



BUSINESS ECONOMICS

Paper – 4
100 Marks



What Shall We Learn?

Ch. 1 - Nature & Scope of Business Economics

Ch. 2 - Theory of Demand and Supply

Ch. 3 - Theory of Production and Cost

Ch. 4 - Price Determination in Different Markets

Ch. 5 - Business Cycles

Ch. 6. – Determination of National Income

Ch. 7. – Public Finance

Ch. 8. – Money Market

Ch. 9. – International Trade

Ch. 10. – Indian Economy





Ch. 1 Nature & Scope of Business Economics

Unit 1 – Introduction

**Unit 2 – Basic Problems of an Economy and
Role of Price Mechanism**





Unit 1 - Introduction





What is Economics About?

Greek Word

“Oikonomia”

Economics

Science of House Hold





What is Economics About?

Till **19th century**, Economics was known as
‘Political Economy.’

Adam Smith > ‘An Inquiry into the Nature
and Causes of the Wealth of Nations’ in
(1776) = ‘The Wealth of Nations’





INTRODUCTION

- **General definition of the study of Economics is individual and social choice in the face of **scarcity**.**
- **The law of scarcity implies that **consumer's wants will never be completely satisfied**.**
- **Economic problems arise due to two reasons (Fundamental Facts):**
 - a) Unlimited wants**
 - b) Scarce resources**





INTRODUCTION

- Economics is a science that studies those activities, which are, concerned with the efficient consumption, production, exchange and distribution of **scarce means which have alternative uses.**
- The purpose of economics is to achieve **maximum satisfaction of wants and increasing of welfare as well as economic growth.**





Meaning of Business Economics

- **Business Economics = Managerial Economics.**
- It is application of **economic theory** and methodology to the **business decisions.**
- Every business involves decision – making as survival and success depends on sound decisions.



Meaning of Decision Making

Decision making means the process of –

1. evaluating various **course of action**,
2. **making rational judgment** on the basis of available information, and
3. **selecting** i.e. making choice of a suitable alternative by decision maker.



Meaning of Decision Making

- Decision making is not simple and straight forward. It has become very complex due to ever changing business environment, growth, competition, large scale production, big size of business houses, complex laws, cost awareness, etc.
- Business Economics is **APPLIED ECONOMICS**.
- Business Economics is closely connected with both viz., Micro-Economic Theory as well as Macro- Economic Theory.
- It is also useful to the manager of '**not-for-profit**' organizations.





Definition of Business Economics

- Business Economics is the **use of economic analysis to make business decisions** involving the best use of an organization's scarce resources.
- **Joel Dean** > Business Economics in terms of the use of economic analysis in the formulation of business policies.





Definition of Business Economics

- **Evan Douglas** > Business Economics is concerned with the **application of economic laws, principles and methodologies** to the managerial decision making process within a business firm under the condition of risk and uncertainties.
- Business Economics is **Applied Economics** as it includes application of selected quantitative techniques such as linear programming, regression analysis, capital budgeting, break even analysis and cost analysis.





Types of Economics / Subject Matter of Economics

| Basis | Micro-Economics | Macro-Economics |
|------------------|--|---|
| Study of | It is study of individual economics units. | It is study of the economics as a whole and its aggregates. |
| Deal with | It deals with individual income, individual prices and individual output, etc. | It deals with national income, price level, national output, etc. |
| Tools | Its main tools are demand and supply of a particular commodity. | Its main tools are aggregate demand and aggregate supply of the economy as a whole. |



Types of Economics / Subject Matter of Economics

| Basis | Micro-Economics | Macro-Economics |
|-------------------------|---|--|
| Central problem | Its central problem is price determination of commodities of factor of production. | Its central problem is determination of level of income and employment. |
| Prices | Prices determined under this are called 'relative prices.' | Prices determined under this are called 'absolute price.' |
| Type of analysis | It is partial equilibrium analysis. | It is general equilibrium analysis. |



Types of Economics / Subject Matter of Economics

| Basis | Micro-Economics | Macro-Economics |
|----------------|--|--|
| Scope | Its scope is limited | It is wider in scope. |
| Example | <ul style="list-style-type: none">- Lock out in TELCO.- Finding the causes of failure of X and CO.- Theory of product pricing/price theory- Theory of consumer behaviour- Theory of factor pricing- Study of a firm | <ul style="list-style-type: none">- Per capita income.- Corporate income tax.- Economy growth.- Theory of national income, employment and money- Theory of general price level- Theory of economic growth and development- Theory of international trade |





Nature of Business Economics

- **Business Economics is a Science**
- **Based on Micro Economics**
- **Incorporates elements of Macro Analysis**
- **Business Economics is an art**
- **Use of Theory of Markets and Private Enterprises**
- **Pragmatic in Approach**
- **Interdisciplinary in nature**
- **Normative in Nature**



Positive & Normative Science

Positive science

Robbins

What it is?

