONOMY (eg: India)

features of Mixed Economy (Private, public, Combined sectors)
Merit are same as of capitalist and Socialist Economy

India is mixed economy

Demerits of Mixed Economy

- Constrained growth of private sector
- Poor implementation of Planning
- Higher rate of tax
- Lack of efficiency
- Curruption
- Wastage of resourses
- Undue delay in ~~economy~~ ecomomic decisions
- Poor performance of Public Sectors

ALL IS WELL

CA BOY

Chapter-2

Theory of Demand and Supply

Demand

Buy Iphone

	A	B	C
Desire -	Yes	Yes	NO
purchasing - Power	yes	NO	Yes
willingness - to pay	Yes	Yes	NO
	Demand		

Effective Demand : Desire + purchasing power + willingness to pay

- The quantity demand is Always expressed at a given price

Any Commodity at a given point of time for a give price if a Customer is ready to purchase it Constitutes Demand.

Determinants of Demand:

Demand is influenced by lot of factors through which demands changes from time to time hence it is referred as determinants.

1. Price: Price is the most important determinants which influences demand to a maximum ektent.

When Price ↑ Demand ↓
Price ↓ Demand ↑

That is inverse/indirect Relationship

i.e. Price is primary factor & Demand is Secondry factor
or
Demand is Dependent on price (when price changes Demand also changes)

The Relationship between price & demand is expressed in a mathematical equation known as

$D = f(P)$

Direct — Indirect

- D : Demand (Dependent factor)
- P : Price (Independent factor)
- f : funtion Relationship

(ii) Price of Related Commodities

Substitute or Competing

When price ↑ Quantities ↑
Price ↓ Quantities ↓

That is ~~Inverse~~/Indirect Relationship

Ex: Tea & Coffee

Complementry

when price ↑ Quantity ↓
price ↓ Quantity ↑

Inverse / indirect Relationship

Ex:- Car & petrol
Bread & Butter

(iii) Disposable Income of the Consumer:

• Defination of Demand

- Quantity of a good or service buyers are willing and able to purchase at various prices over a given time.

• Beyond desire:

- Demand is more than mere desire
- Real-world constraints like prices and limited means, influence purchasing decisions.

[factors influencing Effective demand]

(i) Desire

(ii) ~~willingness~~ Means to purchase

(iii) willingness to use those means

• Effective Demand Conditions:

- Backed by purchasing power and willingness to pay

Quantity Demanded:

• Always expressed at a given price.
• Differs at different prices.

Nature of Quantity Demanded:

- It's flow. representing a continous series of purchase over time.

- Expression of Demand:

- Quantified as "so much per period of time".

Scope of Demand:

- Various quantities bought during a given period at different prices, income, or prices of related goods

what determines demand ?

(i) Price of the Commodity: The price of a Commodity is a fundamental determinants of its demand.

Price ↑ Demand ↓
Price ↓ Demand ↑

Indirect / Inverse Relationship

(ii) Price of Related Commodities:

Two type of Price of Related Commodities:

Di B.

	Complementary Goods	Substitute Goods
Defination:	Complementary Goods are bought or Consumed together Such as tea and sugar automobile and petrol or pen and ink.	Substitutes are goods that can be used interchangebly to Satisfy the Same want like tea & coffee or different brands of toothpaste.
Relation	Inverse / Indirect Relation	Direct Relation or positive Relation
	Price ↑ Quantity ↓ Price ↓ Quantity	Price ↑ Quantities ↑ Price ↓ Quantities ↓

(iii) Purchasing power and Disposable Income:

- Purchasing power is determined by the level of disposable income.
- The demand for a commodity is influenced by the disposable income of potential Buyers

Effect of Dosposable income:- An increase is disposable income generally increase the demand for goods & services at any given price

- Conversely a decrease in disposable income tends to lower the quantity demanded at all possible prices.

Nature of Goods

Normal goods exhibit an increasing demand as consumers income rises.

Example- include household furniture clothing automobiles and consumer durables — Long term

Income ↑ Demand ↑ } Direct relation
Income ↓ Demand ↓ }

Inferrior Goods / Low Quality Goods

~~Example:- Medicine, Salt~~

Example:- Income increase होता तब Branded thing लेते हैं पहले low quality chasma. उस income increase हुआ तो Branded chasma le liya.

