

Chapter - 1

Nature and Scope of Business Economics

Unit - 1 (Introduction)

1. Economics owes its origin to the greek word "oikonomia"

2. What is Economy or Fundamental fact of Economy?

- (i) Human wants are unlimited
- (ii) Resources are limited
- (iii) We need to satisfy our maximum wants with limited resources which provides maximum satisfaction.

3. Modern economy ignore the fact :-

↳ How to increase limited Resources.

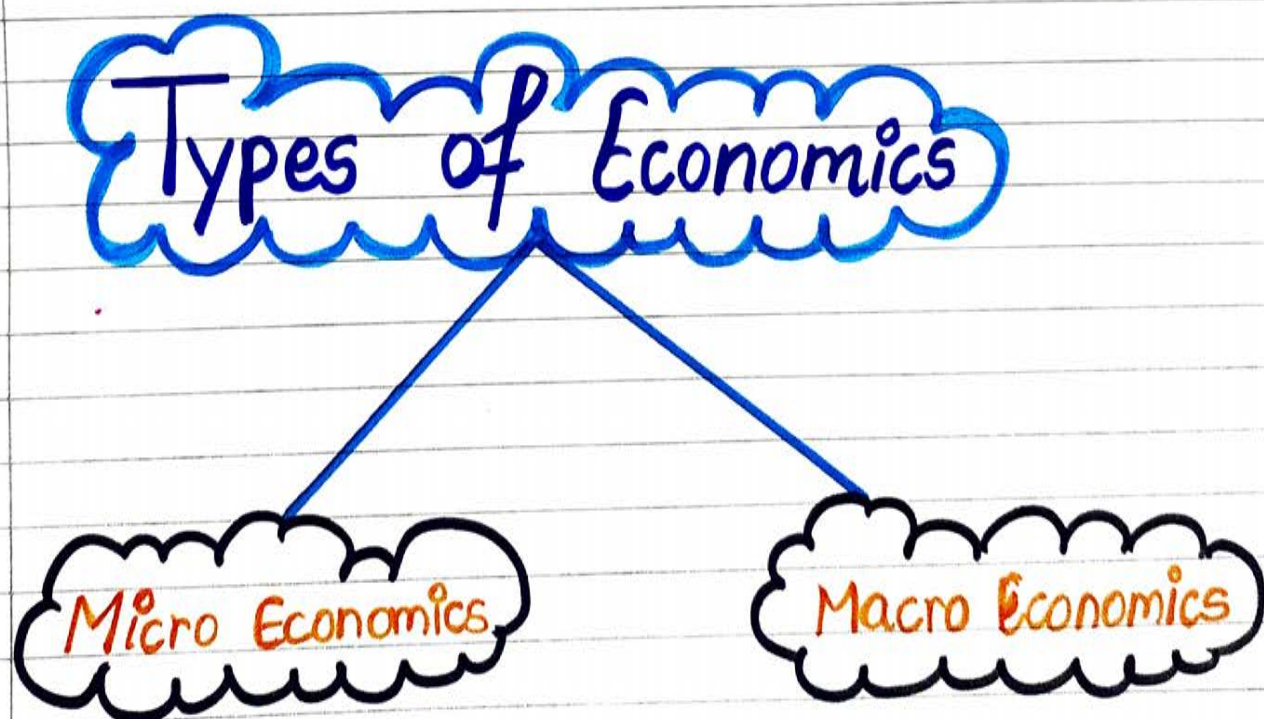
4. Business Economics

In simple words :-

Business economics means decision making.

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

- (ii) Business economics are also known as **Managerial economics**.
- (iii) Business economics **integrates** economy theory with business practice.
- (iv) Economics theory just provide the tools which explain the concept of demand, supply, cost, production, price, marketing, competition etc.
- (v) Business economics apply these tools in the process of **decision making of business**.
- (vi) Business economics **fill the gap** between economic theory and business practice.
- (vii) Business economics is also useful for **NGO and Non-profit organisation as well**.





Macro Economics

OR

Theory of Income & Employment

OR

General Equilibrium Analysis

OR

Theory of Lumping

Macro Economics



1. Study of economy at its whole level.
2. Aggregate study.
3. We study mainly the following factors.

- | | |
|----|---------------------------------------|
| a. | Overall level of output |
| b | National income |
| c | general price level |
| d | interest rate |
| e | Balance of trade |
| f | Balance of payments |
| g | external value of currency |
| h | overall level of savings |
| i | overall level of investment |
| j | level of employment |
| k | rate of economic growth |
| l | Export, import and Foreign investment |

Micro Economics

1. Study at individual level
2. we focus on small number 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



Micro Economics Vs Macro Economics

	Micro Economics	Macro Economics
1.	It is study of individual economic unit of an economy	It is the study of 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 level and national output, etc.
3.	Its central problem is price determination and allocation of resources.	Its central problem is determination of national income.
4.	Its main roots are demand and supply of particular commodity / factor.	Its main roots are aggregate demand and aggregate supply of economy as a whole.
5.	It discusses how equilibrium of a consumer, a producer or an industry is attained.	It is concerned with determination of equilibrium level of income and employment.

Nature of Business Economics

→ Business Economics is a Science

1. Science means systemized body of knowledge which establishes cause and effect relationship.
2. Economics provides tools like statistics, econometrics, mathematics etc.
3. Business economics integrates the tools in to decision making.

→ Business Economics is an art

It involves practical application of rules and principles.

→ Business Economics Based on micro economics

→ Business Economics Based on macro economics

→ Business Economics use the theory of markets and private enterprise.

→ Business economics is interdisciplinary in approach.

It uses multiple tools such as :-

a Mathematics

b Operational Research

c Management theory

d Accounting, marketing, finance.

e Statistics and econometrics.

→ Business Economics is Pragmatic in approach, as it tackles practical problems which the firm faces in the real world.

→ 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 statements can empirically verified.	Its statements may or may not be verified.
3	It depends upon scientific logic or facts.	It depends on ethical logic or values.
4	It studies the cause and effect relationship.	It passes value judgements.
5	It is objective and quantitative in nature.	It is subjective and descriptive in nature.
6	Example	Example
	(i) India is overpopulated (ii) Demand falls when price rises.	i) Rich people should be more taxed. ii) Govt. should increase expenditure on health care.

Scope of Business Economics

- (i) Internal Issues [operational issues]
- (ii) External Issues [Environmental issues]

→ Internal Issues

- 1. Also known as operational issues
- 2. Issues arise with in the organisation
- 3. with in 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.

→ Following micro economic theories deal with 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. Profit analysis
- h. 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

1. → Types of Economic System

Capitalist

Socialist

Mixed

2. Stages of Business cycle
3. Government policies and Regulations
4. Banking policies and Regulations
5. Social and political environment
6. trend in national income / employment / prices / savings etc.

7. Foreign Trade policies, fiscal policies.
8. Globalisation policies.



Recap

An Economic environment exists because of two facts i.e human wants are unlimited and Resources are limited.

Economics is the study of Process by which the scarce resources are allocated to satisfy the maximum wants, gives maximum satisfaction

Economics subject matter divided into two parts:

- macro economics
- micro economics

Microeconomics examines how the individual firm make decisions as to how to efficiently allocate their scarce resources.

Macroeconomics study the behaviour of the large economic aggregate such as level of output, investment, growth rate etc.

Business economics integrates economic theory with business practice.



Business economics concern with micro and macro also play important Role. Macro economics analyzes the environment in which business has to function.

Business issues has two category

- * Internal
- * External