

1. Introduction to Business Economics.

CH1: Nature & scope of Business Economics.

(1) INTRODUCTION.

- Economics is derived from Greek word "OIKONOMIA" (means household)
- Till 19th century economics was known as Political economy
- father of Economics - Adam Smith.

Adam Smith → 1776

↓
Book :- The wealth of Nations.

↓
First modern work of Economics.

- Economics is study of processes by which the relatively scarce resources are allocated to satisfy unlimited human wants.

Two fundamental facts.

Two fundamental facts

Unlimited human
wants

साधन
(Resource)

Means to satisfy
the wants are
scarce

But, modern economists say that it is a narrow definition.

In day to day events there are various economic issues. (Global crisis ²⁰⁰⁷ 2008, Corona pandemic 2019-20)

(*) Study of Economics can not ensure that all the problems will be appropriately tackled, but it would enable us to examine a problem in its right perspective.

(2) BUSINESS ECONOMICS



"The survival (+) & success of any business depends on sound decisions" various theories and techniques

Business Economic integrates economic theory with business practice

Therefore, it is also known as Managerial Economics or Applied Economics.

→ Business Economics has close connection with economic theory (Micro & Macro), Statistics, Mathematics, operation Research etc.

→ Joel Dean defines Business Economics in terms of the use of Economic analysis in formulation of business policies.

Imp

→ Nature of Business Economics

- Business Economics is Science → cause & effect Relation
 ↓
 eg - Price ↑ Demand ↓
- Business Economics is an Art - कला
- it is based on micro Economics
- incorporates elements of macro Economics.
- it uses theory of Markets (CH-4)
- Business Economics is PRAGMATIC
 ↓
 Practical
- Business Economics is inter disciplinary in nature.
 ↓
 disciple → subject
 inter → अनेक शास्त्रे
 (disciplin + discipline
 + d3 + d4 ... etc)

- Business Economics is NORMATIVE

POSITIVE	NORMATIVE
what is (क्या है)	what ought to be (what should be) (क्या होना चाहिए)
It is <u>NOT</u> suggestive	It is <u>suggestive</u>
It can be <u>verified</u> Eg-: (Mercury is largest Planet)	It cannot be <u>verified</u> . Eg (Burger better than pizza)
There is <u>no</u> value judgement	There is <u>value</u> judgement

→ subject matter of BUSINESS ECONOMICS

MICRO Economics

- study of individually units.
- It is also known PRICE THEORY

• TOOLS - Demand & Supply

Ⓟ EX -

MACRO Economics

- Study of economy as a whole (aggregate)
- It is also known as INCOME & EMPLOYMENT THEORY

• TOOLS - Aggregate demand & Aggregate Supply.

Ⓟ EX -

(R)

Examples : ^{output}

- Product Pricing
- consumer behaviour
- Factor Pricing
↓
Inputs.

- Economic condition of section of people
- Behaviour of firms
- location of industry

(R)

Examples :

- National Income
- General Price level.
- Balance of Payment or Balance of Trade.
- External value of currency
- Employment rate
- Overall savings and Investments.

→ SCOPE OF BUSINESS ECONOMICS.

Internal Issues

Operational Issues

External Issues

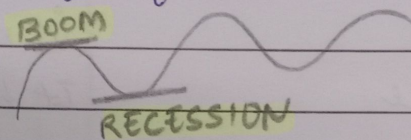
Environmental issues

These can be solved by using "MICRO" economics.

- Demand analysis & forecasting
- Production & cost analysis
- Inventories management
- Market structure & Pricing Policy.
- Resource allocation
- capital & Investment decisions.
- Profit analysis -
Management of profits under condition of uncertainty

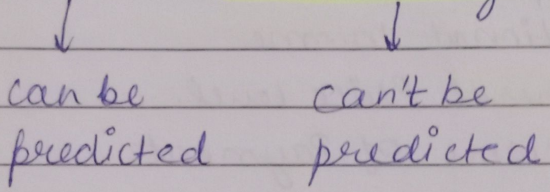
These can be solved by using "MACRO" economics.

- Type of economic system (capitalist / socialist)
- Stage of Business cycle



- General trends in National Income, employment etc.
- working of Central Bank

• Risk & uncertainty analysis.



