

Chapter-1

Nature & Scope of Business Economics more of micro

M	T	W	T	F	S	S
Page No.:	01	YOUVA				
Date:						

UNIT-1 INTRODUCTION

- Business is a economic Activity.
- one of these Activity transforming a set of inputs into a set of output which is essence of economic Activity [eg. Manufacturing, Banking, Health]

(Net value added is Basic objective)

Input: land, labour, Capital and Entrepreneur Output: Goods & Services

"Goods": consumer goods, producer goods, capital goods, Private goods, Public goods, Merit goods & Demerit goods
[Essential] Cigarettes

Purpose of Economic ~~Cigarettes~~ Activity: Production, Consumption, distribution exchange and inventory accumulation is to create surplus or Profit.

Economic Enterprise

Production unit: What to Produce?

When to Produce?

For whom to Produce?

Why to Produce?

Finance enterprise

Funds unit: When to raise Fund?

Where to direct use of these funds?

What should be the Maturity & other terms?

Economics is a study of discipline which is helpful in analysing the rationality & optimality of a given choice.

What is Economics?

Economics is the study of process by which Relative Scarce Resources are allocated to satisfy competing Unlimited wants of Humanbeings in a society.



10 May 2024 11:35 pm

Relative Scarcity: Universal in Nature

Bussiness - Reliance ka working kesa chal raha h
Economics

Page No.: 02	YOUVA
Date:	

Economics - Dosh / country.

What are the four Imp concepts of word Economics?

1. Resources are scarce / limited.
2. Wants are Unlimited.
3. Resources are allocated to satisfy human wants.
4. Resources have alternative uses.

Chanakya - Arth shastra → Economics of a kingdom.

BRIEF HISTORY

19th Century → Political Economy

Economics originated → Greek word Oikonomia (Household Management)

Adam Smith → Father of Economics / Father of Capitalism.

→ "An Inquiry into the nature and causes of wealth of Nations" BOOK

→ Written on the year 1776.

Resources in Bussiness (5m)

1. Men: means Human resource having proper skill & Talent [men, women, 3rd Gender] eg. Ukraine
2. Money: Funds available at the disposal of Bussiness [Ex: Sheilanka].
3. Machine: means Plant & Machinery to be used in Bussiness is scared - [Indian Production of Mask].
4. Material: availability of Raw Material
5. Method: How Activities are conducted [Reliance, Nokia].

We need Economics Because Resources are scarce and we need to allocate our Resources."



Land, Labour, Capital & Entrepreneurs ~ Economist

10 May 2024 11:36 pm

> Economics also referred as → Law of Household.

M	T	W	T	F	S	S
Page No.:	03	YOUVA				
Date:						

Economic Theory
(Based on certain Assumption) + Business Practice
(Actual scenario)

MANAGERIAL ECONOMIC / BUSINESS ECONOMIC / APPLIED ECONOMIC
Filled the gap betⁿ Economic Theory & Business Practice.

BUSINESS ECONOMICS
utilising your Resource
it is use of Economics analysis to make Business Decisions.

↓
Involving best use of organisational Resources

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, 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 comparatively narrow.

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 & employment, etc. It includes the analysis of micro level issue like demand, supply and profit, etc.

Business Economic definition is given by Joel Don : BE is basically concerned with micro economic but as busⁿ cannot operate in vacuum Busⁿ need a thorough understanding of the MACRO

10 May 2024 11:30 PM

ends - wants
means - Resources

TYPES OF ECONOMICS

MICRO / PRICE THEORY

Study of Behaviour of different Individual & organisation within an economic system.
For small Group

INCOME & EMPLOYMENT / MACRO THEORY

Overall Economic Phenomenon of Economy as a whole.
Study a large Group

Tools

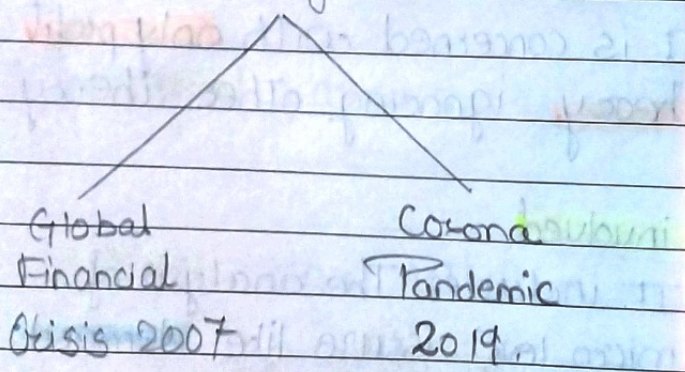
Demand & Supply are the two Tools.

Aggregate demand & Aggregate Supply.

