

Business Economics

Unit - 1

+ Introduction to Economics

A. Definition, Nature, Scope and Applications of Business Economics

B. Functions, Role and Responsibilities of a Economist

C. Objectives of Business firm

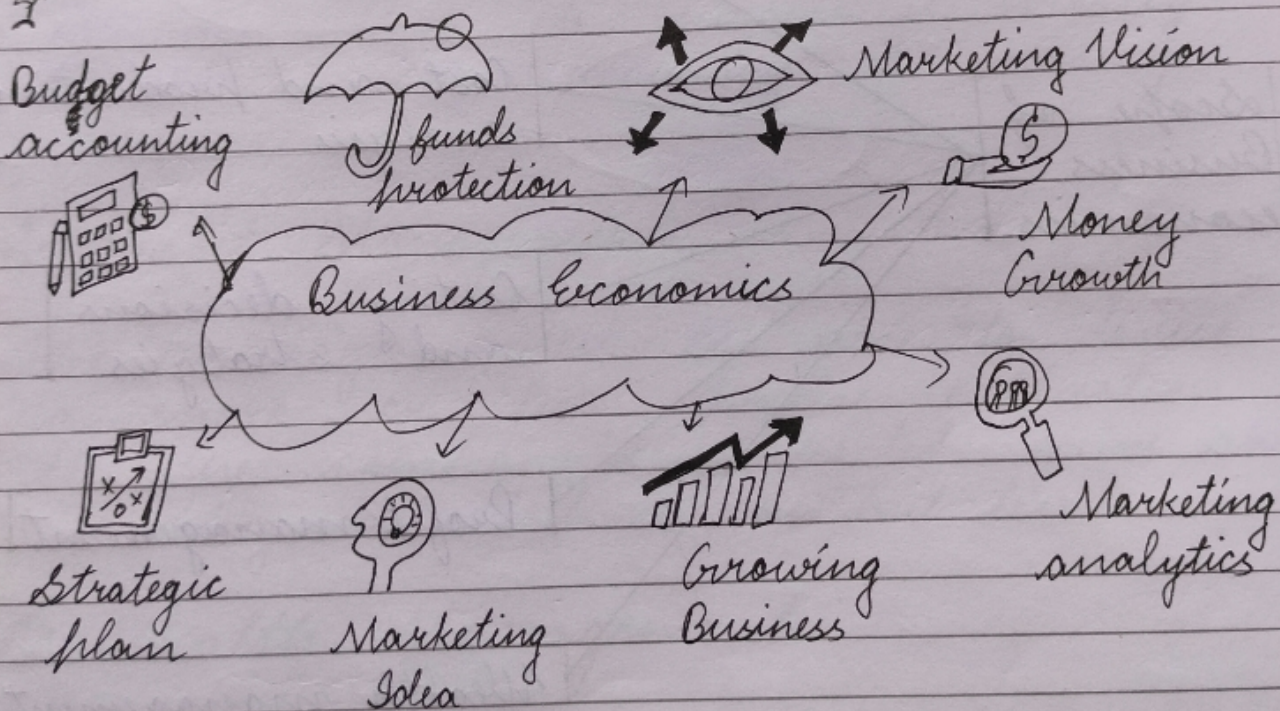
D. Profit Maximization as Business objectives

E. Profit vs Wealth Maximization objective.

Economics

Economics is the social science that studies the choices that individuals, businesses, governments, and entire societies make as they cope with scarcity and the incentives that influence and reconcile those choices.