- social & Political environment
- Socio Economic organisations like - Trade Unions.

Difference Between Economics & Business Economics.

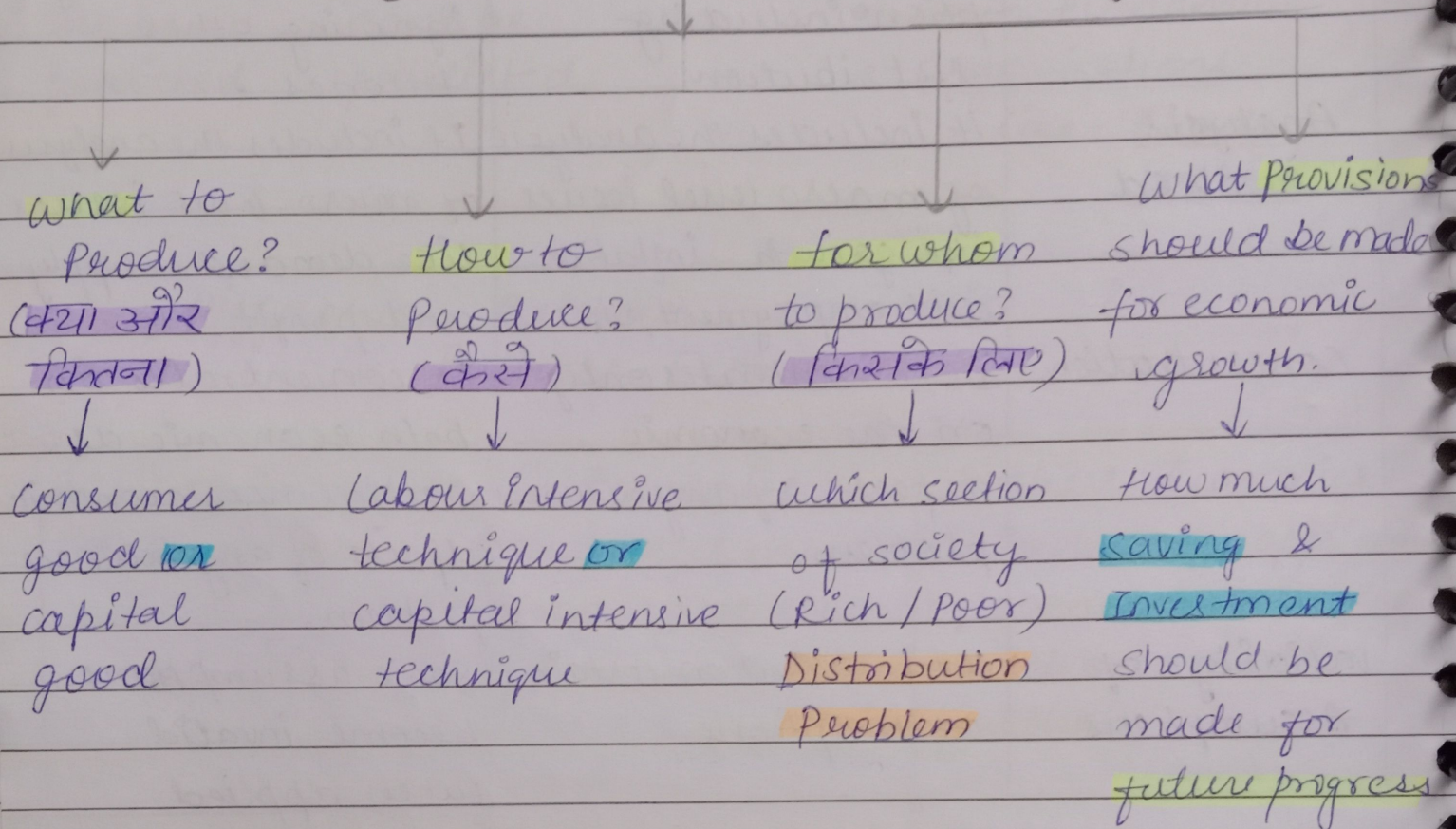
Basis of Difference	Economics	Business Economics
Meaning	It involves the framing of economic principles to solve economic problems.	It involves the application of economic principles to solve economic problems.
Character	It is microeconomic as well as macroeconomic in character.	It is micro economic in character.
Main task	The fulfillment of needs of individuals as well as entities.	Proper decisionmaking in a particular 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 economic as its applied branch.	It is an applied branch of economics.

