Referencer for Quick Revision

Foundation Course Paper-4: Business Economics & Business and Commercial Knowledge

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Board of Studies
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ICAI

INDEX

CA FOUNDATION - PAPER 4 (PART 1) - BUSINESS ECONOMICS

- Economics deals with problems and questions that affect almost all kinds of individuals in their capacities as consumers and producers. Therefore, economic literacy is essential for everyone.
- Business Economics may be defined as the use of economic analysis to make business decisions involving the best use of an organization's scarce resources.
- Students are advised to read the capsule for understanding of the concepts. The graphs and charts will assist them in revision of concept discussed in study material in minimum time.

BUSINESS ECONOMICS

NATURE AND SCOPE OF BUSINESS ECONOMICS

Definition

Scope
- Micro Economics
- Macro Economics

Nature
- A Science
- Based on Micro Economics
- Incroporates elements of Macro Economics
- An Art
- Pragmatic
- Normative

The book named 'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776) usually abbreviated as 'The Wealth of Nations', by Adam Smith is considered as the first modern work of Economics.

These two fundamental facts are:
- Human beings have unlimited wants
- 'The means to satisfy these unlimited wants are relatively scarce' from the subject matter of Economics

Micro Economics is basically the study of the behaviour of different individuals and organizations within an economic system

In Macro-Economics, we study the behaviour of the large economic aggregates, such as, the overall levels of output and employment, total consumption, total saving and total investment, exports, imports and foreign investment and also how these aggregates shift over time

While Business Economics is basically concerned with Micro Economics, Macro economic analysis also has got an important role to play

Nature of Business Economics
- Business Economics is a Science
- Based on Microeconomics
- Incorporates elements of Macro Analysis
- Business Economics is also an Art
- Use of Theory of Markets and Private Enterprises
- Pragmatic in Approach
- Interdisciplinary in Nature
- Normative in Nature

The scope of Business Economics is quite wide. It covers most of the practical problems a manager or a firm faces.

There are two categories of business issues to which economic theories can be directly applied,

1.Internal issues or operational issues (this can be solved using Micro Economics)
2.External issues or environmental issues (this can be solved using Macro Economics)

Microeconomics applied to Internal or Operational Issues
- Demand Analysis and Forecasting
- Production and Cost Analysis
- Inventory Management
- Market Structure and Pricing Policies
- Resource Allocation
- Theory of Capital and Investment Decisions
- Profit Analysis
- Risk and Uncertainty Analysis

Macroeconomics applied to External or Environmental Issues
- The type of economic system
- Stage of business cycle
- The general trends in national income, employment, prices, saving and investment.
- Government's economic policies like industrial policy, competition policy, and fiscal policy, foreign trade policy and globalization policies.
- Working of central banks and financial sector and capital market and their regulation.
- Socio-economic organisations like trade unions, producer and consumer unions and cooperatives.
- Social and political environment.

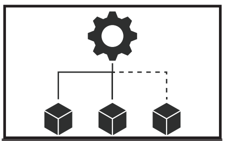
Business decisions cannot be taken without considering these present and future environmental factors. As the management of the firm has no control over these factors, it should fine-tune its policies to minimise their adverse effects.

BASIC PROBLEMS OF AN ECONOMY

Central Economic Problem
- What to produce?
- How to produce?
- What provisions are to be made for economic growth?
- For whom to produce?

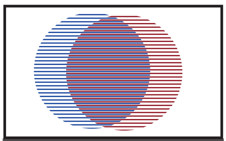
Capitalist Economy

- Private property is the mainstay of capitalism and profit motive is its driving force. Decisions of consumers and businesses determine economic activity. Some examples of a capitalist economy may include United States and United Kingdom, Hong Kong, South Korea etc



Socialist Economy

- The resources are allocated according to the commands of a central planning authority and therefore, market forces have no role in the allocation of resources



Mixed Economy

- In a mixed economy, the aim is to develop a system which tries to include the best features of both the controlled economy and the market economy while excluding the demerits of both

MEANING OF DEMAND

Demand means desire or wish to buy and consume a commodity or service backed by adequate ability to pay and willingness to pay.

The law of demand states that people will buy more at lower prices and less at higher prices, other things being equal.

According to Marshall, the demand curve slopes downwards due to the operation of the law of diminishing marginal utility. However, according to Hicks and Allen it is due to income effect and substitution effect.

The demand curve usually slopes downwards; but exceptionally slopes upwards under certain circumstances as in the case of conspicuous goods, Giffen goods, conspicuous necessities, future expectations about prices, demand for necessaries and speculative goods.

The demand curve will shift to the right when there is a rise in income (unless the good is an inferior one), a rise in the price of a substitute, a fall in the price of a complement, a rise in population and a change in tastes in favour of commodity. The opposite changes will shift the demand curve to the left.

A demand schedule is a table that shows various prices and the corresponding quantities demanded. The demand schedules are of two types; individual demand schedule and market demand schedule.

Elasticity Of Demand

❖ Elasticity of demand is defined as the responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends.

Price Elasticity of Demand

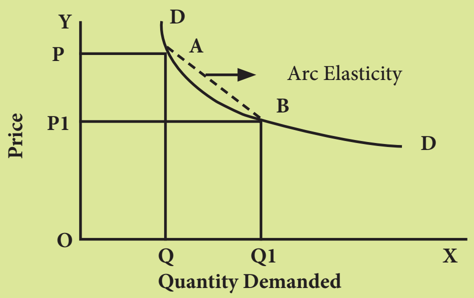
❖ Price elasticity of demand expresses the responsiveness of quantity demanded of a good to a change in its price, given the consumer's income, his tastes and prices of all other goods.

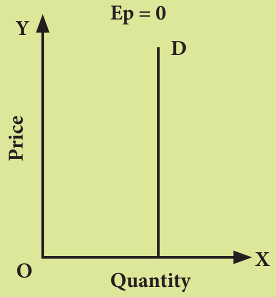
Point Elasticity

❖ The point elasticity of demand is the price elasticity of demand at a particular point on the demand curve.

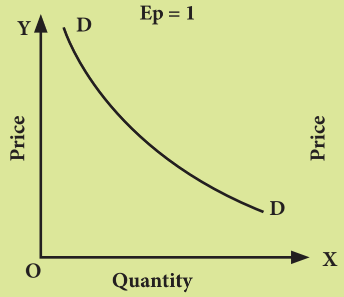
Arc Elasticity

❖ When price and quantity changes are discrete and large, we have to measure elasticity over an arc of the demand curve.