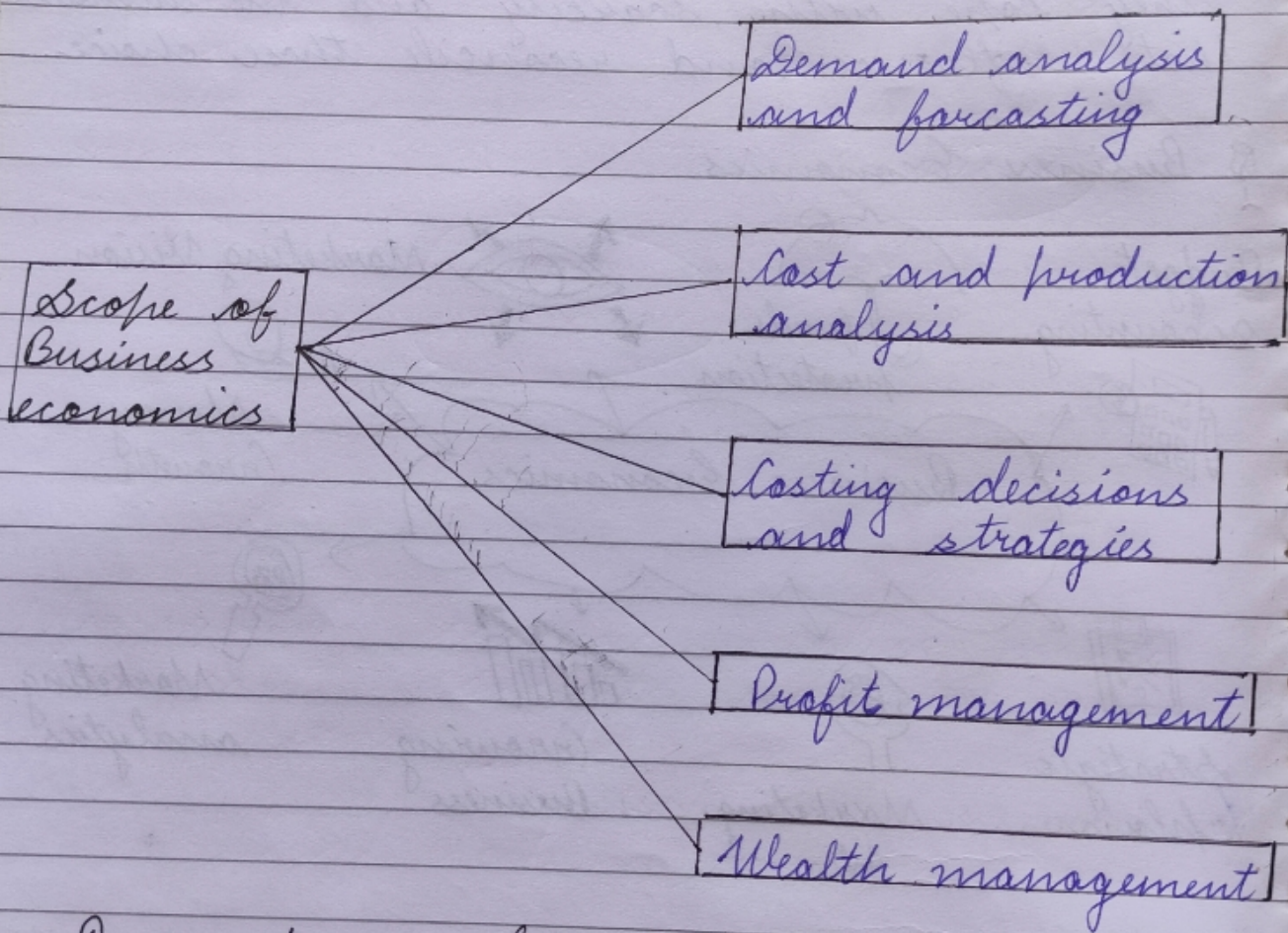
Business Economics



"Business economics is concerned with the application of economic concepts and economics to the problems of formulating rational decision making".

++ Business economics is a field of applied economics that studies the financial, organizational, market-related, and environmental issues faced by corporations.

:: Scope of Business economics



Demand analysis and forecasting

This aids in directing the organization to arrange production schedules and harness resources.

* * * Cost and Production analysis

The business economics definitions entails the production of cost assessment of various outputs and recognizing elements behind the deviations in estimated costs.

= Costing Decisions and Strategies

Valuation is the root of the company's earnings since its success is mostly based on the accuracy of costing decisions.

