

Nature & Scope of

BUSINESS ECONOMICS

Business Economics defined by

in terms of :- ~ Joel Dean -

use of → ECONOMIC Analysis in the
↓
formulation of → BUSINESS Policies

★ Other Names ⇒ Managerial Economics
Applied Economics.

★ Macro economic → analyses the Overall economic environment in which the firms, households & govt. operate & make decisions.

★ Product pricing is an element of Microeconomics.

★ Macro economics → analyses the background of economic conditions in an economy which will immensely influence the firm's performance as well as its decisions.

★ Economic theory is hypothetical & simplistic.

★ Based on Micro-Economics → A Business Manager (Micro) is usually concerned

about achievement of the predetermined objectives of his org. so as to ensure the long term survival & profitable functioning.

Business Manager = Micro Manager
= Micro economics

(Tip for remembering previous point)

★ BE uses the theory of the firm & resource allocation in the backdrop of a private economy.

★ Pragmatic in Approach → Micro eco. is -

★ BE combines the essentials of Norm. & pos. eco. theory but the emphasis lying more on normative.

- ① Abstract
- ② Purely theoretical ✓
- ③ Analyses economic phenomena
- ④ under unrealistic assumptions ✗

Business Eco. is -

- ① Tackles practical problems

★ BE is interdisciplinary & normative.

★ Normative → A positive science -

- ① Analyses Cause & effect relationship
- ② In objective & scientific manner
- ③ Does not involve value judgement.
- ④ Descriptive in nature.

★ BE is prescriptive / normative.

BUSINESS ISSUES -

Internal or Operational

External or Environmental

↓
(Fall within the purview & control of management)

1. Micro Economics applied to Internal Issues -

- Demand Analysis & Forecasting

- Production & Cost Analysis → Production Analysis enables the firm to decide:-

- ① Appropriate Technology
- ② least - Cost input - Mix
- ③ Technically efficient way of producing output.

- Inventory Management → provides rules that firms can use to -

Minimize Costs associated with maintaining inventory.

Methods → ABC analysis, simple simulation exercise & mathematical models.

Inventory policies affect the policies of the firm.

- Market structure & pricing policies: Analysis of the structure of market provides info. about the nature & extent of competition which the firms have to face.

Structure of Market



Nature & extent of Competition

[Market structure matlab competitors ke products ki kitni demand hai, etc. Ye sab cheezien batati hai ki ek particular firm ko kitna comp. face karna padega]

This helps in determining the degree of **MARKET POWER** (ability to determine prices)

[Market structure se hume nature or extent of competition pata chalta hai. Fir ye pata lagne ke baad hume ye pata lagta hai ki is industry mein hamara market power kitni hogi. Agar comp. kam hai toh hamari market power zaada hogi toh hum aaram se prices apne hisab se determine kar payenge).

It also helps in determining strategies to be followed in market management such as product design, marketing, etc.

- Resource Allocation: BE with the use of Linear programming enables the firm

(Market Structure)

to arrive at the best course of action for optimum utilisation of available resources.

• Theory of Capital & Investment decisions : BE supports decision making on allocation of scarce capital among competing uses of funds.

• Profit Analysis → Profits are uncertain due to -
① Changing prices

② Market Conditions
Profit theory guides the firm in the measurement & management of profits under conditions of uncertainty.

Profits = Uncertainty

It is also helpful in future profit planning.

All countries face the problem of scarcity. There would be no economic problem if -

- 1. Resources are unlimited
- 2. Resources have only single use.

This is generally called the central economic problem.

★ How to produce ? : The choice b/w capital intensive & labour intensive techniques would depend upon -
Availability of different factors of production & their relative prices.

★ An Economic system refers to the sum total of arrangements for the production & distribution of goods & services.

CAPITALIST ECONOMY

Mainstay → Private property
Driving Force → Profit Motive

- ★ Here consumers & business can interfere freely without the interference of the govt. The govt has a limited role in mang. decisions of *communicate*
- ★ Therefore, consumers & business determine economic activity.
- ★ Desire for profit induces entrepreneurs to organise production.
- ★ Consumer's decide how the economy's limited resources are allocated.
- ★ Competition - Most important feature of the capitalist Economy. Brings out the best among buyers & sellers.
Result: Efficient use of resources.
- ★ Buying capacity of an individual depends upon his Income.

