

Unit - 2* Economics :

- > origin from Greek word
- > oikonomia -> house hold.

=> Economics also known as Political Economy.

=> father of Economics - Adam Smith.

Author of Book :- 'The wealth of nation'
Nature & causes of the wealth
of nation - [1776]

* Subject Matter of Economics.

- Unlimited wants
- Limited Resources.

* Meaning of Economics

=> Economics is the study of the processes by which scarce resources are allocated to satisfy the unlimited wants of a society.

* Meaning of Business Economics.

=> also known as Managerial Economics.

=> It means to integrate economics theory with business practice.

=> It is used for making Business decisions.

=> close connection with Micro Economic, Macro Economics, styles, myths.

=> Component of Applied Economics.

=> uses techniques such as linear programming, Break even Analysis, capital Budgeting, cost analysis.

=> Joel Dean defined Business economics.

* Nature of Business Economics

Subject matter

MICRO MACRO

=> Micro economics :-
- x - x - - x - x - x - x

- Studies the behaviour of individual or organisation.
- focuses on one unit or consumer, or a groups of consumer rather than whole.
- Narrow concept.

⇒ Business Economics is basically concerned with micro economic

Micro Economics covers:

* Pricing
 ↗ Product
 ↘ Factor

⇒ Behaviour
 ↗ consumer
 ↘ firms

⇒ location of industry

⇒ Economic condition of section

⇒ MACRO Economics
 - x - x - - x - x - x -

⇒ also known as aggregate Economics

⇒ studies the overall or entire economy as a whole.

⇒ Analyses the background of economic conditions in an economy overall.

⇒ Macro economics covers:

Total
 ↗ output
 ↗ Production
 ↗ Consumption
 ↘ Saving
 ↘ Import
 ↘ Export

- => National Income & output.
- => General Price level
- => General Interest rates
- => Total Employment.

* Nature of Business Economics

1). Business Economics is a science:

- => Science is a systematised (organised) body of knowledge
- => Cause & Effect.
- => B.E. Uses tools of decision science like maths, econometrics.
- => B.E. also does tests and cases just like science.

2). Based on micro economics:-

- => B.E. is more concerned about the decision making problems of individual establishments.

3). Incorporates elements of macro analysis

- => A business can not operate only in micro environment. it also needs to understand the macro environment variable.

4. Business economics is an art also

=> AS art involves practical application of this Bus. Eco also involves set of do's & Don'ts.

5. Use of Theory of Markets and Private enterprise.

=> Uses the concept of resource allocation.

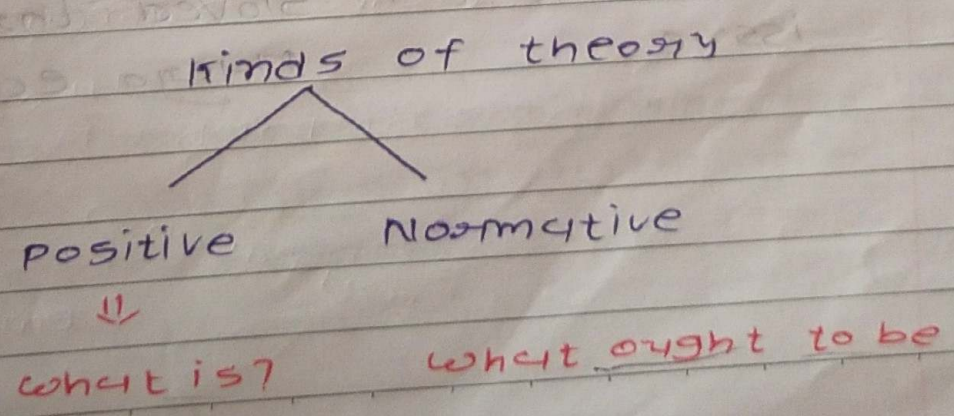
6. Pragmatic (Practical) in approach:-

=> B.E. is practical as it involve real life problem solving.

7. Interdisciplinary in nature:-

=> B.E. uses other subjects like maths, Account, finance, stats, management.

8. Normative in nature:-



* Positive Science :

- => Also known as Pure Science
- => focuses on Present and does not pass value judgement [what is, How is, Ought to]

E.g :- what is happening ?
How is indian growth.

* Normative Science

- => Involves value judgements.
- => Prescriptive in nature.
- => E.g :- what should be done in future.
- => Do not future condition.
- => Business economics is normative or prescriptive. [what should be]

* Scope of Business Economics

Internal issue :- solved through
Micro Economics

External or environment :- solved through
issue Macro Economics

1). Micro economics applied to internal or operational issue

- => Operational issues deals with internal issues which are controllable by mgt.
- => Issues relating to size of bus product, finances sales

* Micro Economics Theory

A). Demand Analysis & forecasting.