Limited Demand Increas —

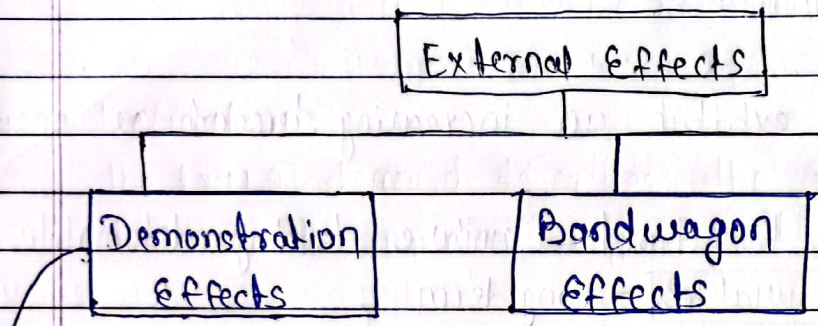
- The quantity demanded for inferrior goods increase only up to a certain income level.

Essential goods

Necessary things like:- Salt, Medicine, Oil, cooking

(vi) Tastes and preferences of Buyers:

- Demand is ~~infun~~ influenced by the taste and perefences of Buyers, which may change over time.
- Modern or fashionable goods tend to command higher demand compared to older or out-of-fashion items.



- Coinld by James Duesenberry. it refer to the desire to emulate the consumption behavior of others.

- People may buy things based on seeing other with similar items leading to a desire to own those goods as well (किसी की copy करना)
- other are also consuming it. Reflects the desire to be fashionable stylish or to conform to a desired a social group/ associated (सबके पास है तो मैं भी खरीद लेता हूँ)

Snob Effects

- When a product become widely popular, some individuals may reduce or altogether stop consuming it to maintain exclusivity (सबसे अलग दिखना)

Like:- Technical उपयोग का (iphone)

Veblen Effects

- Named after economist Thorstein Veblen it highlight the impact of conspicous consumption of demand luxury goods that become more desirable as their prices increase due to the perceived status associated with owning them. (Status maintain करना)

Consumer Expectation

Consume expect increase in future prices increase in income and shortages in supply, more quantities will be demanded

other factors

1. Size of population:

- Larger population generally leads to a higher number of buyers
- Quantity demanded in the market tends to be higher at every price when population is larger
- Conversely, lower population size is associated with lower market demand.

The Law of Demand

- Prof. Alfred Marshall

Quantity ↑ Price ↓
Quantity ↓ Price ↑
That is inverse Relation

- Defination:

The law of demand describes the inverse relationship between the price of a good and the quantity demanded

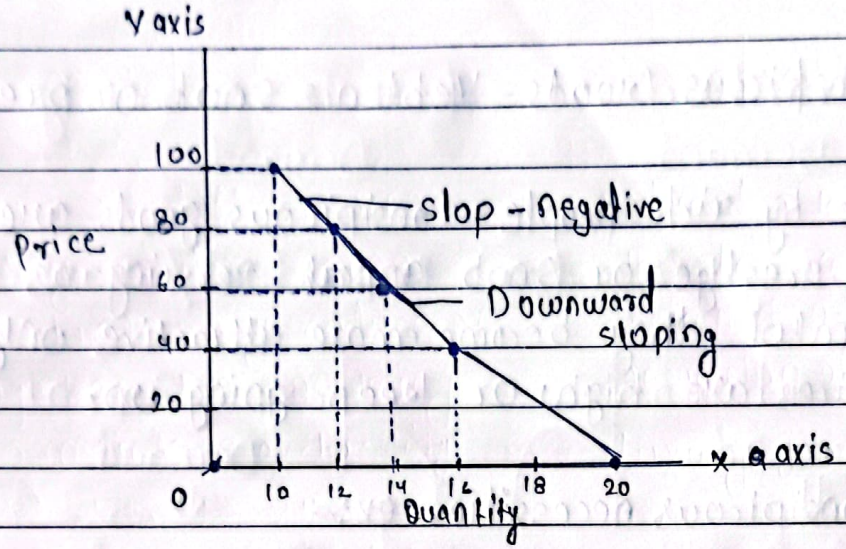
- Alfred Marshall's Defination:

"The greater the amount to be sold the smaller must be the price"

Demand schedule

Price	Quantity
100	10
80	12
60	14
40	16
0	20

Demand Curve



inverse Relations

- Market Demand :- individual customer made by Market Demand

Quantity Demand

Price	A	B	Market Demand
0	5	4	9
10	4	3	7
20	1	0	1
30	0	0	0

- increase in Demand - Righward shift
- Decrease in Demand - Leftward shift

Exception:

(i) Conspicous Goods - Veblen & Snob or prestige

- Use by rich people Consipicous goods are articles of prestige or snob appeal serving as stator symbol they become more attractive only if their prices are high or keep going up.