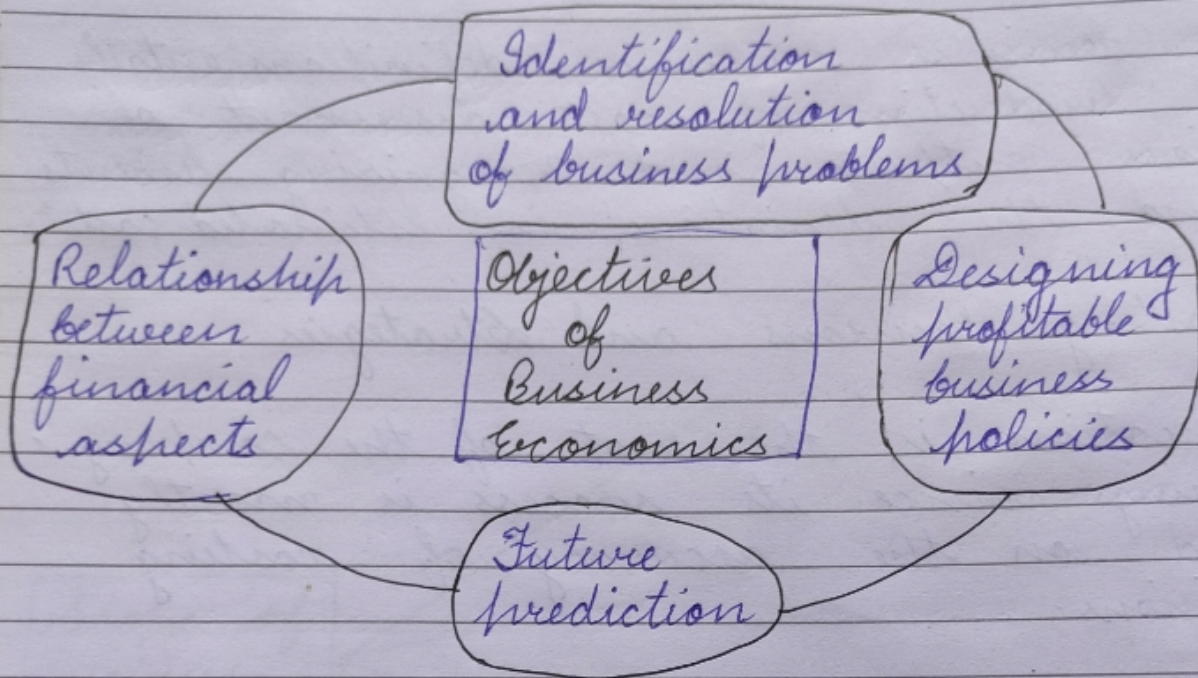
* * * Profit Management

The manager must be able to devise a more or less precise evaluation of the company's expected gains and pricing at distinct output levels.

Wealth Management

It infers regulation and drafting of capital expenses due to the involvement of a huge amount. Disposing of the capital assets is quite complicated and hence demands a substantial amount of labour and time.

Business Economics Objectives



#1 - Identification and Resolution of Business problems

Managerial economic involves many significant concepts like short-run and long-run costs, demand and supply analysis, and the law of diminishing marginal utility.

#2 - Designing Numerous profitable Business policies.

Keeping profit maximization in mind aids in drafting several business policies like cost policies and pricing policies

#3 Future Prediction

The intensive evaluation of multiple economic variables, including business capital and cost production, assists firms in future prediction.

#4 Building Relations Between Distinct Financial Aspects

Managerial economics assists build relations between diverse economic factors such as profits, income, market structure and losses.

Nature of Business Economics

- Business economics is micro-economics
- Business economics is normative
- Business economics is a science
- Business economics is an art
- Realistic in nature
- Includes macro-economic analysis.
- Interdisciplinary in nature

Business economics is Micro-economics

Business economics can be said as microeconomics in nature as it is based on the techniques of microeconomics.

* Business economics is normative

Business economics is normative as it establishes rules which enable firms to attain their goals. It also provides valid decision rules so that the business environment and its behaviour can easily be understood.

② Business economics is a science

Business economics also establishes a relationship between economic theories and decision science such as mathematics, statistics and econometrics to form suitable strategies so that overall example, supply is the positive function of the price which means that change in price is the cause but change in supply is the effect.

+ Business economics is an art

Art is nothing but a practical

application of knowledge. If we analyse business economics we find that it has features of art.

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Realistic in nature

Business economics is real science. It deals with all the matters of the organisation considering the real conditions existing in the business environment.

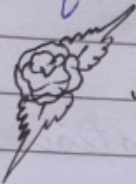
⊙ Includes micro analysis

Microeconomics deals with the external environment as well which includes inflation, employment and income levels, tax policies, business cycle and foreign trade etc which affects the smooth functioning of the firm.