- => Demand forecasting refers to technique of predicting future demand for goods & services on the basis of past behaviour of factors.
- => Business Economics uses the scientific tools which assists the co. in forecasting demand.

B). production and cost Analysis.

- => production theory explains relationship between input & output.
- => cost analysis enables the given to recognise the behaviour of cost.

C). Inventory Management

- => firms uses the above to minimise the cost in maintaining inventory in the form of work in progress, raw material.

D). Market Structure & Pricing Policies

- => fixation of price under different market conditions.

E). Resource Allocation

- => uses tools such as linear programming to use resources in best possible manner.

F). Theory of Capital & Investment Decision

- => Business Economics supports decision making on allocation of scarce capital among competing uses of funds.

G). Profit Analysis

- => Helpful in future profit planning.

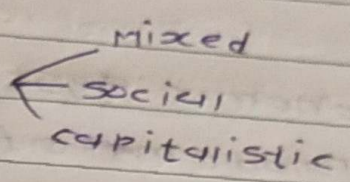
H). Risk & Uncertainty Analysis

- => Analysis of risks and uncertainties helps the business firms in arriving at efficient decision.

* Micro Economics

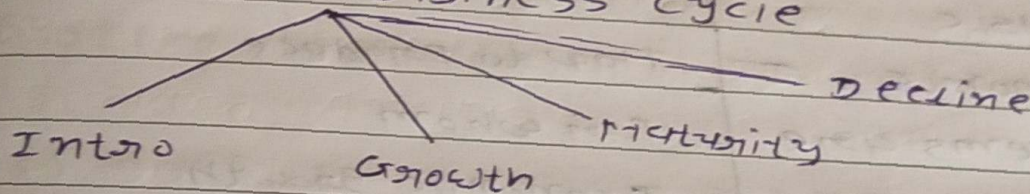
c) The major external factors affecting macro economies.

4). Economic System



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graph LR; A[Economic System] --> B[mixed]; A --> C[social]; A --> D[capitalistic];
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b). Stage of Business cycle



c). General trends in national Income, employment

D). Government Policy.

E). Central Bank working.

F). Socio-Economic organisation.

G). Social & Political envt.

Unit - 2

* Basic Problems of an Economy.

=> Every economic system has to deal with the central problems of scarcity of resources.

4 basic Economic problems are	What to produce
	How to produce
	For whom
	Economic growth

1. What to produce?

- => Decisions such as what goods to produce - consumer or industrial.
- => Decisions related to quantities of goods.

2. How to produce?

- => Techniques of production.
- => Labor intensive or capital intensive.

3. For whom to produce?

- => kinds of consumers.

4. Provisions made for Economic growth?

- => future consumption

* Economic System

- => An economic system refers to sum total of arrangement is of production & distribution of goods & services

Kinds of Economic System

[	Capitalistic (Profit)	2023
	Socialistic (Welfare)	2025
	Mixed (Profit & Welfare)	

* Capitalistic Economy.

- => Also known as: free market economy.
Laissez-faire economy.
- => All means of production are owned controlled by private individual.
- => Center of mainstay is private property.
- => Driving force is profit motive.
- => Decision making is done by private individuals or businessman.
- => Government has limited Role.
- => No country follow pure capitalism but some examples are UK, USA & Hongkong, South Korea.

* Characteristics of Capitalistic Economy

1). Right of Private Property:

- => Factors of Production are owned by Private Individuals.
- => Private Individuals use the resources as per their wish.

2). Freedom of Enterprise

- => Any one and every one is free to choose any kind of Economic Activity.

3). Freedom of Economic Choice:

- => Individuals are free to make their own choices regarding saving, work etc.

4). Profit motive:-

- => Profit is driving force.

5). Consumer Sovereignty:- एक राजा

- => consumer is king.
- => consumer sovereignty is the ability & choice of consumer to determine goods & services they wish to buy.

6). Competition:

- =) Due to consumers being the king there is more competition

7). Above of government Interference

- =) Absence of centrally Planned Economy
- =) Not regulated by Government

* How does Capitalistic economy solve central problem?

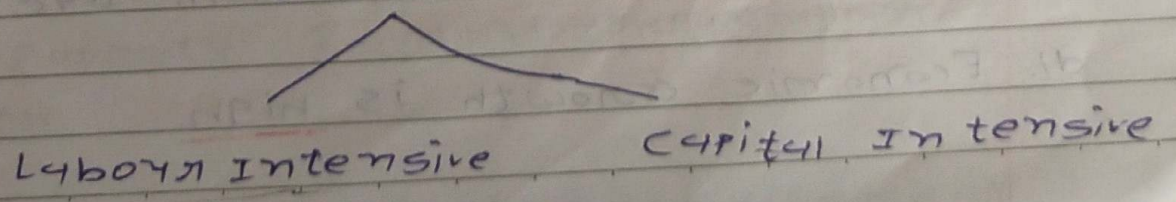
- =) Absence of Central Planning Authority
- =) Capitalistic Economy uses Impersonal forces of market demand and market supply and price mechanism to solve central problems.

a). Deciding what to Produce?