(ii) Consipicous necessities: ~~ex:-~~
ex:- Internet, TV, Refigrator

P↑ D↑

(iii) Giffen Goods: Giffen goods are inferior goods But all inferior good are not Giffen Goods.

Price↑ Demand↑

> Sir Robert Giffen

(iv) future expectation about:

future में किसी चीज का Price बढ़ जाएगा जैसे iPhone लेना तो आज ही ले लेंगे

(vi) Demand for necessaries: Essential goods
ex:- clothing, cook

(vii) Speculative goods

Rational of the Law of Demand

(1) Price Effects: (i) Substitution Effect
(ii) Income Effect

- Goods are closed substitutes
Like- Pen: Nataraj pen & Linkslyser

income effect:- Price ↓ Demand ↑

(2) utility Maximising behaviur of Consumer

- Maximise his Satisfaction

(3) Arrival of new Consumers:

Price ↓ Demand ↑

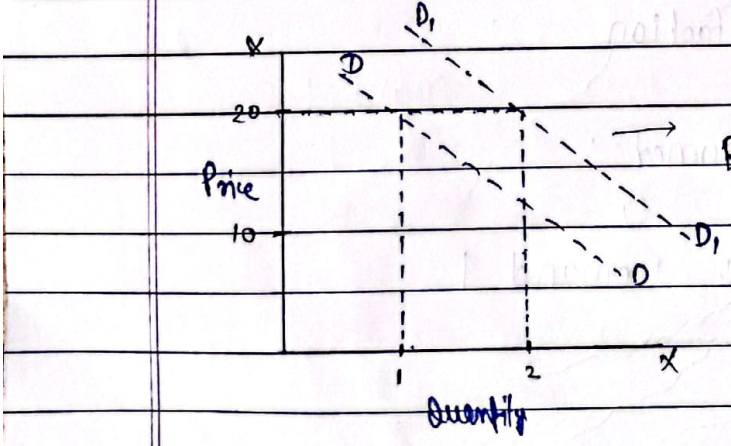
Expansion & Contraction of Demand

~~Contraction of Demand~~ ← ~~fall in Quantity Demand~~

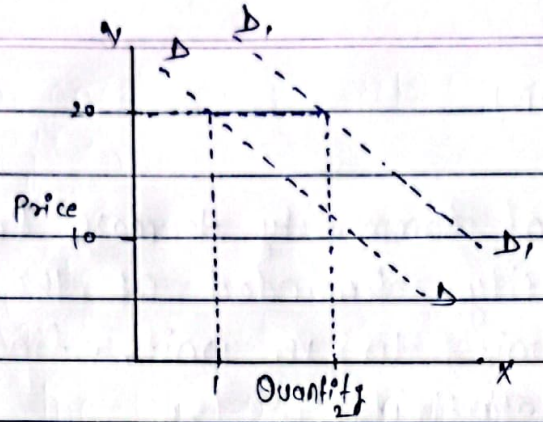
- Quantity Demand a individual / particular prices

Contraction of Demand		Expansion of Demand
⇓		⇓
fall in Quantity Demand	change in own price	Increase in Quantity Demand
⇓		⇓
Upward movement along the demand curve		Downward movement along the demand curve

Increase & Decrease in Demand - due to other factors



Buyers of income increase होनेपर
increase in Demand



- Consumer का income बढ़ होताई due to other factors
- Leftward shift
- Decrease in demand

Elasticity of Demand

Types of Elasticity

1] unit Elasticity $E_p = 1$

% change in QD = % change in price

2] Perfect inelastic

$E_p = 0$ (Gas.)

