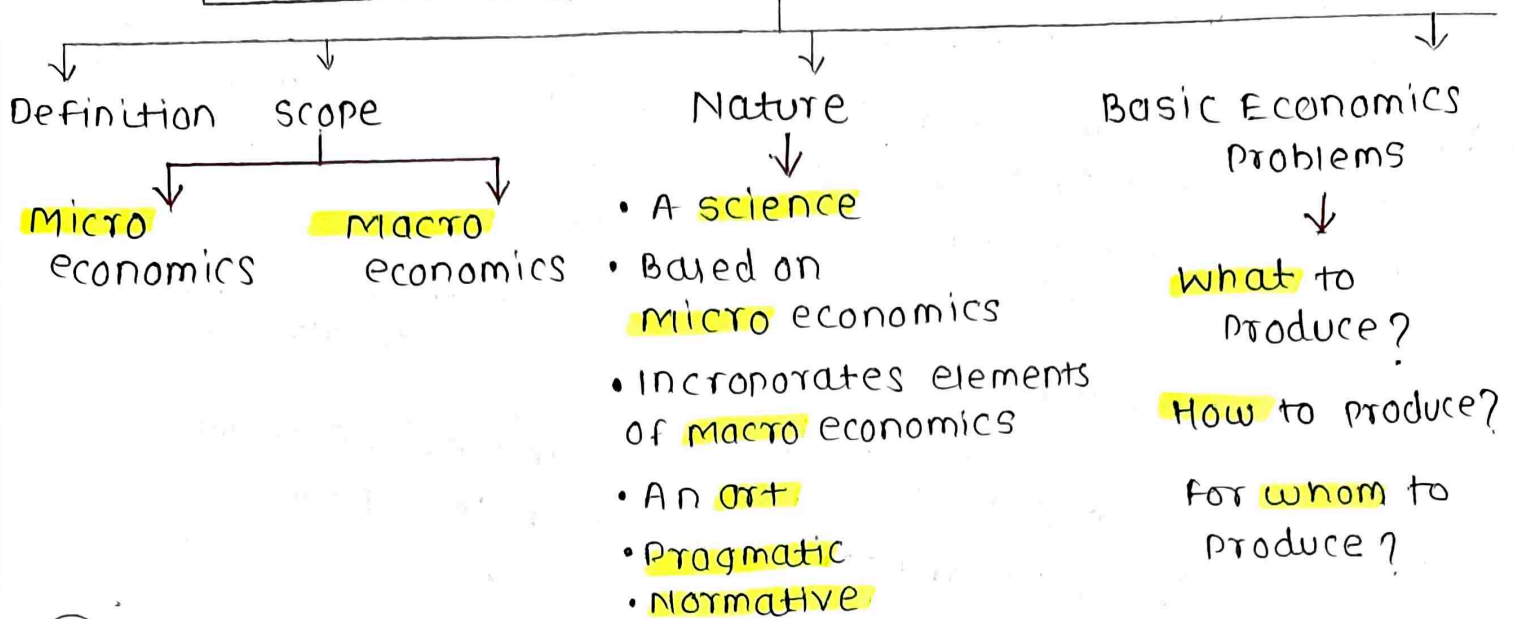


1. Introduction of Business Economics [1-4]

unit - 1 - Introduction

Nature and scope of Business economics



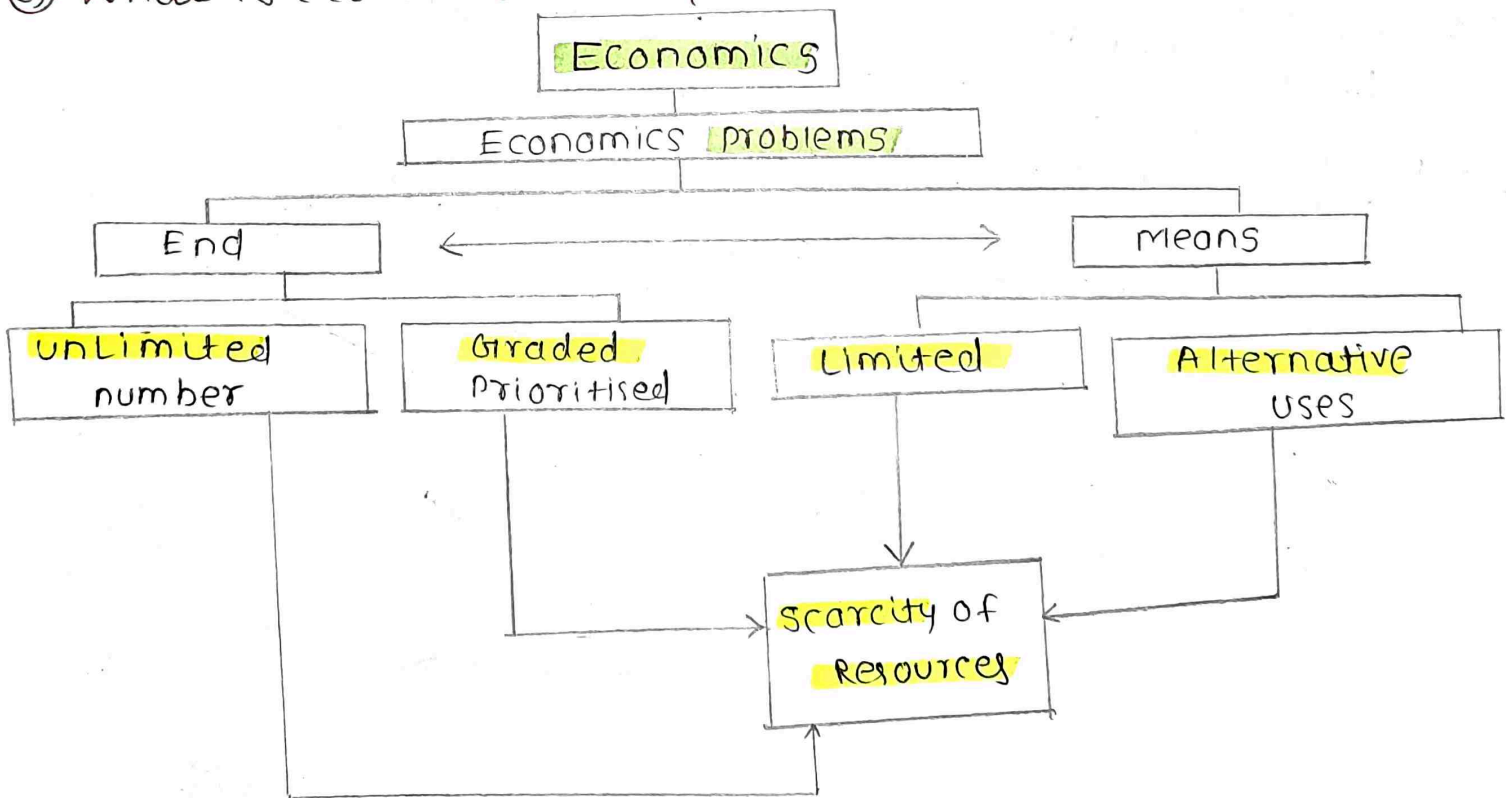
① Economics owes its origin to greek word "Oikonomia" which means management of household.

② There are 2 fundamental fact of economy?

1) Human wants are unlimited.

2) means to satisfy these unlimited wants are relatively scarce

③ What is economics About?



(4) What is business all about?

⇒ 1) Business is an economic activity like management, sale, purchase, mining etc.

2) Business helps transforming inputs (raw material) into output (goods and services)

3) The purpose of any economic activity is to create surplus or profit.

(5) Business Economics: It is application of economic analysis to make decision in business operations.

This concept was given by Joel Dean in 1951.

In simple words

① Business economics means use the economic analysis to make decisions involving the best use of an organisation's scarce resources.

② Business economics are also known as Managerial economics.

③ Business economics integrates economy theory with business practices.

④ Economics theory just provide the tools which explain the concept of demand, supply, cost, production price, marketing, competition etc.

⑤ Business economics apply this tools in the process of decision making of business.

⑥ Business economics fill the gap between economic theory and business practice.

⑦ Business economics is also useful for NGO and non-profit org. as well.

Types of Economics

Micro economics

Macro economics

★ Macro-economics

Theory of income & employment OR general equilibrium OR Theory of analysis Lumping

1) Study of economy at its **whole level**

2) **Aggregate** study

3) we study mainly the following **factors**:

a) Overall level of output

(g) External value of currency

b) National income

(h) overall level of saving

c) General price level

(i) overall level of investment

d) Interest rate

(f) level of employment

e) Balance of trade

(k) Rate of economic growth

f) Balance of payment

(l) Export, import and foreign investment

Micro economics | price theory

1) study at individual level

2) we focus on small numbers of groups

3) we mainly study the following factors:

a) product pricing

b) consumer behaviour

c) factor pricing

d) Economic condition of a section of people

e) Behaviour of firm

f) Location of industry.