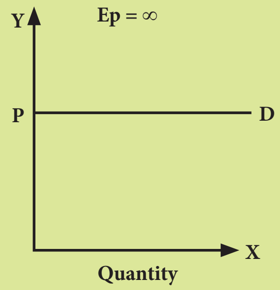




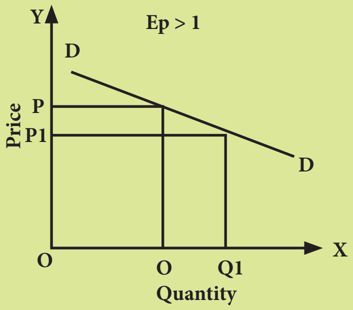
Demand curve of zero elasticity



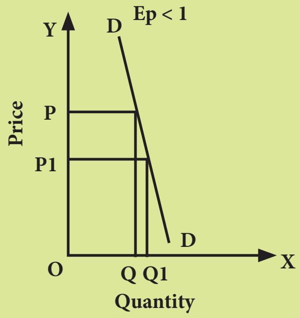
Demand curve of unitary elasticity



Demand curve of infinite elasticity



Demand curve of elasticity greater than one



Demand curve of elasticity less than one

Income Elasticity Of Demand

The income elasticity of demand is a measure of how much the demand for a good is affected changes in consumers' incomes.

Cross - Price Elasticity Of Demand

The cross-price elasticity of demand between two goods measures the effect of the change in one good's price on the quantity demanded of the other good.

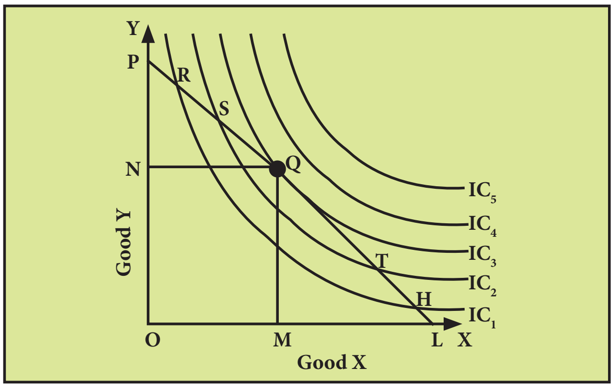
Demand Forecasting:

❖ Forecasting of demand is the art and science of predicting the probable demand for a product or a service at some future date on the basis of certain past behaviour patterns of some related events and the prevailing trends in the present.

❖ The commonly available techniques of demand forecasting are survey of buyers' intentions, collective opinion method, expert opinion method, barometric method, and statistical methods such as trend projection method, graphical method, least square method, regression analysis, and market studies such as controlled experiments, and controlled laboratory experiments.

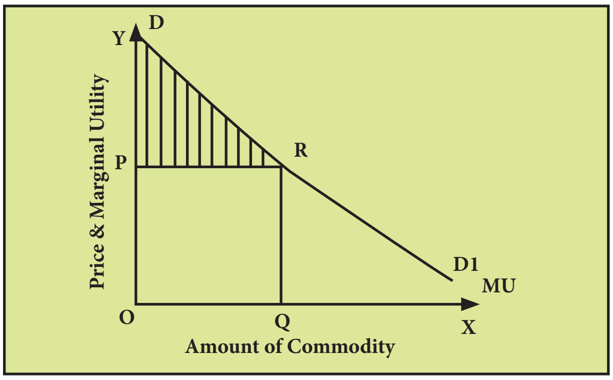
Utility: The utility of a consumer is a measure of the satisfaction that the consumer expects to obtain from consumption of goods and services when he spends money on a stock of commodity which has the capacity to satisfy his want.

- Two important theories are (i) Marginal Utility Analysis propounded by Alfred Marshall, and (ii) Indifference Curve Analysis propounded by J R Hicks and R G D Allen.
- The law of diminishing marginal utility states that as a consumer increases the consumption of a commodity, every successive unit of the commodity gives lesser and lesser satisfaction to the consumer.
- The indifference curve theory, which is an ordinal theory, shows the household's preference between alternative bundles of goods by means of indifference curves.
- The important properties of an Indifference curve are Indifference curve slopes downwards to the right, it is always convex to the origin, two ICs never intersect each other, it will never touch the axes and higher the indifference curve higher is the level of satisfaction.
- The consumer attains equilibrium at the point where the budget line is tangent to the indifference curve and $MU_x / P_x = MU_y / P_y = MU_z / P_z$



(Consumer's Equilibrium)

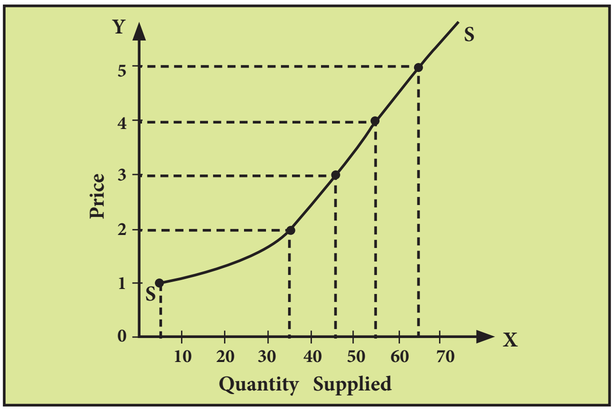
Marshall defined the concept of consumer surplus as the "excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay", is called consumers surplus."



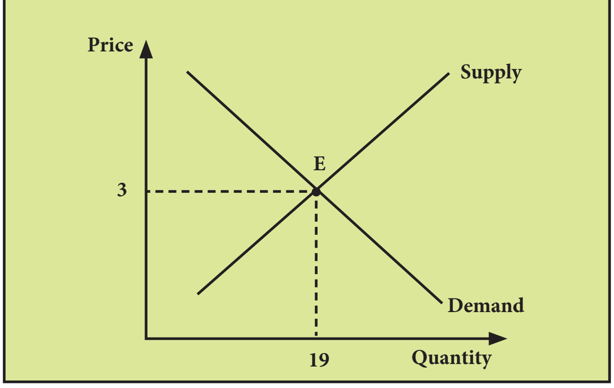
(Consumer Surplus)

- Budget line or price line shows all those combinations of two goods which the consumer can buy spending his given money income on the two goods at their given prices.
- The slope of the budget line is determined by the relative prices of the two goods. It is equal to 'Price Ratio' of two goods. i.e. PX /PY i.e. It measures the rate at which the consumer can trade one good for the other.
- When two goods are perfect substitutes of each other, indifference curves for these two goods are straight, parallel lines with a constant slope along the curve, or the indifference curve has a constant MRS
- Goods are perfect complements when a consumer is interested in consuming only in fixed proportions. In such a case, the indifference curve will consist of two straight lines with a right angle bent which is convex to the origin, or in other words, it will be L shaped.

- The term 'supply' refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a given period.
- The law of supply can be stated as: Other things remaining constant, the quantity of a good produced and offered for sale will increase as the price of the good rises and decrease as the price falls.