1. Product Pricing
2. Factor Pricing
3. Consumer Behaviour
4. Behaviour of Firms
5. Study of Economic Condition of section of people
6. Location of Industry

1. National Income & National Output
2. General Price level & Interest Rates
3. BOT & BOP ***
4. External value of Currency
5. Overall levels of Savings & Investment
6. level of Employment & Rate of Economic Growth.

There have been periods in which output not only failed to grow.



 BOT: Balance of Trade is the diffn bet' Export & Import Goods
 BOP: Balance of Payment is the difference betn Inflow & Outflow of Foreign Exchange.



TWO FUNDAMENTAL FACTS OF ECONOMICS

- 1. Human wants are Unlimited
- 2. Resources are scarce to satisfy these unlimited wants.

Economics is not just about allocation of Resource it also includes

- i) means to increase the resource
- ii) Search out reason for excess utilisation of Resources (eg. Transport. (no public) (more personal cars))

Economics can not ensure all problems will tackled but this would help in discovering suitable measures.
 eg - Taking Insurance for car does not means ki koi accident nahi hoga, sirf loss ka reduction hoga.

Business Economics
 means making use of Economic Analysis for Decision Making.

Decision making is relating the best course of action which is

- (a) Feasible [Suitable to you]
- (b) Rational Judgement

Decision making can be

- The Business need to make the following
- a) Strategic [Long term goal] Vision
 - b) Tactical [Medium Term goal] Methodology
 - c) Operational Decision [Short term] day to day
 - d) All of the above

Business Economic integrates (mix) Economic Theory and Business Practice.
 Eg: Parle - G ne price nahi Badai uske badle biscuit ka size small kar diya.

straight Forward becz Economic complex - (There are various factor affecting Business)

Dynamic - (Changing)



Decision making \neq simple & straight forward
 ↓
 are to be taken under condition of:
 • Imperfect knowledge
 • Uncertainty.
 Proper Methodology
 + Appropriate Analytical Tools and Techniques
 = Decision Making.

ess of selecting and appropriate the most efficient means of

AND SUCCEED

Alternatives / Courses of Action

STEP 2 : Analysing, the Alternative by applying rational Judgement on basis of Information.

STEP 3 : Choose the Alternative which is most suitable to achieve the desired objectives

Q Rational decision making requires that

- a) One's choices be arrived at logically and without error
- b) One's choices be consistent with one's goal
- c) One's choice never vary
- d) One makes choices that do not involve trade-off

Means = Resources Ends = Wants

Q What is Fundamental Premises? Individuals choose the alternative for which they believe the net gains to be the greatest.

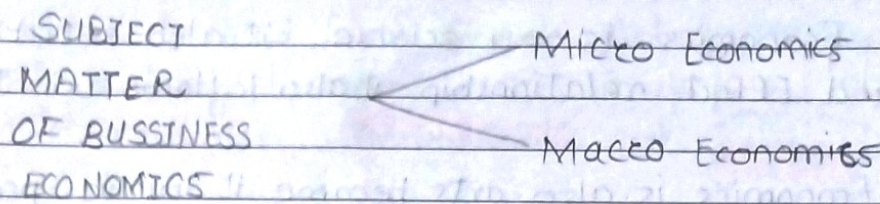
- c) Money only
- d) none of these

Q Scarcity in Economics is an → Relative Concept

Q Resources are scarce in relation to

- a) Human wants
- b) Firms profit motive
- c) Country's Social Goals
- d) All of The above

10 May 2024 11:36 pm



Nature of Business Economics

- 1) BE is a Science
- 2) Based on Micro-Economics
- 3) Incorporates elements of Macro Analysis
- 4) BE is also an Art.
- 5) Use of Theory
- 6) Pragmatic Approach.
- 7) Interdisciplinary in Nature
- 8) Normative in Nature.

Business Economics also called as Managerial Economics.

- (A) Because we apply Business Economics in decision making.
- (B) It is also called as Applied Economics. Because it fill the Gap betⁿ Economic Theory & Business Practice.
- (C) Economics is not only used in Profit making Organisation it is also used in NPO/NGO. [Eg: Being Manuvska also being up sale] & Voluntary Organisation.

Economic Theories are hypothetical - Assumption Based
Simplistic - Reality Based

BE try to reduce the gap betⁿ Practice & Theory



NATURE OF BUSSINESS - ECONOMICS

1. Business Economics is a science, it also establish cause and effect relationship it also follows Scientific Method.
2. Business Economics is also arts because it involve peacticle application of rules & prinicipals.
3. it is largely micro Economics but also include macro Economics.
4. Micro Economics is abstract [more of theory]
 Business Economic is Pragmatic [more of Practical]
5. Business Economics is inter-disiplinary in nature (ie it Eequises The knowledge of other Business also other Field also.
- 6.