⊙ Interdisciplinary in nature

Business economics integrates all

other disciplines such as mathematics statistics accounting and marketing etc to solve the problems in different fields of business.



Application of Business economics

❖ Reconciling theoretical concept of economics in relation to the actual business behaviour and conditions

Analytical techniques of economic theory builds models by which we arrive at certain assumption and conclusions reached thereon in relation to certain firms.

❖ Estimating economic relationship

Measurement of various types of elasticities of demand like price elasticity, income elasticity, cross elasticity, substitution elasticity etc. are provided by economics.

⇒ Predicting economic quantities.

Most of the business decisions are taken in an economic environment.

of uncertainty. Economic analysis makes possible the forecasting of economic quantities like profit, demand, production costs, price, capital and other relevant quantities.

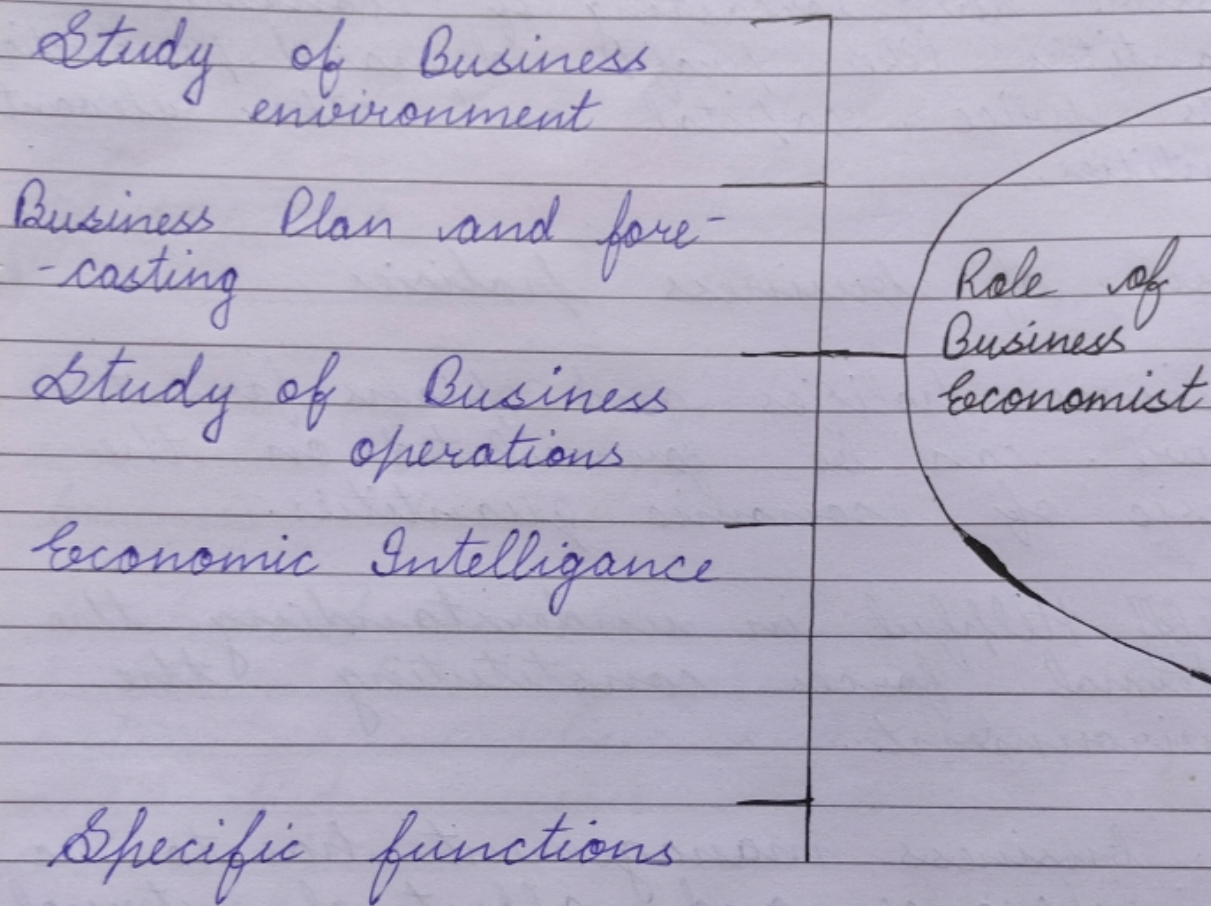
∴ Basic of business policies

Business policies and plans for the future can be formulated on the basis of economic quantities.