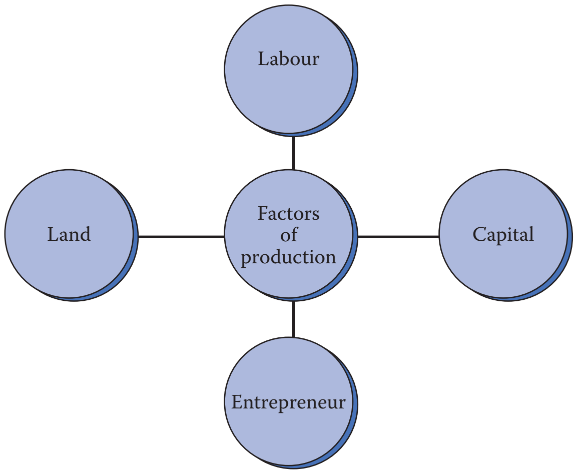
(Supply Curve)



Elasticity of supply means the responsiveness of supply to change in the price of the commodity.

Production and Cost

According to James Bates and J.R. Parkinson "Production is the organized activity of transforming resources into finished products in the form of goods and services; and the objective of production is to satisfy the demand of such transformed resources".



Land includes all those free natural resources whose supply for the economy as a whole is fixed.

Labour is all human efforts of body or of mind undergone partly or wholly with a view to secure an income apart from the pleasure derived directly from the work.

Capital is that part of wealth of an individual or community which is used for further production of wealth. Capital, a stock concept, refers to produced means of production and it comprises of man- made machines and materials which are used for further production.

Entrepreneur is the person who organises business; initiates production, remunerates other factors of production, introduces innovations and bears the risk and uncertainties of business.

The production function is a statement of the relationship between a firm's scarce resources (i.e., its inputs) and the output that results from the use of these resources

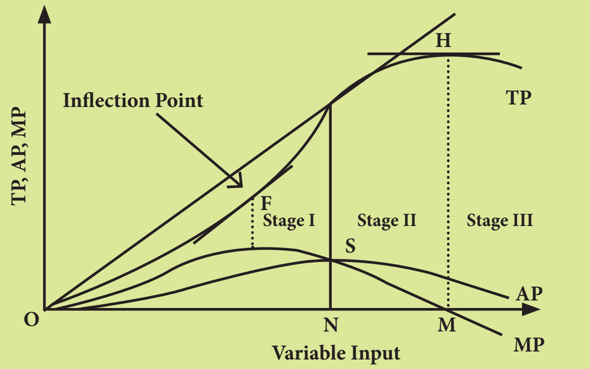
Q = f (L, K). Where Q = Output L= Labour K= Capital

A famous statistical production function is Cobb-Douglas production function.

Cobb-Douglas production function is stated as: $Q = KL^{a}\ C^{(1-a)}$ where 'Q' is output, 'L' the quantity of labour and 'C' the quantity of capital. 'K' and 'a' are positive constants.

The Law of Variable Proportions:

The law states that as we increase the quantity of one input which is combined with other fixed inputs, the marginal physical productivity of the variable input must eventually decline.



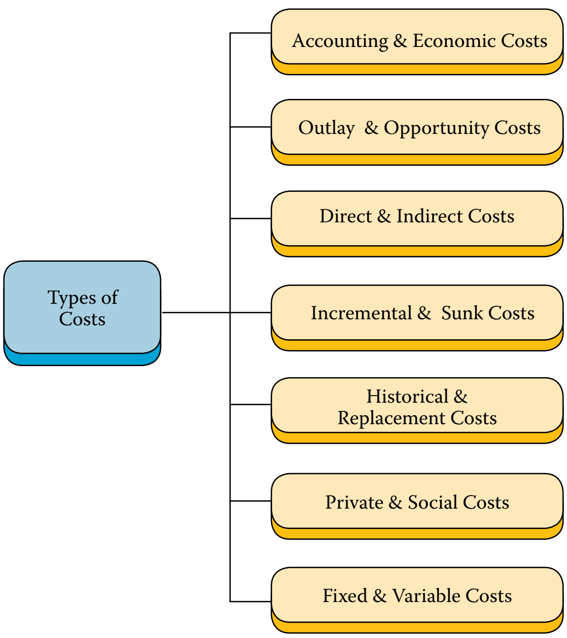
Returns to Scale

The Law of returns to scale describes the relationship between inputs and output in the long run when all inputs are changed in the same proportion. Returns to scale may be constant, increasing and decreasing.

- Constant returns to scale occur when the inputs increase by some proportion and the output also increases by the same proportion. It is also called linear homogeneous production function.
- Increasing returns to scale occur when the inputs increase by some proportion and the output increases more than proportionately.
- Decreasing returns to scale occur when the inputs increase by some proportion and the output increases less than proportionately.

Cost Analysis

It refers to the study of behaviour of cost in relation to one or more production criteria. It concerned with the financial aspects of production.

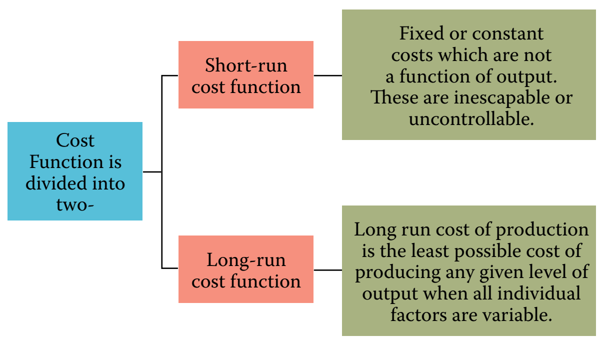


Cost concepts

- Accounting costs are explicit costs and includes all the payments and charges made by the entrepreneur to the suppliers of various productive factors.
- Economic costs take into account explicit costs as well as implicit costs. A firm has to cover its economic cost if it wants to earn normal profits.
- Outlay costs involve actual expenditure of funds.
- Opportunity cost is concerned with the cost of the next best alternative opportunity which was foregone in order to pursue a certain action.
- Direct costs are those which have direct relationship with a component of operation. They are readily identified and are traceable to a particular product, operation or plant.
- Indirect costs are those which cannot be easily and definitely identifiable in relation to a plant, product, process or department. They not visibly traceable to any specific goods, services, processes, departments or operations.
- Incremental cost refers to the additional cost incurred by a firm as a result of a business decision.
- Sunk costs are already incurred once and for all, and cannot be recovered.
- Historical cost refers to the cost incurred in the past on the acquisition of a productive asset.
- Replacement cost is the money expenditure that has to be incurred for replacing an old asset.
- Private costs are costs actually incurred or provided for by firms and are either explicit or implicit.
- Social cost, on the other hand, refers to the total cost borne by the society on account of a business activity and includes private cost and external cost.

Cost Function

The cost function refers to the mathematical relation between cost and the various determinants of cost. It expresses the relationship between cost and output. Economists are generally interested in two types of cost functions; the short run cost function and the long run cost function.