% change in QD = 0

3] Perfectly Elastic

$E_p = \infty$

% change in Price = 0 (COC & Pepsi)

4]. Relatively / Elastic

$E_p > 1$

% change in QD > % change in Price

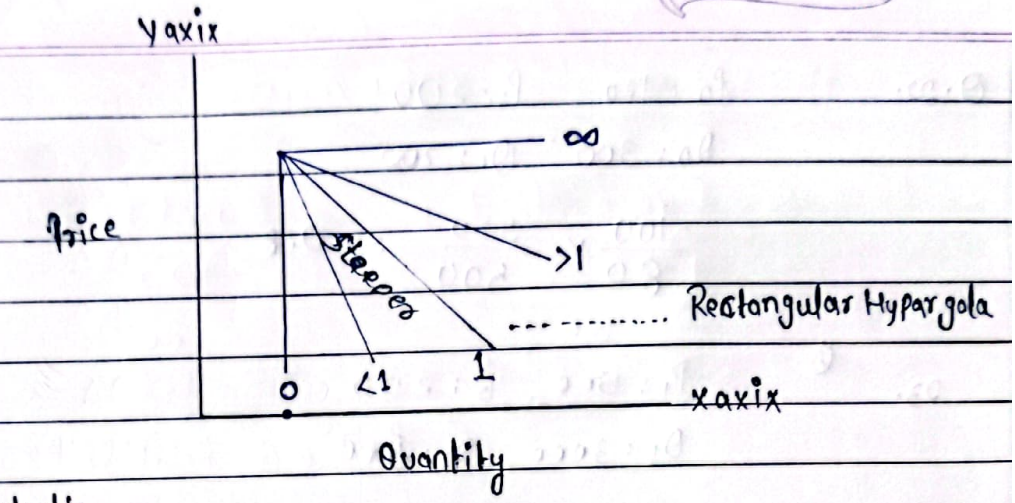
Nominator वाला है

5] inelastic [Relatively]

$E_p < 1$

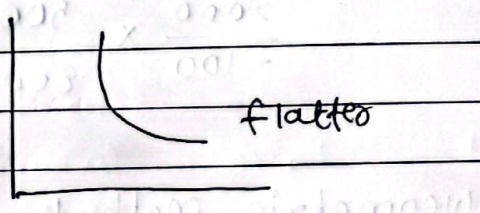
% change in Price < % change in QD

Denominiter वाला है



Perfectly inelastic

Parall to y axix



Perfect elastic

Parallel to x axix

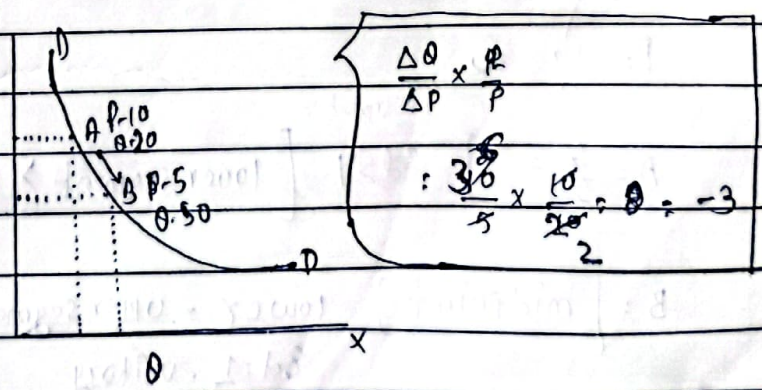
x change but y not change

2] Point Elasticity

infinitesimal - extreme

Derivation : $E_p \left[\frac{-\Delta Q}{\Delta P} \times \frac{P}{Q}\right]$

Arc Elasticity



$\frac{\Delta Q}{\Delta P} \times \frac{P_2}{P}$

$: \frac{30}{5} \times \frac{10}{20} : \theta : -3$

$E_p = \left[\frac{Q_2 - Q_1}{P_2 - P_1} \times \frac{P_2 + P_1}{Q_2 + Q_1}\right]$

$P_1 : 100 \quad Q_1 : 50$

$P_2 : 150 \quad Q_2 : 20$

$: \frac{-30}{50} \times \frac{250}{70} : -2.142$

Arc method

Q.22. $P_0 = 120 \quad P_1 = 200$

$Q_0 = 300 \quad Q_1 = 200$

$\frac{-100}{80} \times \frac{320}{500} = -0.8$

23. (b)

