

# CHAPTER-1 NATURE AND SCOPE OF BUSINESS ECONOMICS

## KEY POINTS

- Economics came from a GREEK words OIKOS NEMEIN meaning – **Household Management**
- Old Name of Economics – **Political Economy**
- Father of Economics – **Adam Smith**
- Father of Modern Economics, Father of Welfare Economics – **Alfred Marshall**
- Book written by Adam Smith – **Wealth of Nations**
- TWO FUNDAMENTAL FACTS OF ECONOMICS:  
(1) Resources (**Means**) are Limited (**relatively scare**) &  
(2) Wants (**Ends**) are Unlimited/Infinite.
- The subject matter of economics is divided into two parts – **Micro Economics & Macro Economics**.
- **Micro Economics** is a study of the behavior of different individuals and organizations within an economic system.
- **Macro Economics** is the study of overall economic phenomena or the economy as a whole.
- In **Micro Economics** we study about:
  - (a) Factor Pricing
  - (b) Product Pricing
  - (c) Consumer Behavior
  - (d) Firm's Behavior
  - (e) Location of an Industry
  - (f) The economic condition of a section of people
- In **Macro Economics** we study about:
  - (a) National Income and National Output
  - (b) The General Price Level and Interest Rates
  - (c) Balance of Trade and Balance of Payments
  - (d) External Value of Currency
  - (e) The overall Level of Savings and Investment
  - (f) The Level of Employment and Rate of Economic Growth

- **Business Economics** may be defined as the use of economic analysis to make business decisions involving the best use of an organization's scarce resources. It is also known as **Managerial Economics**.
- **NATURE OF BUSINESS ECONOMICS**
  - (a) It is a **Science**
  - (b) It is an **Art**
  - (c) It is **Inter-disciplinary**
  - (d) Based on **MICRO** Economics
  - (e) Incorporates Elements of **MACRO** Analysis
  - (f) **PRAGMATIC** in Approach
  - (g) **NORMATIVE** in Nature
  - (h) Use of **THEORY OF MARKETS & PRIVATE ENTERPRISES**.

<b>POSITIVE / PURE SCIENCE</b>	<b>NORMATIVE SCIENCE</b>
What it is	What ought to be (or) going to be
It is Descriptive	It is Prescriptive
It aims to describe/explain an economic activity	It aims to establish the Ideas
No suggestions are given	Gives suggestions
No value judgements are given	Value judgements are given
No presence of welfare motive	Welfare motive is present
It is based on facts	It is based on Values/Assumptions
No Cause & Effect relationship	Causes & Effect relation exist

- **CENTRAL ECONOMIC PROBLEM:**
  1. What to produce?
  2. How to produce?
  3. For whom to produce?
  4. What provisions are to be made for Economic Growth?
- **THREE BROAD CLASSIFICATIONS OF ECONOMIES**
  - (A) **CAPITALIST ECONOMY** (Also Known as: **Market Economy, Free Economy, Laissez Faire Economy**).
    - (i) It uses the tool of price mechanism
    - (ii) The production and distribution of commodities take place through the mechanism of free markets.

(B) **SOCIALIST ECONOMY:** (Also Known as: **Planned Economy, Command Economy**).

(i) It uses the tool of central planning.

(ii) Here the means of production are owned and operated by the **STATE**. All decisions regarding production and distribution are taken by the **CENTRAL PLANNING AUTHORITY**.

(c) **MIXED ECONOMY:**

(i) It uses a mix of both price mechanism and central planning.

(ii) Both **public** and **private** institutions exercise economic control.

(iii) The public sector functions as a socialistic economy & the private sector, as a free enterprise economy.

DIFFERENCE	CAPITALISM	SOCIALISM	MIXED ECONOMY
NAME	Free Market Economy/Market Economy/Laissez-Faire Economy.	Command/Centrally Controlled/ Planned Economy.	-
OWNERSHIP	Private Sector	State/Collective Ownership	Pvt+Public Co-existence
MAIN POINTS	1. Pvt Property 2. Profit Maximization Motive	3. Equal Rights of Members 4. Welfare Maximization Motive	5. Profit 6. Welfare
DECISION MAKING TOOL	Price Mechanism/ Market Mechanism/ Market Forces	Centrally planned Authority (Market forces have no role)	Both
Government Role	Minimum	Maximum	1. Govt regulations 2. Consumer choice

CONSUMER ROLE	King	Absence of Consumer Choice	1. Consumer's Sovereignty 2. Freedom of Choice
EXAMPLES	USA, NEW ZEALAND, UK, SWITZERLAND, CANADA	USSR, NORTH KOREA, CUBA	NORWAY, SINGAPORE, VIETNAM, INDIA.

## THEORIES/CONCEPTS

Economics is a science which deals with wealth

Economics is what economist do

Who said Economics is a Science

Economics is a Science of Choice

Economics is neutral between ends

Nature & Significance of Economics – Book

Concept of Normative Economics

Welfare & Wellbeing Definition of Economics

Science which deals with wealth of nations

## GIVEN BY

JB SAY

JACOB VINER

L. ROBBINS

L. ROBBINS

L. ROBBINS

L. ROBBINS

MARSHALL

MARSHALL

ADAM SMITH

## FOUNDERS OF SOCIALIST ECONOMY

KARL MARX & FREDRICK ENGELS