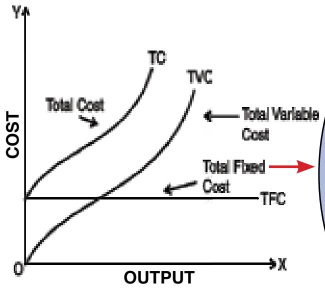


Types of Cost

- Total cost of a business is defined as the actual cost that must be incurred for producing a given quantity of output.
- AFC is obtained by dividing the total fixed cost by the number of units of output produced.
- Average variable cost is found out by dividing the total variable cost by the number of units of output produced.
- Average total cost is the sum of average fixed cost and average variable cost.
- Marginal cost is the addition made to the total cost by the production of an additional unit of output.
- Long run cost of production is the least possible cost of producing any given level of output when all individual factors are variable.

Short Run Total Cost

- The short run total cost is composed of two major elements namely, total fixed cost and total variable cost.
- Symbolically TC = TFC + TVC



Short run Total Cost Curves

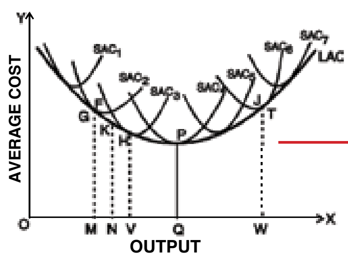
TFC curve starts from a point on the Y-axis shows that fixed costs will be incurred even if the output is zero. On the other hand, the TVC curve rises upward indicating that as output increases, total variable cost increases. The TVC curve starts from the origin because variable costs are zero when the output is zero. The TC curve has been obtained by adding vertically the TFC curve and the TVC curve.

Relationship between Average Cost and Marginal Cost

- When average cost falls as a result of an increase in output, marginal cost is less than average cost.
- When average cost rises as a result of an increase in output, marginal cost is more than average cost.
- When average cost is minimum, marginal cost is equal to the average cost. In other words, marginal cost curve cuts average cost curve at its minimum point (i.e. optimum point).

Long run Average Cost Curve(LAC)

The long run average cost curve, often called a planning curve, is so drawn as to be tangent to each of the short run average cost curves.



The LAC curve is tangent to each of the short run average cost curves. Every point on the long run average cost curve will be a tangency point with some short run AC curve.

Economies of Scale and Diseconomies of Scale

- When increase in scale is upto optimum level, then it is economies of scale. On the other hand, increase in scale beyond the optimum level, results in diseconomies of scale.
- Economies of scale is of two types-
  - Internal economies of scale which accrue to a firm when it engages in large scale production.
  - External economies of scale accrue to a firm due to factors which are external to a firm.

Kinds of Internal Economies and Diseconomies

- Technical economies and diseconomies
- Managerial economies and diseconomies
- Commercial economies and diseconomies
- Financial economies and diseconomies
- Risk bearing economies and diseconomies

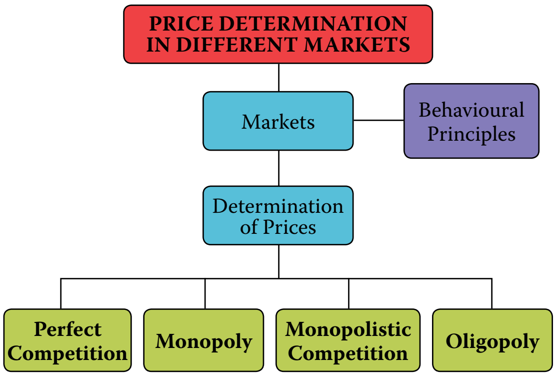
Kinds of External Economies and Diseconomies

- Cheaper raw material and capital equipments
- Technological external economies.
- Development of skilled Labour
- Growth of ancillary industries
- Better transportation and marketing facilities
- Economies of Information.

CA FOUNDATION - PAPER 4 - PART I - BUSINESS ECONOMICS

The market structure mostly determines a firm's power to fix the price of its product. The level of profit maximising price is generally different in different kinds of markets due to differences in the nature of competition. Business Cycles have tremendous influence in business decisions. The stage of the business cycle is crucial while making managerial decisions regarding expansion or downsizing. You are advised to read the capsule for understanding of the concepts. The graphs and charts will assist you in revision of concept discussed in study material in minimum time.

CHAPTER 4 - PRICE DETERMINATION IN DIFFERENT MARKETS



Market

Market is the whole set of arrangements for buying and selling of a commodity or service. Here, buyers and sellers bargain over price of a commodity.

The elements of a market are:
- Buyers and sellers;
- A product or service;
- Bargaining for a price;
- Knowledge about market conditions; and
- One price for a product or service at a given time.

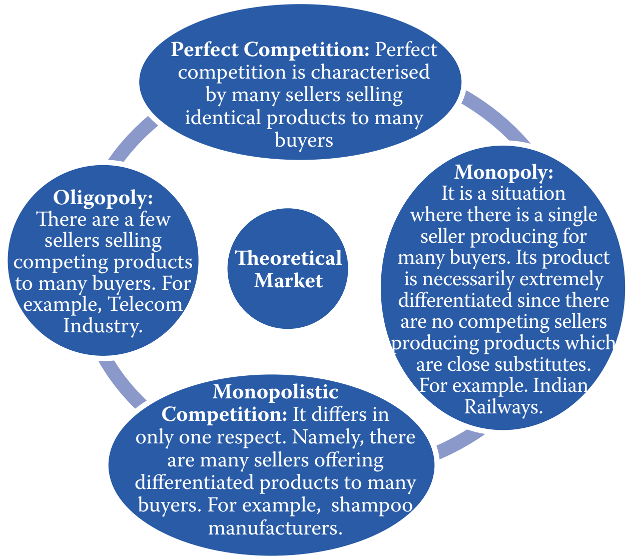
In Economics, generally the classification of markets is made on the basis of
- Geographical Area
- Time
- Nature of transaction
- Regulation
- Volume of business
- Type of Competition

Spot or cash Market: Spot transactions or spot markets refer to those markets where goods are exchanged for money payable either immediately or within a short span of time. For example, grains sold in the Mandi at the current prices and cash is paid immediately. Thus is a part of Spot Market.

Forward or Future Market: In this market, transactions involve contracts with a promise to pay and deliver goods at some future date. For example, purchase of foreign currency contract at future rate from bank.

Wholesale Market: The wholesale market is the market where the commodities are bought and sold in bulk or large quantities. Transactions generally take place between traders. i.e. Business to Business (B2B).

Retail Market: When the commodities are sold in small quantities, it is called retail market. This is the market for ultimate consumers. i.e. Business to Consumer (B2C).



Distinguishing Features of Major Types of Markets

Assumption	Market Types			
	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of sellers	Very large	Large	Small numbers	One
Product differentiation	None	Slight	None to substantial	Extreme
Price elasticity of demand of a firm	Infinite	Large	Small	Small
Degree of control over price	None	Some	Some	Very considerable

Concepts of Total Revenue, Average Revenue & Marginal Revenue

Total revenue refers to the amount of money which a firm realises by selling certain units of a commodity.