- =) What to Produce to answered by consumers whatever they will demand will be produced by producers.

b). How to Produce?

Technique of Prodⁿ





- ↓
- + Labour cheap ^{=) 21201 21201}
 - + Wages Less ^{=) 21201 21201}
 - + Easily available ^{=) 21201 21201}
 - + Labour costly ^{=) 21201 21201}
 - + Wages High

for whom
b). How to produce?

- =) Produced for those who have buying capacity
- =) Depends on Income
- =) Higher income higher buying capacity.

D). Deciding about consumption, savings & Investment

- =) consumption & savings done by consumer
- =) Investment by business.
- =) If interest rate are high then savings will be high.
- =) Investment decision depends on Return of capital

↑ ROI ↑ Invt.

* MERITS / Advantages

- Self Regulating. ^{21201 21201}
- Uses Price Mechanism.
- ↑ in efficiency of work due to ↑ Productivity
- Economic growth is high.

E1. optimum utilisation of resources.

F1. Reduce cost by production due cost effective methods.

G1. consumers are at benefit due cost effective more competition.

H1. Right to freedom & Right to Private Property.

I1. Rewards & Punishment

* Demerits / Disadvantage

a). Social Inequalities - Poor Rich
 સામાજિક અસમાનતાઓ. ↓ પૂર્ણતા ↓
 પૂર્ણતા Richen.

b). Property right more imp. than Human Right

c). ↑ in Injustice અન્યાય

d). Labour is Exploited. શોષણ

e). Consumers are Exploited. શોષણ

f). Misallocation of Resources. સંચાલનોની ખોટી કમી

g). ↑ in poverty ↑ in unemployment ↑ in
Hunger ડાહ્યાશી ↑
કુશળતા ખોશી

h). Waste of money - ↑ Advertisement

2). Form

1). formation of monopolies.

2). Socialistic economy

=> Also known as command economy or centrally planned economy

=> concept by Socialistic Economy given by Karl Marx and Frederic Engels in book published in 1848.

Name of Book: The Communist Manifesto

=> All factors of Production are owned by State or Govt.

=> Motive is service & welfare

=> every person is treated equally & gets equal share in national wealth.

=> Decisions are taken by central planning authority & no role of market forces

* Characteristics of Socialistic economy.

1). Collective ownership

=> Resources are owned by govt. except few small lands, farms

21. Economic planning.

=> planning is done by central planning authority.

31. Absence of consumer choice:

- => freedom from hunger is guaranteed.
- => consumers have no freedom to choose.
- => No choice of work

41. Relatively equal Income distribution.

51. Minimum Role of price mechanism on market ~~price~~ forces.

- => price are Administered prices
- => No role of price mechanism.
- => Socio-Economic objectives.

61. Absence of competition.

=> state is sole businessman.

USSR - example of socialistic economy from 1917 to 1990
Vietnam, China, Cuba, North Korea

* Merits of Socialism

- a). equal distribution of wealth & Income
 - b). Balanced economic Development.
 - c). less wastage of resources.
 - d). unemployment is minimised.
- II. No class war
- a). minimum standard of living.
 - b). No Exploitation of Labourers & consumers
- III. Social security

* Demerits of Socialism

- a). ↑ in corruption, ~~red tape~~ ^{red tapism}, favouritism.
 - b). Less freedom of individuals
 - c). Takes basic right of property
 - d). Less hard work.
- E). correction of state monopolies.
- F). consumer have limited freedom of choice

- (vi). No importance given to personal efficiency & productivity.

(c). Mixed Economy;

- => uses both markets and governments for alloc. of resources.
- => Includes best feature of market economy & controlled economy.
- => Based on both Profit & Service motive.

* features of mixed economy.

1. Co- Existence of private & public sector

Industries divided into 3 sectors

Public



industries are

controlled by

Govt. for

welfare

Private



Industries

controlled by

pvt. for

Profit motive

Combined



controlled

Jointly by

pvt. &

public.

* Merits of mixed economy.

a). Economic freedom

b). Price mechanism & competition promotes decision making.

c). Consumer choice

d). $\uparrow$ in Innovation ^{→ नवीनता}

e). $\uparrow$ in Industrialisation ^{→ औद्योगिकीकरण}

f). $\uparrow$ in Risk ^{→ जोखिम}

=> Mixed economy is not always a Golden Path between Socialistic & Capitalistic

* Demerits:

a). Sometimes more control by state results in $\downarrow$ in Incentives & $\downarrow$ in Growth & $\downarrow$ in Profit & $\uparrow$ in Tax rate

b). Imbalance between Public & Private sector