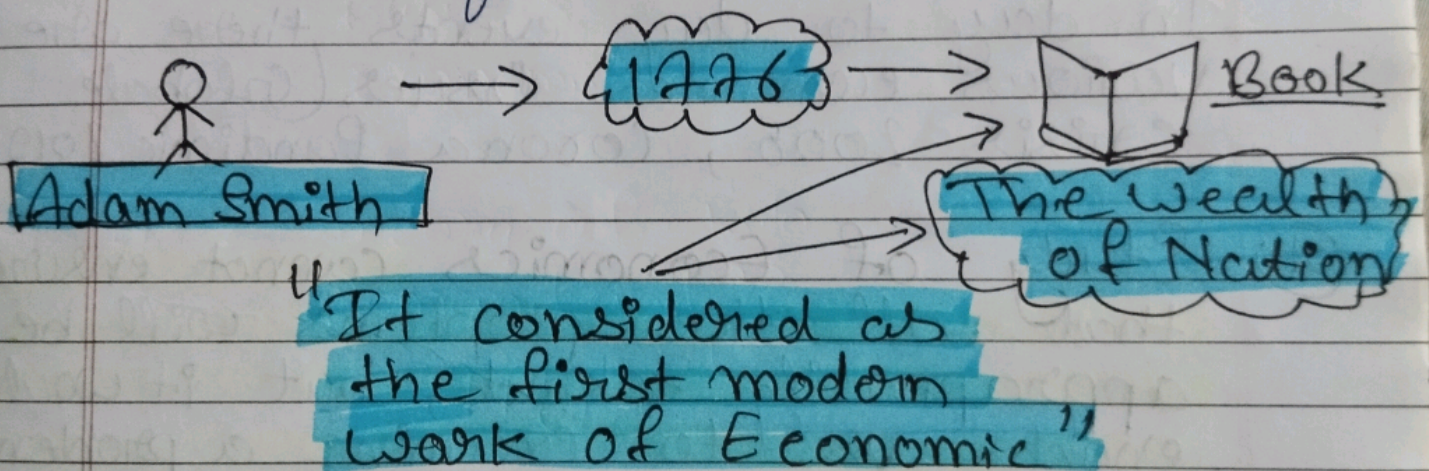


Ch-1 : Nature and Scope of Business Economics

Unit-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".



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

Two fundamental facts

Page No. _____
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Two fundamental facts

Unlimited human wants

Means to satisfy the wants are scarce

साधन

(Resources)

But modern economists says that it is a narrow definition.

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

① Study of Economics cannot ensure that all the problems will be appropriately tackled, but it would enable us to examine a problem in a right perspective.

② BUSINESS ECONOMICS

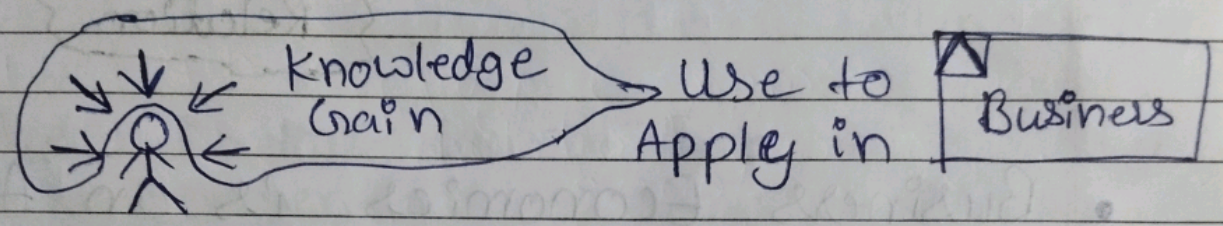
↓
"The survival & success of any business depends on sound decisions"

+

↓
"Various theories and techniques"

Business Economics Integrate Economic Theory with Business Practice.

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



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

→ Joel Dean define Business Economic in terms of the use of economic analysis in formulation of Business Policies.

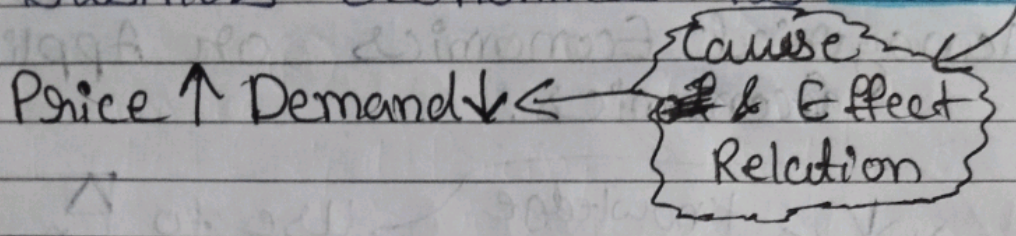
→ Joel Dean is a father of Business Economics.

2.1

2.1) Nature of Business Economics

Imp.

- Business Economics is Science



- Business Economics is an Art
- It based largely on Micro Economics
- Incorporates elements of Macro Analysis.
- It use theory of Market & Private Enterprises.