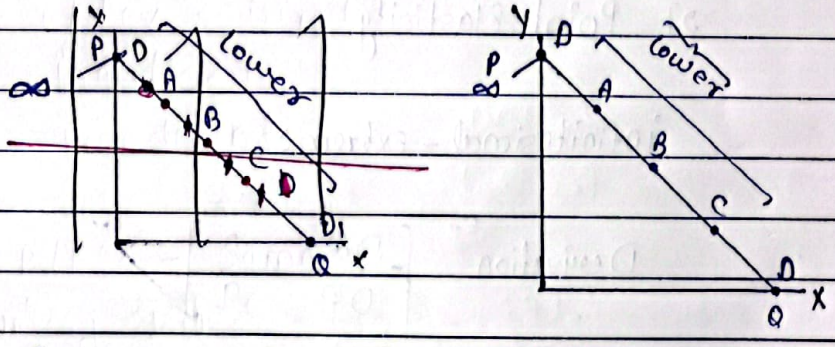
$P_1 = 900 \quad P_2 = 200$

$Q_1 = 3000 \quad Q_2 = 5000$

$\frac{2000}{-100} \times \frac{500}{8000} = -1.25$ Ans

Geometric Method [use - Linear Demand curve]

elastic inelastic unit



$E_p = \frac{\text{Lower Segment}}{\text{upper Segment}}$

suppose

$P_1 \frac{10}{0} = \infty$

greater

$A = \frac{6}{2} = 3$ $E_d > 1$ [lower segment > upper segment]

$B =$ [midpoint] lower = upper segment

$E_d = 1$. unitary

C : lower segment < upper segment

$E_d < 1$

less

Date
Page

Θ : Lower segment = 0

Upper segment = ∞

$E_p = \frac{0}{\infty} = 0$ ——— Perfectly inelastic

means

Total outlay Method — Expenditure

Suppose

			Expenditure
1]	P = 100	Q = 20	2000
	↓ 80	↑ 25	2000
2]	P = 100	Q = 20	Exp = 2000
	125	16	2000

$E_p = 1$

unitry Elastic

			Exp
2]	P = 50	Q = 100	5000
	↓ P = 40	↑ Q = 110	4400 ↓

Price effect > Quanti effect · inelastic

$E_d < 1$

Price & Exp — Direct relation

$E_d < 1$

			Exp
3]	P = 50	Q = 100	Exp = 5000
	↓ 40	↑ 150	= 6000 ↑

Elastic > 1

$E_d > 1$

Price & Exp = Inverse Relation

$E_d > 1$

E p या E d लॉरव सकते है

Revenue

Price effect	Quantity Effects		Revenue
↑ 50	100	—	5000 ↓
60	80	—	4800
R = ↑	R = ↓		Rev ↓

Indirect Relation

Elastic

1. Price — Expenditure / Rev - Inverse
   Elastic > 1
   Quantity Depend
2. Price — Exp / Rev - Direct ∅
   inelastic < 1
   Price depend
3. Price - Exp / Rev - same
   Unitry Elastic
   Ed = 1

Income elasticity

% method

Proportionate method

$E_i = 2$

$E_i = \frac{\%\text{ change in Demand}}{\%\text{ change in Income}}$

$\frac{Q_1 - Q}{Q} \times 100 \div \frac{Y_1 - Y}{Y} \times 100$

$\frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y} \times 100$

$\left[\frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y}\right]$

$E_i = 3$

Original quantity = 100

" Income = 10,000

New income = 8000

$3 = \frac{Q_1 - 100}{100} \times 100$

$\frac{3}{1} = \frac{Q_1 - 100}{100} \times \frac{2000}{8000}$

$Q_1 - 100$

$Q_1 - 3$

$3 = \frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y}$

$3 = \frac{\Delta Q}{10} \times \frac{10,000}{-2000} = -60$

$Q_1 - 100 = -60$

Proportionate Method

Ex-

income		Demand
₹ 100,000	20%	20,000
200,600	20%	24,000

income increase 100%

$$Ei = \frac{\% \text{ change in Demand}}{\% \text{ chang in Income}}$$

$$= \frac{4000}{100000} \times \frac{100000}{20,000} : 0.2$$

10%

income - 1000 ↑ 50% Quantity % Spent

1500 100

10% 150

$Ei = 1$

$$\frac{50}{500} \times \frac{1000}{100} = 1$$

Goods

Normal Goods — Ei = positive

Inferior Goods — Ei - negative

Normal Goods:

Luxury — Ei > 1 Elastic

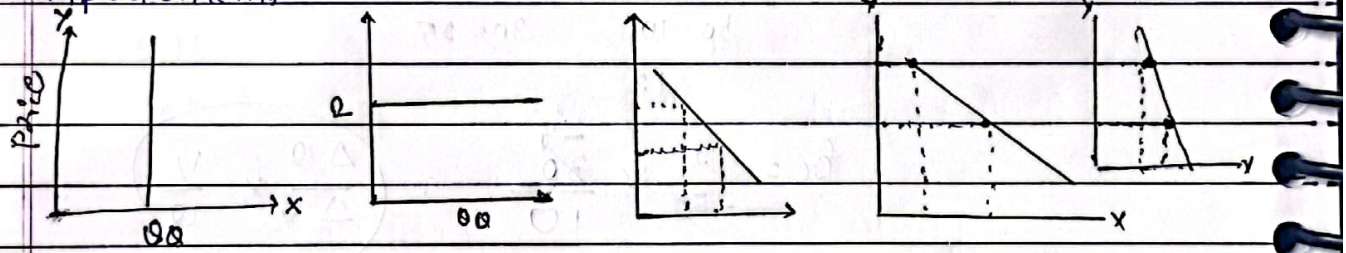
essential

(23). $\frac{2000}{-100} \times \frac{500}{8000} = 1.25$

for better understanding

Types of Elasticity

inelastic demand	Perfect Elast	unitary Elastic	relatively elastic	relatively inelastic
E = 0	E = ∞	E = 1	E > 1	E < 1
in change in variable does not have any impact on demand	if change is variable has huge impact on demand	if change in variable has equal important impact on deman	if changin variable has greater impact on demand	if change in variable has less impact on Demand



curve will be straight Parallel to y axis	curve will be Parallel to axis	curve will be rectangular hyperbola	curve will be flam	curve will be steeper

	Particulars	Effect on Elasticity
(1)	close substitutes available	Highly elastic
(2)	Petrol	inelastic
(3)	Many substitutes	more Elasticity
(4)	Spent more on commodity	Highly elastic
(5)	Neccesity	inelastic
(6)	Luxury goods	Elastic
(7)	Product can be used for multiple things	Elastic
(8)	Expensive & cheap [very]	inelastic
(9)	consume has habit	inelastic
(10)	Tied goods	inelastic

Chapter-2 [Unit II]

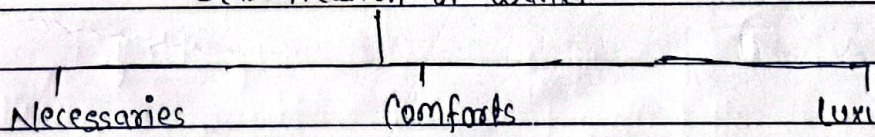
Theory of Consumer Behaviour

Meaning of Human Wants

- The term 'want' refers to wish desire or motive to own or/and use goods and services that give satisfaction
- wants may arise due to physical, phychological or social factors
- Since the resource are limited we need to make a choice between the urgent wants and the not so urgent wants.

Many points on Human wants so you can read 2/3 time ~~reread~~ this topic from [ICAI - MAT]

- Classification of wants



- Necessaries are those which are Essential for living
- Necessaries are furthe subdivided into
  - Necessaries for life or existence
  - Ne

Wants are of 3 types :—

1). Necessity
- Necessity for life — water, food, & clothing
  Necessity for Effiency — Good food
  Conventional Necessity — Habbit

Comforts :—

Comforts make life comfortable and satisfying. Comforts are less urgent than necessaries.

- Tasty and wholesome, food, good house, clothes that suit different occasions, audio-visual and labour saving equipments etc Make life more comfortable

Luxuries :—

Luxuries are those ~~wha~~ wants which ar

Superfluous Expensive

They are not essential for living. Item such as expensive clothing, exclusive vintage cars, classy furniture etc.