Amount of Income of a consumer depends on -

- Amount of work he does
- prices of factors he owns
- How much property he owns.

★ Savings of consumers in capitalist economy depends upon -

Income & Interest rates

Investment decisions depend upon the ROR on Capital.

$$\text{Rate of Interest on savings} = \text{ROR on Capital} = \text{Prices of Capital}$$

MERITS -

1. Self Regulating, works through Price Mechanism.
2. NO Costs incurred for → Collecting Info.
(we already know) → Formulating & Imple. policies.
3. High degree of operative efficiency.
4. Rewards men of initiative & punishes imprudent & inefficient.
5. Usually functions in a democratic framework.
[People's views are considered]

DEMERITS-

1. Vast economic inequality & social injustice. Inequalities reduce aggregate economic welfare.
2. Ignores human welfare.
3. Due to Income inequality, the pattern of demand does not represent real needs of people.
4. Because there is a pressure of making profits, labour is exploited. Very often it leads to strikes & lockouts.
5. Consumer sovereignty is a myth as consumers often become victims of exploitation. (Those with less income)
6. Misallocation of resources, Kyuki agar suppose luxury goods ki demand zada hai to luxury goods mein resources use honge. Less wage goods will not be produced kyuki unki profitability kam hogi.

Pure Capitalist economy ka ek merit ye hai ki optimum allocation hota hai resources ka. Ab confuse ho gaye na? Samjho is cheez ko, optimum allocation tabhi hoga jab income inequality nhi hogi.

ya bahut kam hogi. Kyunki tab jo products produce honge vo sirf ameer logo ki demand nhi hogi balki hai insaan ki demand hogi. Par jab economy mein income inequality hogi, tab resources ka misallocation hoga kyunki resources sirf un goods mein hi kaam aayenge jo vo log khareed sakte hai jinke pas buying capacity hai. Gareeb logo ki demands toh puri he nahi hogi.

7. Due to unplanned production, economic instability in terms of over production, economic depression, unemployment, etc is very common under capitalism. These result in a lot of human misery. Kyunki koi central planning authority toh hoti nhi hai.

8. Enormous waste of productive resources due to expenditure on adv. & sales prom.

9. Leads to formation of monopolies as large firms may be able to drive out small ones by fair or foul means.

10. Excessive Materialism (production level bhot high hota hai) + conspicuous & unethical consumption leads to environmental degradation. [Liquors, poisons, imports, etc].

Socialist ECONOMY

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Propounded by Karl Marx & Frederic Engels in their work 'The Communist Manifesto' in 1848.

Also known as 'Command economy'.

Freedom from hunger is guaranteed but consumer's sovereignty is restricted due to selective production of goods.

Range of choice is limited by planned production. No economic choice of occupation. (Freelance, needer, no diversity)

Differences in income & wealth are narrowed down by -

Lack of oppⁿ to accumulate capital. Private in

Equal distribution of educational facilities.

Basic causes of inequality are removed.

Price Mechanism only has a secondary role.

Eg: to secure disposal of accumulated stocks.

[Kiyuki accumulated stock ko bechne ke liye demand-supply lagana padega aur us hisab se prices fix aur vary karni hogi taki ro biki jaye.]

Allocation of resources is done according to the predetermined plan to achieve socio-economic objectives.

Capitalist → optimum
Social, Mixed → Better, better (allocation)

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4. State monopolies created by socialism will sometimes become uncontrollable. Monopolies under socialism are more uncontrollable than priv. monopolies under a capitalist economy.
5. No importance is given to personal efficiency & productivity.

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MIXED ECONOMY

→ Co-existence of private & public enterprise.

Merits -

1. Price Mechanism & competition forces the private sector to promote efficient decision making & better resource allocation.
2. Appropriate incentives for innovation & technological process.
3. Comparatively greater economic & social equality & freedom from exploitation.

Demerit → It may lead to capitalism with all its disadvantages.