- Business Economics is Pragmatic* (Practical)

- Business Economics is Interdisciplinary in nature.

↓
Discipline 1 + Discipline 2 + D3 + D4 + etc

Discipline = Subject +

- Business Economics is Normative

Positive	Normative
→ What is (क्या है)	What ought to be (What should be) (क्या होना चाहिए)
→ It is not suggestive	It is suggestive
→ There is <u>no</u> value Judgement.	There is value Judgement.
→ It can be Verified (eg. Mercury is the largest planet)	It cannot be verified (eg. Burger is better than Pizza)

2.2 Subject Matter of Business Economic

MICRO Economics Individual	MACRO Economics Aggregate or totality
Study of Individual Unit.	Study of Economy as a whole (Aggregate)
It is also known as Price Theory	It is also known as Income & Employment Theory

Tools - Demand (+) Supply

Example ^(R)

- Product (output) Pricing
- Consumer behaviour
- Factor (Input) Pricing
- The economic condition of a selection of people
- Behaviour of firms
- Location of Industry

Tools - Aggregate Demand (AD) (+) Aggregate Supply (AS)

Example ^(R)

- National Income & National Output
- The general price level and Interest Rate.
- Balance of Trade and balance of payment
- External value of currency (Foreign Exchange Rate)
- The overall level of saving and Investment
- The level of employment and rate of economic growth

2.3 Scope of Business Economics

Internal Issues (Operational Issues)

It can be solve by "Micro Economics"

- Demand analysis and forecasting.
- Production and cost Analysis
- Inventory management
- Market structure & Pricing Policies
- Resources allocations
- Theory of capital and Investment Decisions.
- Profit Analysis
- Risk and Uncertainty Analysis

Can be Predicted

Cannot be Predicted

External Issues (Environmental Issues)

It can be solve by "Macro Economics"

- Type of economic System.
- Stage of business Cycle
- General trends in national income, employment, price, saving and investment.
- Government economic policies.
- Socio-economic organisation like trade union
- Working of central Bank
- Social and political environment.

Unit 2: Basic Problems of an Economy and Role of Price Mechanism

Central Problems of Economy

What to Produce? (क्या और कितना)	How to Produce? (कैसे)	For Whom to Produce? (किसके लिए)	Which provisions should be made for economic growth?
↓ Consumer goods and Capital goods	↓ Labour Intensive technique or Capital Intensive technique etc	↓ Which section of Society (Rich or Poor)	↓ How much saving & Investment
e.g. → Bread, egg, Car, TV or Machinery, Equipment etc	e.g. → Labour or Machinery etc	<u>Product</u> → Rich → Poor	Should be made for future progress (Sustainable Development)
		Distribution Problem	

Problem of choice

* Capitalist Economy *

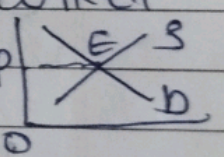
or (Free market Economy)
or (Laissez-faire)

Policy of leaving things to take their own course

e.g. → US, UK, Hong Kong, South Korea etc.

Features

- Right to private property.
- Freedom of enterprise.
- Freedom of Economic choice.
- Profit Motive.
- Consumer sovereignty (consumer is ~~the~~ a king in this economy)
- Competition (High)
- Absence of Government Interference.
- Prices are determined by market forces of demand & supply.



Merits :-

- Self regulating price mechanism.
- Greater efficiency and incentive to work.
- Economic growth is faster.
- Optimum utilisation of resources.
- Consumers are benefited.
- Freedom of choice.
- It rewards men of initiative and punishes inefficient.
- Democratic framework.

Demerits:

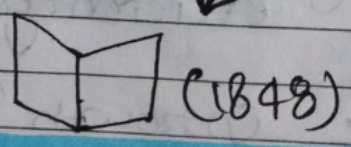
- **Inequality** → Two cause of society
 - Haves (Rich)**
 - Have-nots (Poor)**
- Property rights greater than human rights
- Demand pattern **does not represent real needs** of society.
- **No security of employment**
- **Consumer sovereignty is a myth.**
- **Less of merit goods (education, Health)**
- **Economic instability.**
- **Formation of monopolies**

* Socialist Economy *

(Command economy ~~and~~ Centrally Planned economy) ^{or}

Propounded (Discovered) by **Karl Marx and Frederic Engels**

e.g.
North Korea,
China, Earlier
USSR etc.



"The Communist Manifesto"

Features :-

- Collective Ownership.
- Economic planning.
- Absence of Consumer choice
- Relatively equal Income Distribution.
- Minimum Role of Price Mechanism (Demand & Supply) or Market force
- Absence of Competition.
- Social welfare motive

Merits :-

- Equitable distribution of wealth.
- Balanced economic development.
- No wastage of resources on advertisement.
- Less unemployment and Business fluctuation.
- Ensures right to work and freedom from hunger.
- The labourers and consumers are protected from exploitation.

Demerits :-

- Inefficiency, Red Taperism, Corruption etc
- Less freedom of choice
- No incentive for hardwork in form of profit.
- Administered prices.
- State Monopolies.