Remember— Some people for Comfort or luxury are Necessity

Comfort or luxury at certain point of time become a necessity —

Utility :- कोई भी goods/service consume करने में जो Satisfaction मिलता है — That is utility

(1) utility is want Satisfying power of Commodity
(2) utility ≠ usefulness
(3) utility = anticipated Satisfaction
(4) utility is a subject Context
(5) A person can have utility without consumption eg.- gift
(6) in Economics the concept of utility is ethically natural

Utility

	1. Marginal utility / Cardinal Approach	Indifference / Ordinal Approach
	Numeber - 1, 2, 3	Order - 1st, 2nd, 3rd
	Alfred Marshall	Hicks & Allen

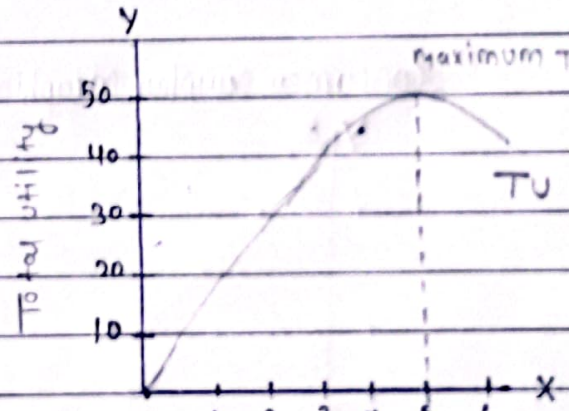
Marginal utility	Total utility
• utility derived by Consuming a product is called Margin utility formula - $TU_n - TU_{n-1}$	• Assuming utility is measurable & addictive Sum of all Marginal utility is total utility $TU = MU_1 + MU_2 + \dots MU_n$ when TU is maximum and Constant, MU = 0 [Zero] when TU starts decreasing MU is Negativ

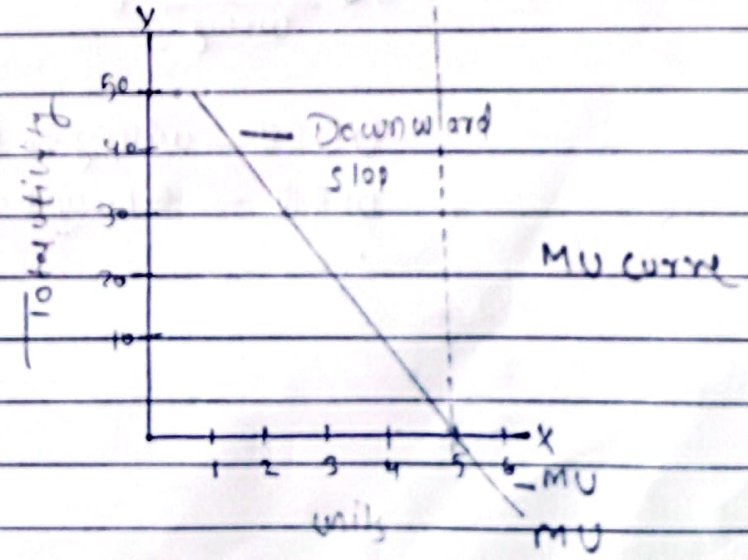
Law of diminishing Marginal utility :— [Alfred Marshall]

- As Consumer increase the Consumption of goods his MU decline
- As the more he have of a Goods his utility from that good goes down

Equibrium :— Maximum Satisfied
Consumer Equilibrium [Single Goods]

TU = Sum of MU maximum





Indiffrence Curve / Ordinal :- - Hicks & Allen

- isoutility or Equal utility
- Same leve of satisfaction

Indifference - Realistic

Consumer is Rational

IC curve origin ke according convex hota hai

Reason - MRS

Unit : 3

Supply

Supply offer to a Quantity of goods supplied at the given price.

Supply has direct relationship with Price i.e if Price goes up Supply goes up vice-versa

Determinants of Supply

Price of Commodity
Tecnology
Price of related goods
factor of production cost

Law of Supply

- If Price goes up, Supply goes up, other things being equal
- There is direct relationship of price and supply