Based on analysis, facts, realistic

Will not pass value Judgement (not give Solution)

e.g. India is an over populated country

Deals CAUSE and EFFECTS only.

It is DESCRIPTIVE in nature.

Normative science

Alfred Marshall

What should be? or What ought to be?

Based on ethics

Will pass value Judgement (gives solution)

Family planning should be started to control population

States what is right and what is wrong

It is PRESCRIPTIVE in nature





Scope of Business Economics

Micro-Economics is applied to **operational or internal issues** of a firm.

Macro-Economics is applied to **environment or external issues** on which the firm has no control.





Operational or Internal Issues

- Demand analysis and forecasting
- Production and Cost Analysis
- Inventory Management
- Market structure and Pricing Analysis
- Resource Allocation
- Theory of Capital and Investment Decisions
- Profitability Analysis
- Risk and Uncertainty Analysis.





Environmental or External Issues

- The type of economic system**
- Stage of business cycles**
- The general trends in national income, employment, price, saving and investment.**
- Government's economic policies**
- Working of financial sector and capital market**
- Socio-economic organizations**
- Social and political environment.**



Difference Between Economics and Business Economics

| Basis | Economics | Business Economics |
|------------------|--|--|
| Meaning | It involves the framing of economic principles to solve economic problems. | It involves the application of economic principles to solve economic problems. |
| Character | It is microeconomic as well as macroeconomic in character. | It is microeconomic in character. |



Difference Between Economics and Business Economics

| Basis | Economics | Business Economics |
|------------------|---|---|
| Main Task | The fulfilment of needs of individuals as well as entities. | Proper decision making in a 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 a comparatively narrow scope. |
| Branches | It has business economics as its applied branch. | It is an applied branch of economics. |





Difference Between Economics and Business Economics

| Basis | Economics | Business 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 and employment, etc. | It includes the analysis of Micro level issues like demand, supply and profit etc. |





Difference Between Economics and Business Economics

| Basis | Economics | Business Economics |
|--------------------------------|---|--|
| Concentration | It concentrates only on the economic aspects of any business problem. | It concentrates on both economic as well as noneconomic aspects of any business problem. |
| Validity of Assumptions | It is based on certain assumptions. | Some assumptions become invalid when applied. |





Unit 2 – Basic Problems of an Economy & Role of Price Mechanism

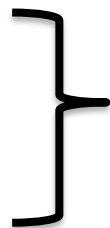


Central Economic Problems

- What to produce (capital goods, consumer goods)
- How to produce (capital surplus use capital, labor surplus use labor)
- For whom to produce (poor or rich, in India it gives to poor for upliftment)
- What provision should be made for economic growth

When are goods produced

How much to produce



are not economic problems





Economic Systems

- **Capitalist Economy**

- **Socialist Economy**

- **Mixed Economy**





Capitalist Economy

Features:-

1. Means of production are privately owned
2. Freedom of enterprise & freedom of price choice
3. Allocation of resources is as per consumer preference
4. Entrepreneur are guided by profit motive
5. Competition exist among producers
6. Capitalist economy use price mechanism as a principle motive





Capitalist Economy

Merits:-

1. Greater efficiency & incentive to work hard
2. Faster economic growth possible
3. Consumer are benefitted because of good quality product
4. Higher standard of living
5. Innovation & technological progress





Capitalist Economy

Demerits:-

1. Uneven distribution of Income & wealth
2. Income inequality & social injustice
3. Exploitation of consumer and laborer
4. Economic instability which may lead to depression
5. Creation of monopoly power

Other names for capitalist economy- Market economy, Market system, Free markets, Market mechanism, Price mechanism, Laisses-Fair Economy.





Socialist Economy

- The concept of socialist economy was propounded by **Karl Marx** and **Frederic Engels** in their work '**The Communist Manifesto**' published in **1848**.
- In this economy, **the material means of production** i.e. factories, capital, mines etc. are **owned by the whole community** represented by the State.

Features:-

1. It is known as command economy, controlled economy, centrally planned economy
2. Collective ownership of means of production
3. Promote welfare of people
4. Lack of competition





Socialist Economy

Merits:-

1. Balance economic development
2. No class conflict
3. Economic Fluctuation & unemployment are minimized
4. Right to minimum work
5. No exploitation of consumer & worker





Socialist Economy

Demerits:-

1. Corruption, Red-tapism, results into inefficiency
2. No freedom of choice
3. Price are administered by state





Mixed Economy

Features:-

1. Combination of both capitalism & socialism
2. Freedom to join any occupation trade or business
3. People are free to consume goods of their choice





Mixed Economy

Merits:-

1. Freedom of occupation
2. Encourages enterprise & Risk taking
3. Development of technology through R & D
4. Economic & social equality possible





Mixed Economy

Demerits:-

1. Poor implementation of plans
2. High level of taxes
3. Good level of corruption
4. Wastage of Resources





THANK YOU