Ch-1

Unit-1

* **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 intigrate economics theory with business Practice

=) It is used for making Business deviscons

=) ~~aso~~ close connection with Micro Economic, Macro Economics, states, mathes,

=) component of Applied Economics

=) uses techniques such as linear Programming Brave 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 on 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 :-

=) also known as aggregate Economics

=) studies the overall or entire economy as a whole.

=) Analyses the back ground of economic conditions in an economy overall.

=) Macro economics covers:-

Total
- output
- Production
- Consumption
- Saving
- Export & Import

=) 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 sciene 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. ~~ez~~enviorment. it also needs to understand the macro enviorment variable.

4). Business ecomics is an art also

=) As art involves practical application on rules Bus. eco also involves set of do's & Don't.

5). Use of Theory of markets and private enterprised.

=) Uses the concept of resource allocation.

6). Pragmatic (Practical) in approach:-

=) B.E. is practical as it invove real life problem solving.

7). Interdisciplinary in nature:-

=) B.E. useds other subjects like maths, Accoun- finance, stats, management.

8). Normative in nature:-

Kinds of theory

Positive | Normative

⇓

what is? | what ought to be

* Positive Science :-

=> also known as Pure Science
=> focuses on Present and does not Passes 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 nots future condition.
=> Business economics is normative or Prescriptive. [what should be]

* Scope of Business Economics

Internal issue :- Sloved through Micro Economics

External or environment issue :- Sloved through Macro economics.

1). Micro economics applied to internal or operational issue

=) operational issus deals with intirnal issues which are controllable by mgt.
=) Issues ralating to size of bus product, finances sales

* Micro Economics Theory

A). Demand Analysis & forecasting.

=) Demand forecasting refers to technique of predecting 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 mainating inventory in the form of work in progress, raw material.

D). Market Structure & Pricing Policies

=) fixation of Price under differans market conditions.

E). Resource Allocation.

=) uses tools such as linear Progamming to use resources in best possible manner.

F). Theory of Capital & Investment ~~D~~ Decisio

=) Business Economics supports decision making of allocation of scarce capital among competing uses of funds.

G). Profit Analysis

=) Helpful is future Profit Planning.

H). Risk & Uncertainty Analysis.

=) Analysis of risks and Uncertainties helps the business firms in arriving at efficient decision

* Micro Economics

=) The major externa1 factors affecting macro Economies

a). Economic system ← Mixed / social / capitalistic

b). stage of Business cycle

Intro / Growth / Maturity / Decline

c). General trends in national Income, employment

D). Goverment 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.
=) Labour 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) ઘ્રમું
- Socialistic (welfare) → કલ્યાણ
- Mixed (Profit & welfare)

1.* Capitalistic Economy.

=) Also known as: free market economy.
Laissez - faire economy.

=) All means of production are owned controlled by private individual
=) centre or mainstay is private property
=) Driving force is profit motive.
=) Decision making is done by private individuals or businessman.
=) Goverment has limited Role
=) No contry follow pure compitalism but some exampes 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 Sovereignitiy:-
સાર્વભૌમત્વ

=) consumer is king.
=) consumer sovereignity is the ability & choice of consumer to ~~diff~~ ditermine goods & services they wish to ~~tr~~ buy.

6). Competition:-

=) Due to consumer 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 slove central problem?

=) Absence of central planning Authority.
=) capitalistic Economy uses Impersonal forces of market demand and market supply and price mechanism to slove central problems.

a). Deciding what to Produce?

=) what to Produce to answered by consumers. whatever they will demand will be Produced by Producer. ગ્રાહકોની ઈચ્છા પ્રમાણે અહીંયા ઉત્પાદન કરવામાં આવે

b). How to Produce?

Technique of $Prod^n$

Labour Intensive

Capital Intensive

*

⇓ ⇓

* Labour cheap ⇒ સસ્તી મજૂરી * Labour costly મજૂરી મ...
* wages Less ⇒ પગાર ઓછા * wages High
* Easily available
⇒ સરળતાથી મળી રહે.

c). ~~How~~ for whom to Produce ?

⇒ Produced for those who have buying capacity
⇒ Depends on Income
⇒ Higher income higher buying capacity.

D). Deciding about consumption, saving & 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

A). Self Regulating. સ્વ-નિયમન

b). uses Price Mechanism.

c). ↑ in efficiency of work due to ↑ Profit

d). Economic Growth is high.

E). optimum utilisation of Resources.

F). Reduce cost by Production due cost effective methods.

G). consumers are at benefit due ~~cost effe~~ more competition.

H). Right to freedom & Right to Private Property.

I). Rewards & Punishment

* Demerits / Disadvantage

a). Social Inequalities - Poor → Poorer, Rich → Richer.
સામાજિક અસમાનતાઓ.

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. સંસાધનોની ખોટી ફાળવણી

G). ↑ in poverty ↑ in unemployment ↑ in Hunger
↑ ગરીબી ↑ બેરોજગારી ↑ ભૂખમરો

H). waste of money - ↑ Advertisement

I). Form

I). 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 & wey are
=) every person is treated equally & gets eq share in national wealth.
=) Decisions are taken by central planning authority & no role of market forces

* charachteristics of socialistic economy.

I). Collective ownership

=) Resources are owned by govt. exept few small lands, farms

2). Economic Planning:

=) Planning is done by central Planning Authority.

3). Absence of consumer choice :

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

4). Relatively equal Income distribution.

5). Minimum Role of Price Mechanism or market ~~Pric~~ forces.

=) Price are Administered Prices
=) No role of Price mechanism.
=) Socio- Economic objectives.

6). 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.

E). No class war

G). Minimum standard of living.

H). No Exploitation of Labourers & consumers

I). Social security

* Demerits of Socialism

a). ↑ in corruption, ~~nepotism~~. favouritism.
ભ્રષ્ટ્રાચાર →પક્ષપાત

b). Less freedom of individuals

c). Takes basic right of Property

d). Less hard work.

E). creation of state monopolies.

F). consumer have limited freedom of choice (a). No importance given to personal efficiency & productivity.

(). Mixed Economy;

=) uses both markets and goverments for allocation of resources.

=) Includes best feature of market economy & controlled economy.

=) Based on both $\boxed{\text{Profit \& Service motive.}}$

*. 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
- Comboined ⇓ Controlled Jointly by pvt. & Public.

* Merits of mixed economy.

a). Economic freedom

b). Price mechanism & competition promote decision making.

c). Consumer choice

d). ↑ in Innovation → નવીનતા

E). ↑ in Industrialisation → ઔદ્યોગિકરણ

F). ↑ in Risk જોખમ

=) Mixed economy is not always a golden path between Socialistic & Capitalistic

* Demerits;

a). Sometimes more control by state results in ↓ in Incentives ↓ in growth ↓ in ~~Project~~ profit ↑ in Tax rate

b). Imbalance between Public & Private sector