* ~~Help~~ Helpful in understanding the external forces constituting the environment.

The business management has to see the relevance and affects of external forces such as business cycle, trends in national income and expenditure, government policies relating to taxation, licensing and price control etc.

Role of Business Economist.



+++ Study of Business environment

Every firm has to take into consideration such external factors as the growth of national income, volume of trade and the general price trends, for its policy decision.

-- Business Plan & forecasting

Business economists can help the management in the formation of

their business plan by forecasting and economic environment. The management can easily decide the timing and location of their specific action.

*** Study of Business Operations

The business economist can also help the management in decision making relating to the internal operations of a firm, i.e. in deciding about price, rate of operations, ~~over~~ investment and growth of the firm for offering this advice; and the economist has specific analytical and forecasting techniques which yield meaningful conclusions.

Economic Intelligence

The business economist also provides general intelligence services by supplying the management with economic information of general interest so that they can talk intelligently in conferences and seminars.

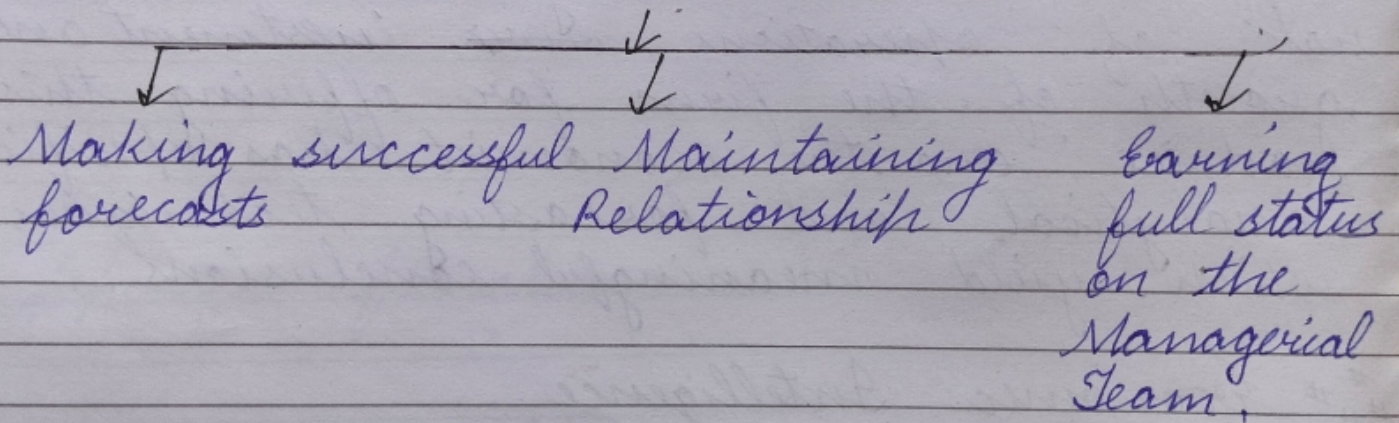
*** Specific functions

Business economists are now performing

specific functions as consultants also. Their specific functions are demand forecasting, industrial market research, and pricing problems of industry production programmes, investment analysis and forecasts.

Responsibilities of Business economist

Responsibilities of Business economist



Making Successful forecasts

Managers have to make decisions concerning the future and it is uncertain. This uncertainty cannot be eliminated altogether but it can be reduced through scientific forecasts of the economic environment to his employers. This is required for business planning.