Average revenue is the revenue earned per unit of output

Marginal revenue is the change in total revenue resulting from the sale of an additional unit of the commodity

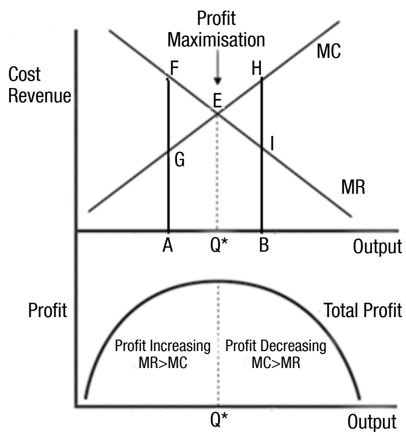
$MR = AR \times \frac{e-1}{e}$ Where e = price elasticity of demand.

Behavioural Principle

Principle 1- A firm should not produce at all if its total variable costs are not met.

Principle 2 - The firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.

Equilibrium of the Firm: Maximisation of Profits

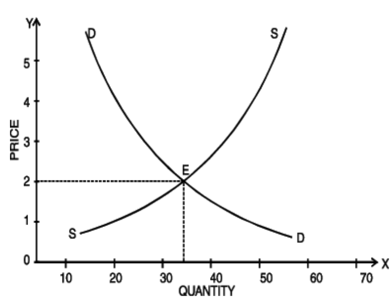


The firm will maximise profits at the point at which marginal revenue is equal to marginal cost.

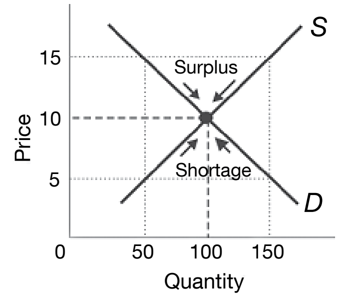
Determination of Prices

In an open competitive market, it is the interaction between demand and supply that tends to determine equilibrium price and quantity

Determination of Equilibrium Price

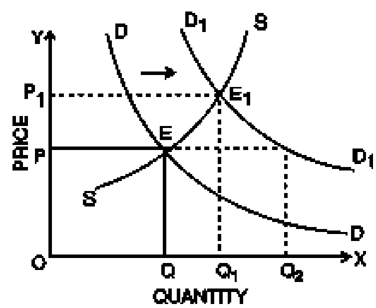


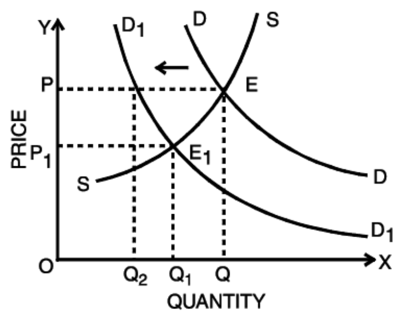
Stable equilibrium is achieved through price mechanism or market mechanism. If the market price is above the equilibrium price, the market supply is greater than market demand and there is an excess supply or surplus in the market. Competing sellers will lower prices in order to clear their unsold stock. As we know, other things remaining constant, as price falls quantity demanded rises and quantity supplied falls. In this process, the supply-demand gap is reduced and eventually eliminated thus restoring equilibrium.



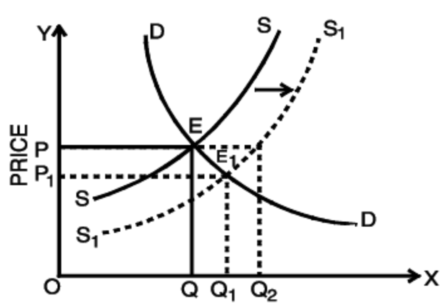
Stable Equilibrium

Increase in Demand, causing an increase in equilibrium price and quantity

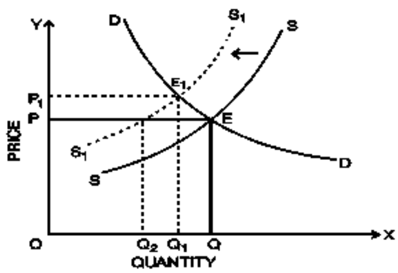




Decrease in demand resulting in a decrease in price and quantity demanded

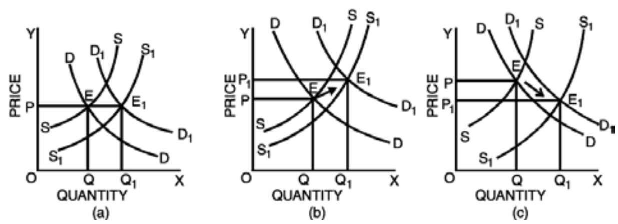


Increase in supply, resulting in decrease in equilibrium price and increase in quantity supplied



Decrease in supply causing an increase in the equilibrium price and a fall in quantity demanded

It sometimes happens that events shift both the demand and supply curves at the same time. This is not unusual in real life, supply curves and demand curves for many goods and services typically shift quite often because of continuous change in economic environment. During a war, for example, shortage of goods will often lead to decrease in their supply while full employment causes high total wage payments which increase demand.

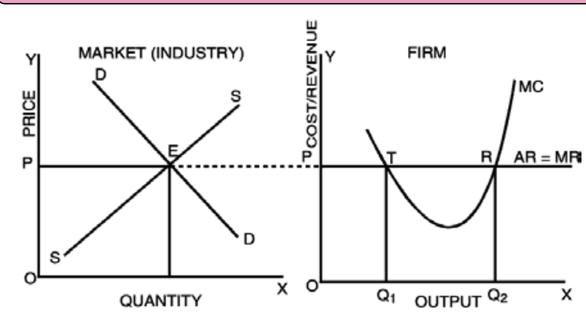


Simultaneous change in demand and supply

Perfect Competition

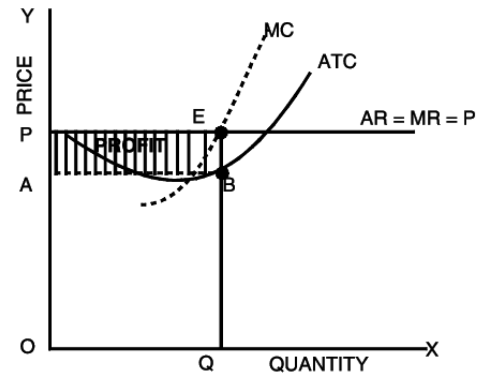
- A firm is in equilibrium when it's MC = MR and MC curve cuts the MR curve from below.
- In the short run, firms may be earning normal profits, supernormal profits or making losses at the equilibrium price.
- In the long-run all the supernormal profits or losses get wiped away with entry or exit of the firms from the industry and all firms earn only normal profit.
- In the long run, in perfect competition, the market mechanism leads to an optimal allocation of resources.

In the short run, a firm operates with a fixed amount of capital and must choose the levels of its variable inputs so as to maximise profit.