Date

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

Unit 2 :- Basic Problem of Economy

[Central Problems of Economy]



* CAPITALIST ECONOMY *

(Free market economy)

OR

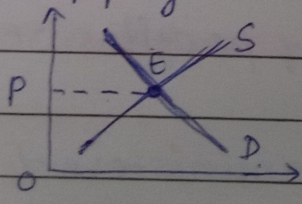
(laissez - faire)



policy of leaving things to take their own course.

Eg - US economy,
South Korea,
Hong Kong etc.

features	Merits	Demerits.
1. Right to Private Property	Self regulating Price mechanism	INEQUALITY ↓ Two classes of society.
2. Freedom of Enterprise.	Greater efficiency & Incentive to work	↓ ↓ HAVES (RICH) HAVE NOTS (POOR)
3. Freedom of Economic choice.	Economic growth is faster.	Property rights > Human rights.
4. Profit Motive	optimum utilization of resources.	Demand Pattern doesn't represent real needs of society.
5. Consumer = KING SOVEREIGNTY.	Consumers are benefitted	
6. Competition (HIGH)	Freedom of desire	NO security of employment.
7. NO Government	It rewards men of initiatives & punishes inefficient	Consumer sovereignty is myth.
8. Prices are determined by market forces of demand & supply.	Democratic framework is there	less of Merit goods (education, health) Economic Instability and formulation of monopolies



* SOCIALIST ECONOMY *

(Command Economy)

OR

(Centrally Planned Economy)

Propounded by Karl Marx
and
Frederic Engels

Eg:-

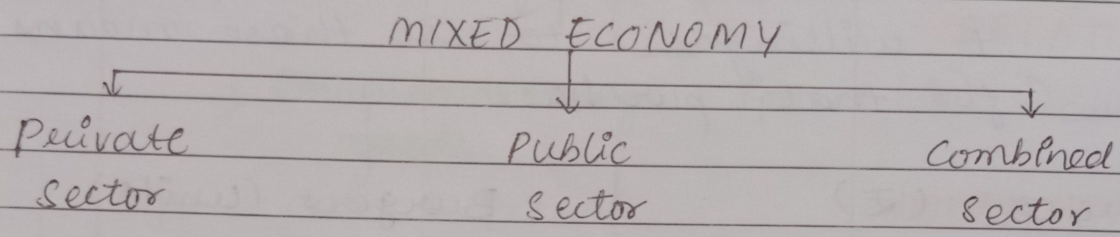
- North Korea
- China
- Earlier USSR

BOOK
↓

Communist (1848)
Manifesto

Features	Merits	Demerits.
1. <u>Collective ownership.</u>	<u>Equitable distribution of wealth</u>	<u>Inefficiency, Red Tapism, corruption</u>
2. <u>Economic Planning</u>	<u>Balanced economic development</u>	<u>Less freedom of choice</u>
3. <u>No consumer choice</u>	<u>No wastage of resources on Advertisement.</u>	<u>NO Incentives for Hardwork in form of profit.</u>
4. <u>Relatively Equal Income distribution</u>	<u>Less unemployment & Business fluctuation</u>	<u>Administered Prices.</u>
5. <u>Minimum role of Price Mechanism. (Demand & Supply)</u>	<u>Ensures right to work & freedom from hunger</u>	

- 6. Absence of Competition. Labourers are protected from exploitation. state monopolies.
- 7. social welfare motive.



Mixed Economy means =
Benefits of Capitalist + Socialist.

SOLUTIONS to CENTRAL PROBLEMS.

Economy	WTP? क्या??	H TP? कैसे??	F W T P? किसके लिए??
Capitalist	on the basis of <u>consumer's Preference</u> .	<u>least cost</u> of Production	who have <u>buying Capacity</u> .
socialist	Government decides	Government decides.	Government decides.