Macro economics VS Micro economics

Micro economics	Macro economics
1) It is study of individual economics units of an economy.	It is study of an economy as a whole and its aggregates.
2) It deals with individual income, individual prices and individual output etc.	It deals with national income general price rural and national output etc.

Its central problem is price determination and allocation of resources.	Its central problems is determination of rural income.
4) It main roots are demand and supply of particular commodity factors.	Its main roots are aggregate demand and aggregate supply of economy as a whole.
5) It discusses how equilibrium of consumer, a producer or an industry is attained	It is concerned with determination of equilibrium level of income and employment.

* Nature of business economics (SAMP-MINT)

- 1) Business economics is **science**:
 - science means systemized body of knowledge which establishes cause and effect relationship.
 - Economics provides tools like Statistics, econometrics, mathematics etc.
 - Business economics integrates the tools in to decision making.
- 2) Business economics is an **art**:
 - it involves practical application of rules and principles.
- 3) Business economics is largely based on **micro** economics:
- 4) Business economics incorporates tools of **macro** economics (doesn't operate in vacuume.)
- 5) Business economics use the **theory** of markets and private enterprise.
- 6) Business economics is **inter-disciplinary** in approach
 - It uses multiple tool, such as:
 - a) Mathematics
 - b) Operational Research
 - c) management theory
 - d) Accounting, marketing, finance
 - e) statistics and econometrics

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6) Business economics is **pragmatic in nature approach** as it tackles practical problems which the firm faces in the real world.

7) Business economics are positive and normative in approach.

Positive economics	Normative economics
1) It refers to the economics studies " what is "	It refers to the economics studies " what should be " or " what ought to be ".
2) Its statement can empirically verified.	Its statement may or may not be verified .
3) It depends upon scientific logics and facts .	It depends on ethical logics or values .
4) It studies the cause and effect relationship .	— " —
5) It is objective and quantitative in nature .	It is subjective and descriptive in nature .
6) Example 1) India is over populated 2) Demand falls when prices rises .	Example: 1) rich people should be more taxed 2) Govt. should increase expenditure on health care .

scope of business economics

- 1) Internal Issues (Operational Issues)

- 2) External Issues (Environmental Issues)

* Internal Issues:

- 1) Also known as **operational** issues.

- 2) **Issues** arise with the **organisation**.

- 3) Within the **control of management**.

- 4) **Internal** in nature

- 5) Issues

- a) choice of business

- b) size of business

- c) productive decision

- d) Technology

- e) Pricing

- f) Sales promotion

- g) financial management of investment

- h) management of inventory etc.

* Micro economics applied to resolve internal issues:

- a) Demand analysis and forecasting

- b) production and cost analysis

- c) inventory management

- d) market structure and pricing policies

- e) Resources allocation

- f) Theory of capital and investment decisions

- g) financial management of investment profit analysis

- h) management of inventory etc. Risk and uncertainty analysis.

* External Issues

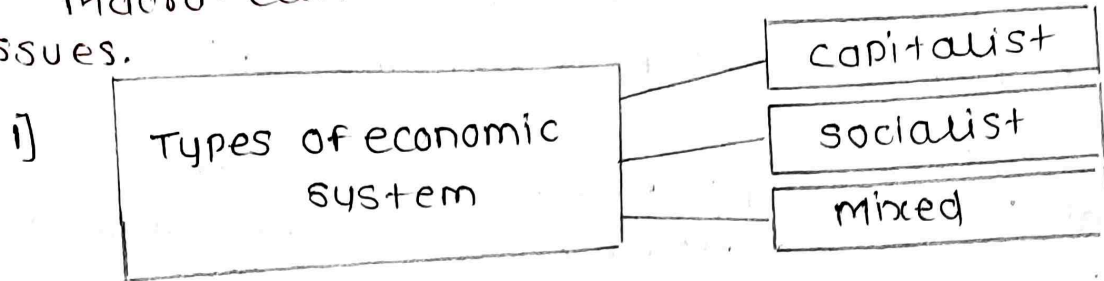
- 1) Also known as Environmental Issues

- 2) Environmental factors affect the performance of business.

- 3) Micro economics applied to resolve these issues.

- 4) following macro theories deal with external issues.

macro-economic theory is applied to solve external issues.



- 2] Stage of Business cycle
- 3] Government policies and Regulations
- 4] Banking policies and Regulations
- 5] social and political environmental
- 6] Trend in national income, employment, prices, savings etc.
- 7] Foreign trade policies, fiscal policies