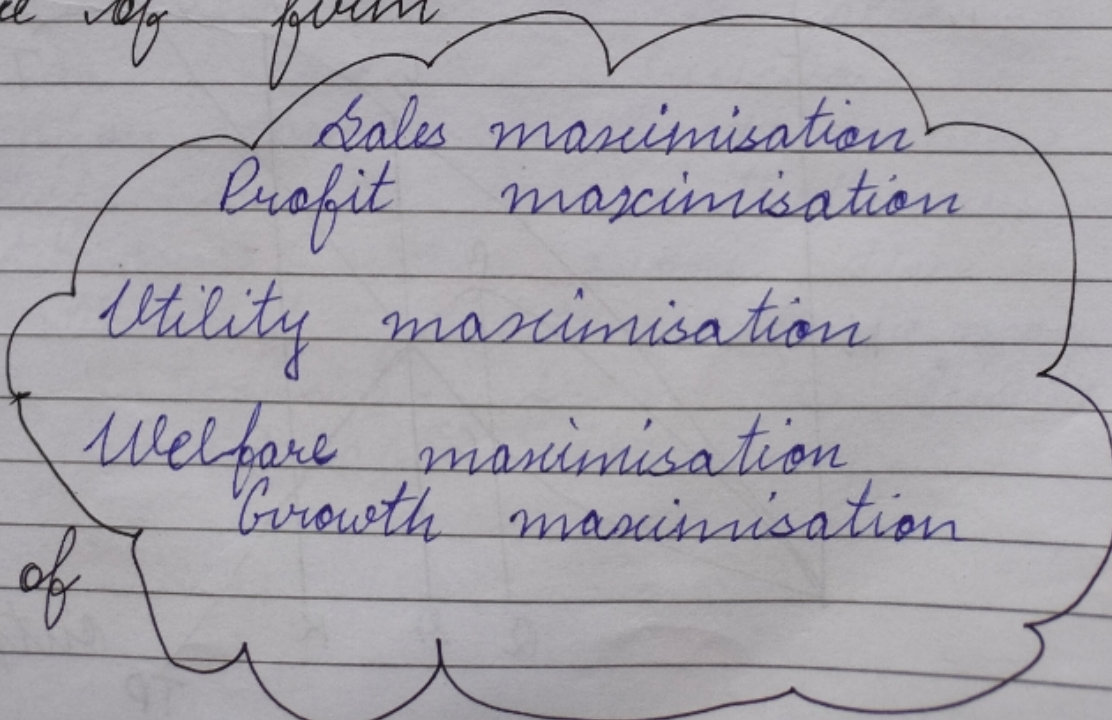
Maintaining Relationships

The Business economist must establish and maintain contacts with data sources for his analysis and forecasts. He makes contact with individuals who are specialists in different fields.

* Earning full status on the Managerial team.

A Business economist has to participate in decision-making and forward planning. For this, he must be able to earn full status on the business team. He must be prepared to take up assignments on the special projects also.

* Objective of firm



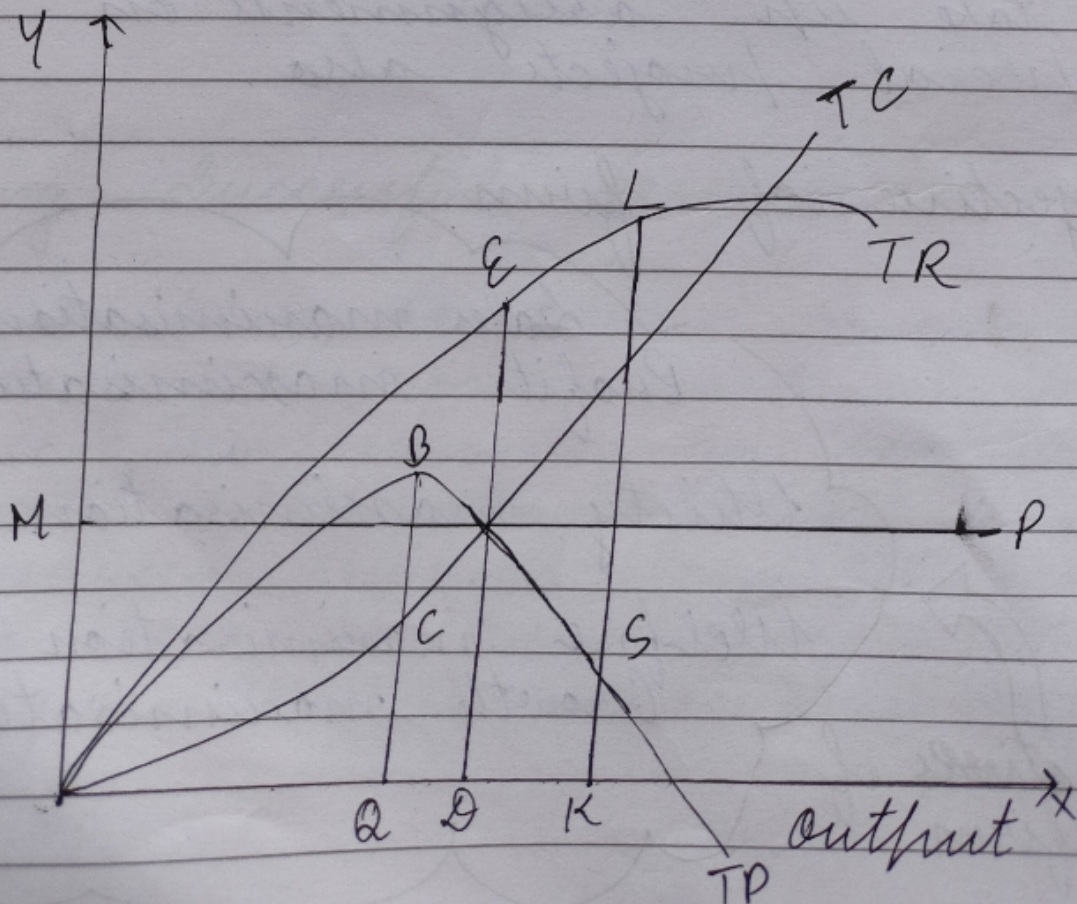
Sales maximisation
Profit maximisation
Utility maximisation
Welfare maximisation
Growth maximisation