Supply schedule

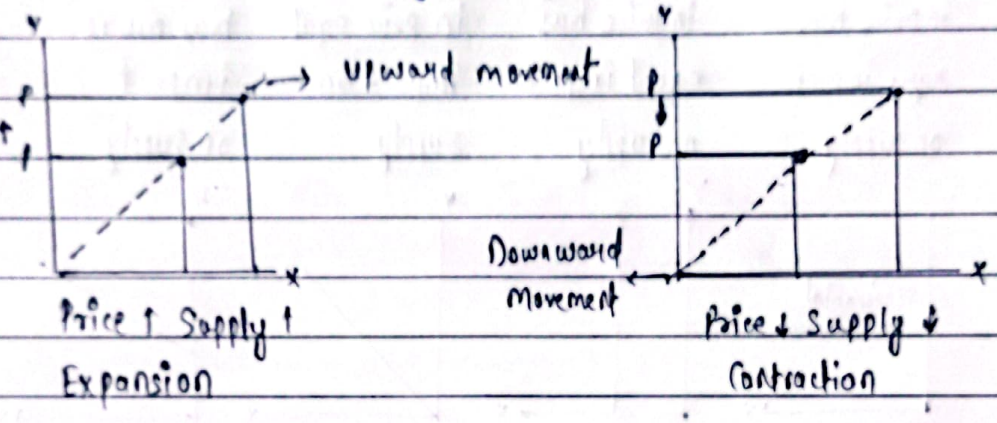
Table showing

Price	Supply
10	20
20	40
30	60
40	80

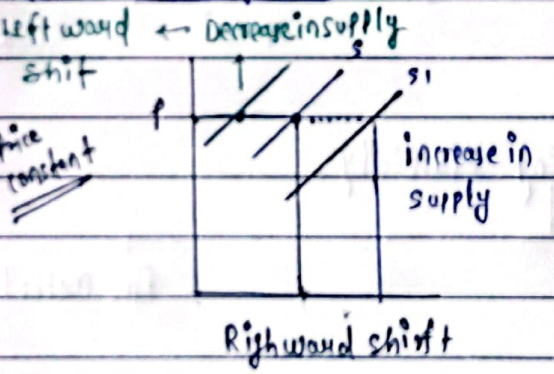
Movement / shift

Quantity Supply	Supply
Price-supply	other than price

Increase or Decrease supply



Shift in Supply Curve



Elasticity of Supply

↳ Degree of Responsiveness

Price Elasticity P ↑ S ↑

P ↓ S ↓

⇒ Responsiveness of Quantity Supplied to change in price

$$\frac{\Delta Q}{Q} \div \frac{\Delta P}{P} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

Ex- $P = 50$ $P_1 = 60$

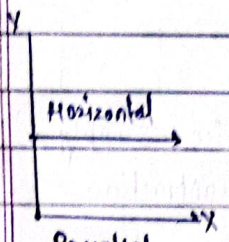
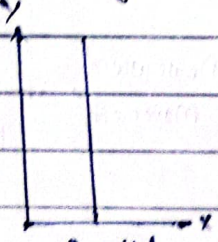
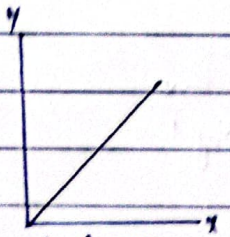
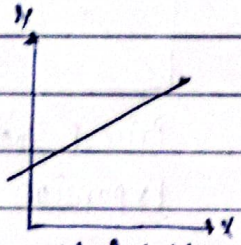
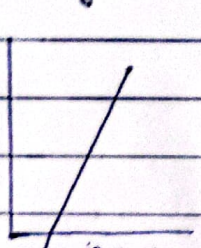
$Q = 100$ $Q_1 = ?$

$Es = 3$

$$Es = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} = 3 = \frac{Q_1}{100} \times \frac{10}{5}$$

$$Q_1 = \frac{3 \times 100}{5} = 60$$

Types of Elasticity

Perfectly elastic	Perfectly inelastic	unitary elastic	Relatively elastic	Relatively inelastic
$E = \infty$	$E = 0$	$E = 1$	$E > 1$	$E < 1$
which change in price has hugs impact on supply	which change in price has equal impact on supply	when change in price equal impact on supply	change in price has more impact on supply	change in price has less impact on supply
				
Parallel to x-axix	Parallel to y axis	straigh line Pass through origin	straigh line Pass through y-axis	straigh line Pass throug x-axis

Measuring Elasticity

% Method	Arc Method
$\frac{\%\text{ change in } Q_s}{\%\text{ change in Price}}$	$\frac{q_1 - q_2}{q_1 + q_2} \times \frac{p_1 + p_2}{p_1 - p_2}$

Equilibrium Quantity and Price

where $Q_p = Q_s$ → we call it equilibrium quantity

Price at E ... point y