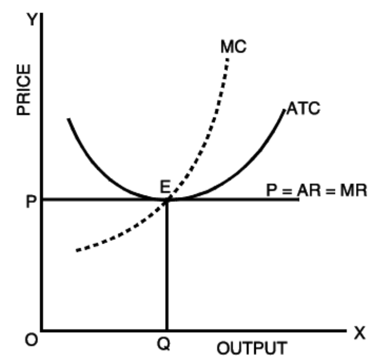
Equilibrium position of a firm under perfect competition

When a firm earns supernormal profits, its average revenues are more than its average total cost. Thus, in addition to normal rate of profit, the firm earns some additional profits.



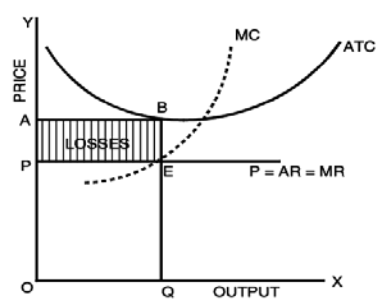
Short run equilibrium: Supernormal profits of a competitive firm

Normal Profit: When a firm just meets its average total cost, it earns normal profits. Here AR = ATC.

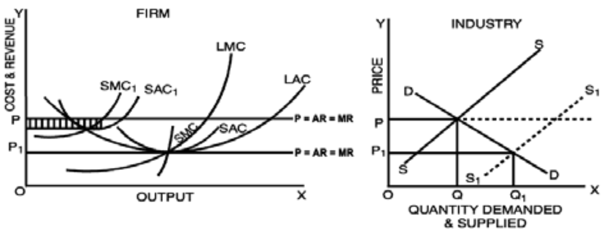


Short run equilibrium of a competitive firm: Normal profits

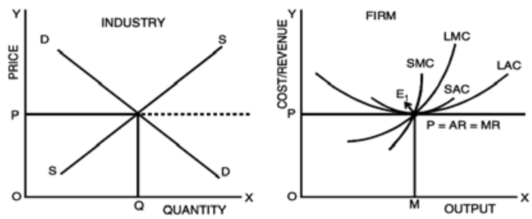
If a firm is unable to meet its average variable cost, it will be better for it to shut down. This shutdown may be temporary. When the market price rises, the firm resumes production.



Short run equilibrium of a competitive firm: Losses



Long run equilibrium of the firm in a perfectly competitive market



Long run equilibrium of a competitive industry and its firms

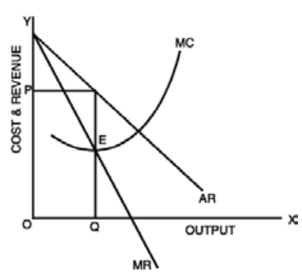
In the long run,
LAR = LMR = P = LMC = LAC and there will be optimum allocation of resources.

Monopoly

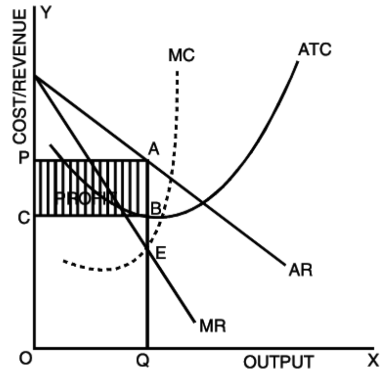
- Monopoly is an extreme form of imperfect competition with a single seller of product which has no close substitute.
- Since the monopolist firm is the only producer of a particular product, its demand curve is identical with the market demand curve for the product.
- Since a monopoly firm has market power it has the ability to charge a price above marginal cost and earns a positive economic profit.
- The fundamental cause of monopoly is barriers to entry; in effect other firms cannot enter the market.
- In the long-run, the supernormal profit will be continued because entry is restricted.

The twin Condition for Equilibrium is a monopoly market and are the same as that of a firm in a competitive industry.

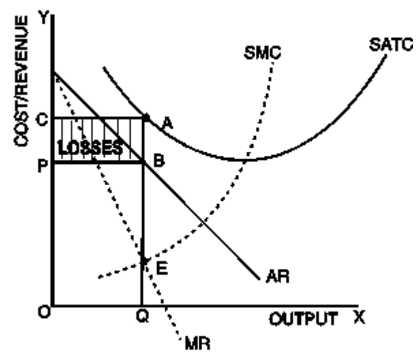
- The marginal revenue should be equal to the marginal cost. i.e., MR = MC.
- The MC curve should cut MR curve from below. In other words, MC should have a positive slope.



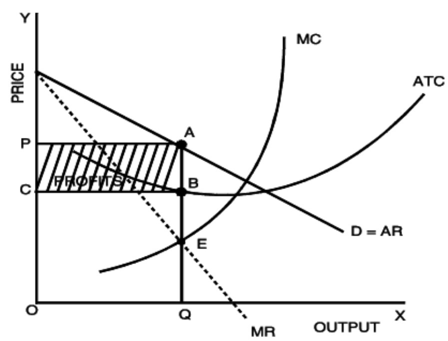
Equilibrium of a monopolist (Short run)



Firm's equilibrium under monopoly: Maximisation of profits



Equilibrium of the monopolist: Losses in the short run



Long run equilibrium of a monopolist

Price Discrimination

Price discrimination is a method of pricing adopted by a monopolist in order to earn abnormal profits. It refers to the practices of charging different prices for different units of the same commodity.

Condition for Price Discrimination

The seller should have some control over the supply of his product i.e. the firm should have price-setting power. Monopoly power in some form is necessary (not sufficient) to discriminate price.

The seller should be able to divide his market into two or more sub-markets.

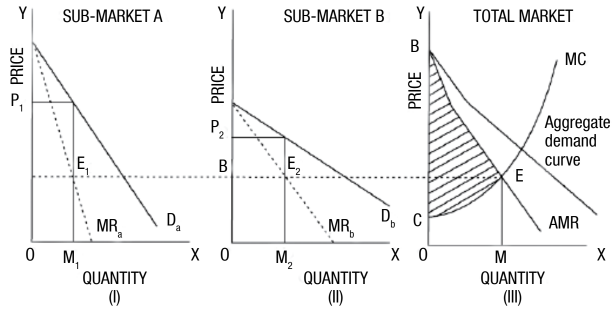
The price-elasticity of the product should be different in different sub-markets. The monopolist fixes a high price for his product for those buyers whose price elasticity of demand for the product is less than one. This implies that, when the monopolist charges a higher price from them, they do not significantly reduce their purchases in response to high price.

It should not be possible for the buyers of low-priced market to resell the product to the buyers of high-priced market i.e there must be no market arbitrage.