Objectives of firm

■ Sales Maximisation

The ultimate objective of firm is sales maximisation rather than the profit maximisation. He thinks that when a firm considers sales maximisation as a priority objectives, it does not neglect the objective of profit maximisation. The objectives of sales maximisation with minimum profit can be easily understood with the fig. Where

- TC = Total Cost
- TR = Total Revenue
- TP = Total Product



① Profit Maximisation

It is yet another important objective guiding the entrepreneur for the production of goods. Profit plays crucial role in the production decision taken by the firm. According to the traditional theory that level output which the maximum difference between the total revenue (TR) and Total cost (TC) will help an enter entrepreneur maximize his profit.

Utility Maximisation

Utility or satisfaction remains the end objectives of human behaviour. Taking this idea into account economists like Benjamin Higgins was of the view the small form pursue the objective of utility maximisation. It is also called as preference function maximisation. According to this view the satisfaction to the entrepreneur does not come only from the maximisation of profit, but he may get this satisfaction from the leisure which he is able to enjoy.

© Welfare Maximisation

+ Personal welfare: - The people who make decisions for a business are, in fact people. They have likes and dislikes. They have personal goal and aspirations just like people who do not make decisions for firms. On occasion these people use the firm to pursue their own personal welfare.

+ Social welfare: - The people who makes decisions for firms also have social consciences. Part of their likes and dislikes might be related to the overall state of society.

Growth Maximisation

A famous U.S. economist J.K. Galbraith made an empirical study in big corporation and came to the conclusion that managers pursue not single but multiple goals such as sales maximisation etc. along with these objectives, managers keep to the prime objective to achieve the top level or the highest possible level of growth in output.

* Profit maximisation

Profit maximisation is a process business firm undergo to ensure the best output and price levels are achieved in order to maximise its returns.

⊙ Advantages of Profit maximisation

- + Economic survival: - Profit is vital for the survival of any business.
- + Measurement standard: - Profits are the right measurement of the viability of a business model. In the absence of profits, the business loses its key goal and incurs a direct risk to its survival.
- + Social and economic welfare: -

In a business, profits demonstrate proficient use and allotment of resource. Resource allocation and payments for land, labour, capital and the organisation lends itself to social and economic welfare.

Disadvantages of profit maximisation

① 'Profit' definition is unclear:- Different perceptions of the term exist among organisations and individuals. For example, profit can be the gross profit, net profit, before tax profit or the profit rate.

② Time value of money is ignored:-

The formula is based on the idea that the higher [the profit] the better the proposal, but what about its timing? In finance, when considering present value, we know that cash now won't have the same value in the future.