SCOPE OF BUSINESS ECONOMICS



Business Economics is much wide

Internal

(Operational issue)



This can be Handled
 its covered in Micro
 Economics.

External

(Environmental issue)



Cannot be Handled &
 covered in Macro
 Economic.

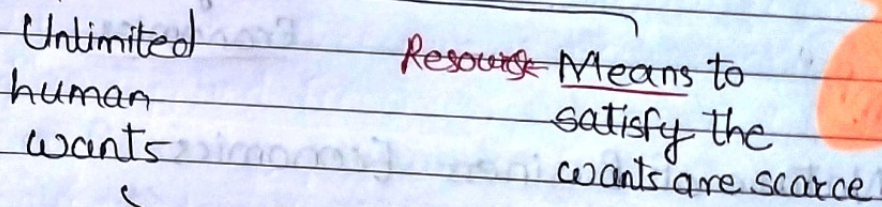


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INTRODUCTION

- Economics is derived from Greek word "Oikonomia" (mean household)
- Till 19th Century, Economic was known as Political Economy
- Father of Economics : Adam Smith → 1776 → The wealth of Nations Book
 ↓
 First Modern work of Economics
- Economics is a study of processes by which the relatively scarce resources are allocated to satisfy unlimited human wants.

Two Fundamental facts



- * But Modern Economists say that it is narrow definition.
- * In day to day events there are various economic issues. [Global crisis 2008, Corona pandemic 2019-20]

Exact que med

* **STUDY OF ECONOMICS** cannot ensure that all the problems will be appropriately tackled, but it would enables us to examine a problem in its right perspective



2] BUSINESS ECONOMICS

"The survival [+]various theories & success of any business depends on sound decisions." ⇒ Business Economics integrates economic theory with business practice.

∴ It is also known as Managerial Economics OR Applied Economics

→ Business Economics has close connection with Economic theory (Micro & Macro), Statistics, Mathematics, Operation Researches etc.

→ Joel Dean defined Business Economics in terms of the use of economic analysis in formulation of Business Economics.

IMP

→ Nature of Business Economics

• Business Economics is Science → Cause & effect Relation

• Business Economics is an Art → कला

• It is based on Micro Economics

• Incorporates elements of Macro Economics

• It uses Theory of Markets



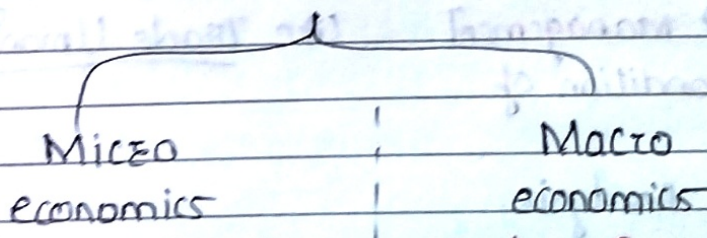
- Business Economic is PRAGMATIC (Practical)
- Business Economic is INTER DISCIPLINARY in Nature.
discipline (D1 + D2 + ... + Dn)
(subject)
- Business Economic is NORMATIVE

WIMP

Positive	Normative
1. What is (क्या है)	What ought to be (What should be) (क्या होना चाहिए)
2. It is not Suggestive	It is suggestive
3. It can be <u>verified</u> ex: Mercury is largest Planet	It cannot be verified ex: Burger is better Than pizza
4. There is <u>NO</u> value judgement	There is value judgement

Q) Ratio

→ Subject Matter of Business Economics



Micro economics

- Study of Individual units
- PRICE THEORY
- Tools: Demand & Supply
- ex: product pricing, consumer behaviour, factor pricing, Economic condition of section of people, behaviour of firms, Location of Industries

Macro economics

- Study of economy as a whole.
- Aggregate
- INCOME & EMPLOYMENT THEORY
- Tools: Aggregate Demand & Supply
- ex: National Income, General Price level, Balance of Payment / Trade, External value of currency, Employment Rate, Overall Savings & Investments



→ Scope of Business Economics

Internal Issues

Operational Issues



This can be solved by using **MICRO Economics**



- Demand analysis & forecasting
- Production & Cost analysis
- Inventory Management
- Market Structure & Pricing Policy
- Resource Allocation
- Capital & Investment decisions.
- Profit analysis → **management of profits under condition of uncertainty.**
- **Risk & uncertainty Analysis.**

can be predict

cannot predict

External Issues

Environmental Issues



This can be solved by using **MACRO Economics**



- Type of Economic system ^{Capitalist, Socialist}
- Stage of Business cycle
- General Trends (National Income, Employment)
- Working of Central Bank (RBI)
- Social & Political Environment
- Socio Economic Organization like Trade Unions.