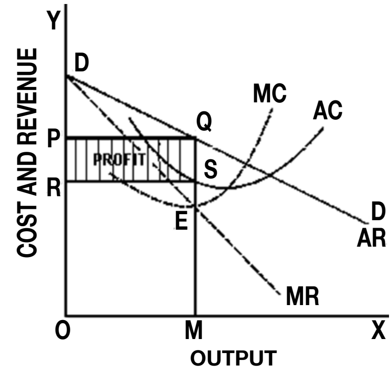
Equilibrium under price discrimination

In order to reach the equilibrium position, the discriminating monopolist has to make three decisions:

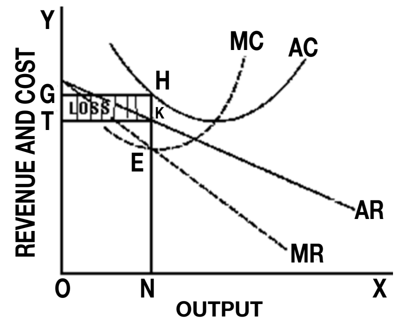
- How much total output should he produce?
- How the total output should be distributed between the two sub-markets? and
- What prices he should charge in the two sub-markets?



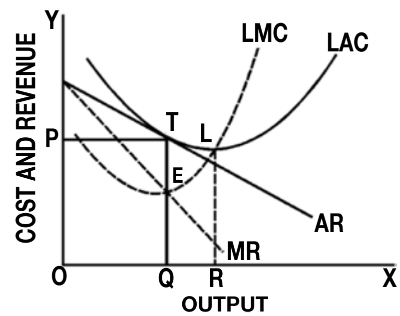
Fixation of total output and price in the two sub-markets by the discriminating monopolist



(Price-output determination under monopolistic competition)



(Short Run equilibrium of the Firm: losses)



(Long Run equilibrium of the Firm in Monopolistic Competition)

Prof. Pigou classified three degrees of price discrimination

- Under the first degree price discrimination, the monopolist separates the market into each individual consumer and charges them the price they are willing and able to pay and thereby extract the entire consumer surplus. Doctors, lawyers, consultants etc
- Under the second degree price discrimination, different prices are charged for different quantities of sold. The monopolist will take away only a part of the consumers' surplus.
- Under the third degree price discrimination, price varies by attributes such as location or by customer segment, example dumping.

Monopolistic Competition

The essential feature of monopolistic competition is the existence of large number of firms, product differentiation, non price competition, high selling costs and freedom of entry and exit of firms.

In monopolistic competition, the features of monopoly and perfect competition are partially present:

Features of Monopolistic Competition

- Large number of sellers
- Product differentiation
- Freedom of entry and exit
- Non-price competition

Oligopoly

Prof. Stigler defines oligopoly as that "situation in which a firm bases its market policy, in part, on the expected behaviour of a few close rivals".

TYPES OF OLIGOPOLY

- Pure oligopoly or perfect oligopoly
- Open and closed oligopoly
- Collusive and Competitive oligopoly
- Partial or full oligopoly
- Syndicated and organized oligopoly

Characteristics of Oligopoly Market:

- Strategic Interdependence
- Group behavior
- Importance of advertising and selling costs

Price and output decisions in an oligopolistic market

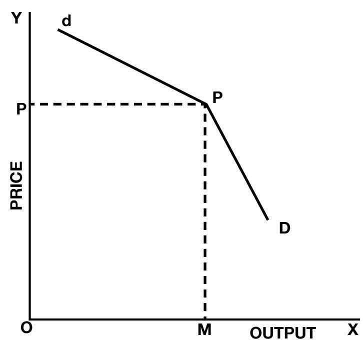
When an oligopolistic firm changes its price, its rival firms will retaliate or react and change their prices which in turn would affect the demand of the former firm. Therefore, an oligopolistic firm cannot have sure and determinate demand curve, since the demand curve keeps shifting as the rivals change their prices in reaction to the price changes made by it.

Price Leadership

A group of firms that explicitly agree (collude) to coordinate their activities is called a cartel.

Kinked Demand Curve

The demand curve facing an oligopolistic, according to the kinked demand curve hypothesis, has a 'kink' at the level of the prevailing price. It is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic



Important market forms:

- **Duopoly**, a subset of oligopoly, is a market situation in which there are only two firms in the market.
- **Monopsony** is a market characterized by a single buyer of a product. or service and is mostly applicable to factor markets in which a single firm is the only buyer of a factor.
- **Oligopsony** is a market characterized by a small number of large buyers and is mostly relevant to factor markets.
- **Bilateral monopoly** is a market structure in which there is only a single buyer and a single seller i.e. it is a combination of monopoly market and a monopsony market.

Business Cycle

Business cycle refers to alternate expansion and contraction of overall business activity as manifested in fluctuations in measures of aggregate economic activity, such as, gross national product, employment and income.

Phases of business cycle

- **Expansion**
- **Peak**
- **Contraction**
- **Trough**

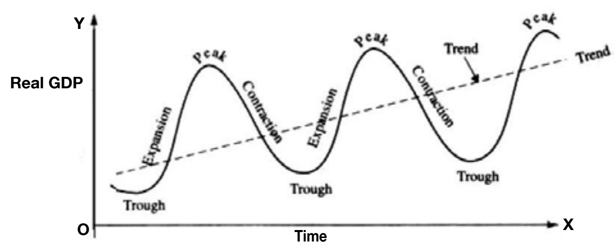
Expansion: The expansion phase is characterised by increase in national output, employment, aggregate demand, capital and consumer expenditure, sales, profits, rising stock prices and bank credit.

Peak: The term peak refers to the top or the highest point of the business cycle

Contraction: The economy cannot continue to grow endlessly. Once peak is reached, increase in demand is halted and starts decreasing in certain sectors.

Trough: At the depth of depression, all economic activities touch the bottom and the phase of trough is reached

A noteworthy characteristic of these economic fluctuations is that they are recurrent and occur periodically.



CAUSES OF BUSINESS CYCLE

Internal Causes:

- Fluctuations in Effective Demand
- Fluctuations in Investment
- Variations in government spending
- Macroeconomic policies
- Money Supply
- Psychological factors

External Causes:

- War
- Post War Reconstruction
- Technology shock
- Natural Factors
- Population growth

Examples of Business Cycle:

❖ Great Depression of 1930
❖ Information Technology bubble burst of 2000
❖ Global Economic Crisis (2008-09)

❖ Business cycles are contagious and are international in character. They begin in one country and mostly spread to other countries through trade relations.

❖ The phase of the business cycle is important for a new business to decide on entry into the market.

CA FOUNDATION - PAPER 4 (PART II) - BUSINESS AND COMMERCIAL KNOWLEDGE

This capsule on Foundation Paper 4 (Part II): Business and Commercial Knowledge broadly covers the companies discussed in detail in Chapter 3 of the Study Material. To facilitate easy understanding of the significant changes in the year 2022, an attempt has been made to give an overview of the significant changes in the companies in tabulated form.

It may be kept in mind that the capsule is not the replacement of the Study Material. Reading of Study Material is absolute essential. This capsule is intended to assist you in the process of quick revision.