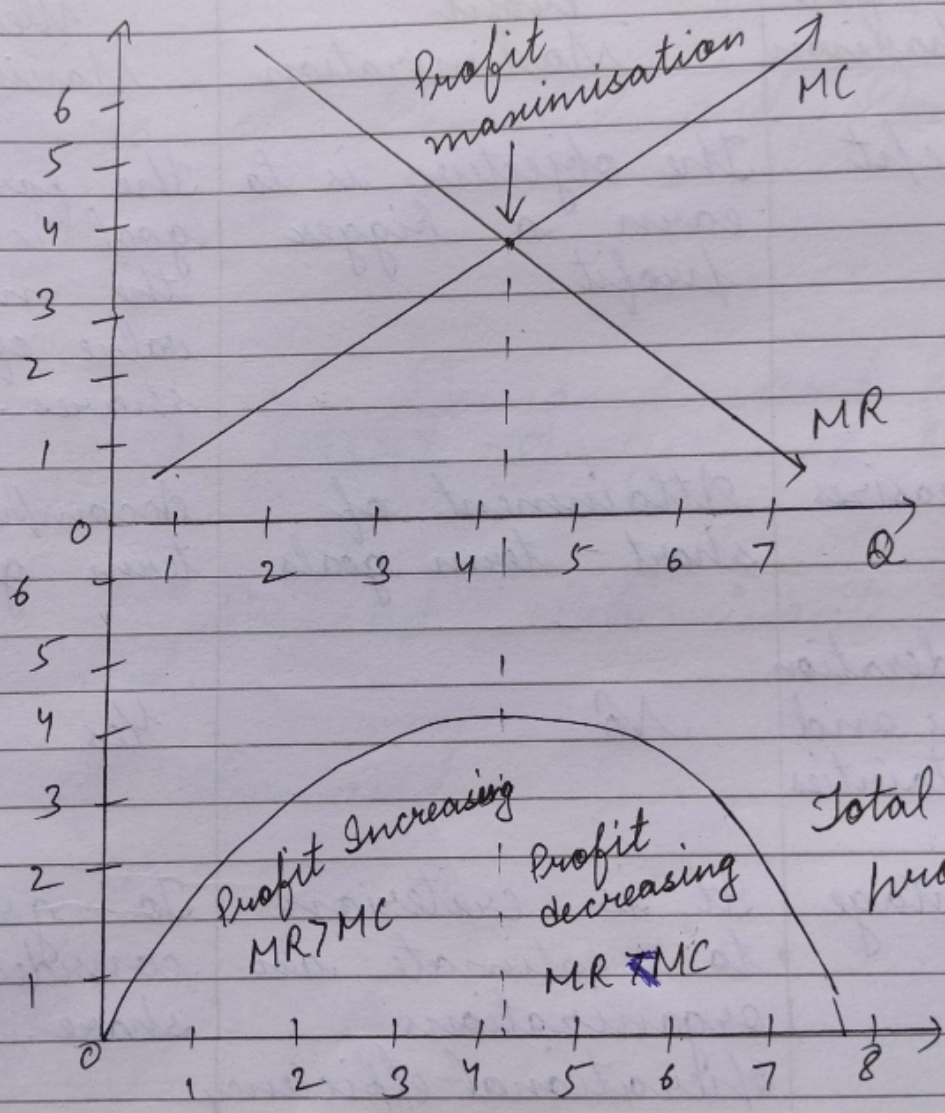
③ Attention not paid to risk:-

In the pursuit of profit, risk involved are ~~ignored~~ ignored, which may prove unaffordable at times, simply because higher risk directly questions the survival of a business.

④ Ignores quality:-

The most challenging part of profit maximisation as

a goal is that it neglects the intangible benefits such as quality, image technological advancements etc.



Difference between Profit Maximization and Wealth Maximization.

Basis for comparison	Profit Maximization	Wealth Maximization
Concept	The objective is to earn a bigger profit	The foremost goal is to improve the market value of its shares.
Emphasizes on	Attainment of short-term goals	Accomplish long-term goals
Consideration of risks and uncertainties	No	Yes
Advantage	It is criterion to estimate an organizations operational efficiency	To grab a considerable market share.
Recognition of the temporal pattern of return	No	Yes