A. AN OVERVIEW OF SELECTED INDIAN COMPANIES

S. No.	Company's Name	Incorporation year	Headquarters	Chairman	Present Managing Director	Chief Executive Officer	Chief Financial Officer	Ranking in Forbes World's Largest Public Corporations List 2022	Ranking in Forbes World's Best Employer's List 2022
1	Adani Ports and Special Economic Zone Ltd.	1998	Ahmedabad, Gujarat, India	Gautam Adani	Gautambhai Shantilal Adani	Karan Gautambhai Adani	Muthukumaran Doraiswami	1566th	
2	Asian Paints Ltd.	1942	Mumbai, Maharashtra, India		Amit Syngle	Amit Syngle	R J Jeyamurugan	1686th	
3	Axis Bank Ltd.	1993	Mumbai, Maharashtra, India		Amitabh Chaudhry	Amitabh Chaudhry	Puneet Sharma	433rd	
4	Bajaj Auto Ltd.	1945	Pune, Maharashtra, India	Rahul Bajaj	Rajiv Bajaj	Rajiv Bajaj	Dinesh Thapar	1756th	
5	Bharti Airtel Ltd.	1995	New Delhi, India	Sunil Bharti Mittal	Gopal Vittal	Gopal Vittal	Soumen Ray	710th	
6	Bharat Petroleum Corporation Ltd.	1952	Mumbai, Maharashtra, India	Vetsa Ramakrishna Gupta	Vetsa Ramakrishna Gupta		Vetsa Ramakrishna Gupta	616th	
7	Cipla Ltd.	1935	Mumbai, Maharashtra, India	Y K Hamied	Umang Vohra	Umang Vohra	Ashish Adukia		
8	Coal India Ltd.	1975	Kolkata, West Bengal, India		Pramod Agrawal	Pramod Agrawal	Sunil Kumar Mehta	726th	
9	Dr. Reddy's Lab. Ltd.	1984	Hyderabad, Telangana, India	Kallam Satish Reddy		Erez Israeli	Parag Agarwal		
10	Flipkart	2007	Singapore (legal domicile), Bengaluru, Karnataka, India (Operational Headquarters)			Kalyan Krishnamurthy	Sriram Venkataraman		

S. No.	Company's Name	Incorporation year	Headquarters	Chairman	Present Managing Director	Chief Executive Officer	Chief Financial Officer	Ranking in Forbes World's Largest Public Corporations List 2022	Ranking in Forbes World's Best Employer's List 2022
11	GAIL (India) Ltd	1984	New Delhi, India	Sandeep Kumar Gupta	Sandeep Kumar Gupta		Rakesh Kumar Jain	1215th	
12	HDFC Bank Ltd.	1994	Mumbai, Maharashtra, India	Atanu Chakraborty	Sashidhar Jagdishan	Sashidhar Jagdishan	Srinivasan Vaidyanathan	154th	137th
13	ICICI Bank Ltd.	1994	Mumbai, Maharashtra, India	Girish Chandra Chaturvedi	Sandeep Bakhshi	Sandeep Bakhshi	Anindya Banerjee	205th	365th
14	Indian Oil Corporation Ltd.	1959	New Delhi, India	Shrikant Madhav Vaidya			Sanjay Kaushal	359th	
15	Infosys Ltd.	1981	Bengaluru, Karnataka, India	Nandan Nilekani	Salil Parekh	Salil Parekh	Nilanjan Roy	540th	688th
16	ITC Ltd.	1910	Kolkata, West Bengal, India	Sanjiv Puri	Sanjiv Puri	Sanjiv Puri	Supratim Dutta	845th	
17	Larsen & Toubro Ltd.	1938	Mumbai, Maharashtra, India	Anil Manibhai Naik	S.N. Subrahmanyan	S.N. Subrahmanyan	Shankar Raman	515th	354th
18	NTPC Ltd.	1975	New Delhi, India	Gurdeep Singh	Gurdeep Singh		Jaikumar Srinivasan	485th	
19	Oil & Natural Gas Corporation Ltd.	1956	Uttarakhand, India	Rajesh Kumar Srivastava	Rajesh Kumar Srivastava		Pomila Jaspal	229th	
20	Power Grid Corporation of India Ltd.	1989	Gurugram, Haryana, India	Sreekant Kandikuppa	Sreekant Kandikuppa		Ravisankar Ganesan	822nd	
21	Reliance Industries Ltd.	1966	Mumbai, Maharashtra, India	Mukesh Ambani	Mukesh Ambani	Mukesh Ambani	Srikanth Venkatchari and Alok Agarwal	54th	20th
22	State Bank of India	1806	Mumbai, Maharashtra, India	Dinesh Kumar Khara	C.S. Setty, Alok Kumar Choudhary, Swaminathan J., Ashwini Kumar Tewari		Charanjit Surinder Singh Attra	105th	499th

S. No.	Company's Name	Incorporation year	Headquarters	Chairman	Present Managing Director	Chief Executive Officer	Chief Financial Officer	Ranking in Forbes World's Largest Public Corporations List 2022	Ranking in Forbes World's Best Employer's List 2022
23	Tata Sons Private Ltd.	1868	Bombay House, Mumbai, Maharashtra, India	Natarajan Chandrasekaran	Natarajan Chandrasekaran		Saurabh Agrawal	Tata Motors- 729th TCS – 386th Tata Steel – 409th	
24	Wipro Ltd.	1945	Bengaluru, Karnataka, India	Rishad Premji	Thierry Delaporte	Thierry Delaporte	Jatin Dalal	821st	

B. AN OVERVIEW OF SELECTED GLOBAL COMPANIES

S. No.	Company's Name	Incorporation year	Headquarters	Chairman	Chief Executive Officer	Chief Financial Officer	Ranking in Forbes World's Largest Public Corporations List 2022	Ranking in Forbes World's Best Employer's List 2022	Ranking in Fortune 500 Companies List 2022
1	Amazon	1994	Seattle, Washington, U.S.	Jeff Bezos	Andy Jassy	Brian T. Olsavsky	6th	14th	2nd
2	American Express	1850	New York, United States of America	Stephen Squeri	Stephen Squeri	Jeffery C Campbell	77th	186th	85th
3	Apple	1977	California, United States of America		Tim Cook	Luca Maestri	7th	5th	3rd
4	Goldman Sachs	1869	New York, United States of America	David M. Solomon	David M. Solomon	Denis Coleman	37th	758th	57th
5	HP Inc.	1939	California, United States of America	Enrique Lores	Enrique Lores	Marie Myers	259th	101st	59th
6	IBM Corporation	1911	New York, United States of America	Arvind Krishna	Arvind Krishna	James J. Kovnaugh	98th	3rd	49th
7	Intel Corporation	1968	California, United States of America	Omar Ishrak	Patrick Paul Gelsinger	David Zinsner	51st	77th	46th
8	Microsoft Corporation	1975	Washington, U.S.	Satya Nadella	Satya Nadella	Amy Hood	12th	2nd	14th
9	Nestle	1866	Vevey, Switzerland	Paul Bulcke	Ulf Mark Schneider	Francois-Xavier Roger	47th	301st	
10	Walmart	1969	Arkansas, United States of America	Gregory B. Penner	Dough McMillon	John Rainey	23rd		1st