

**Economics** CH1  
(6 Marks)

Nature & Scope of  
Business Economics

① Introduction

" OIKONOMIA "  
↓  
Households

19<sup>th</sup> century → Political economy

⋈ Father of economics : Adam Smith

1776 ———— Wealth of Nations

\* Two facts

└→ Unlimited wants  
└→ Limited resources

⋈ Modern economists ———— Critique  
WIDER

② **Business Economics**

" What ought to be " ———— Theories

"What ought to be"

Theories

COST

"Business"

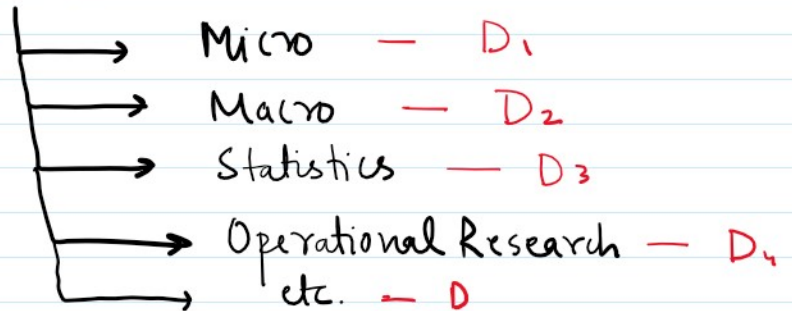


apply

## Applied economics / Managerial economics

→ Business economics

Inter  
disciplinary



→ Nature of Business Economics

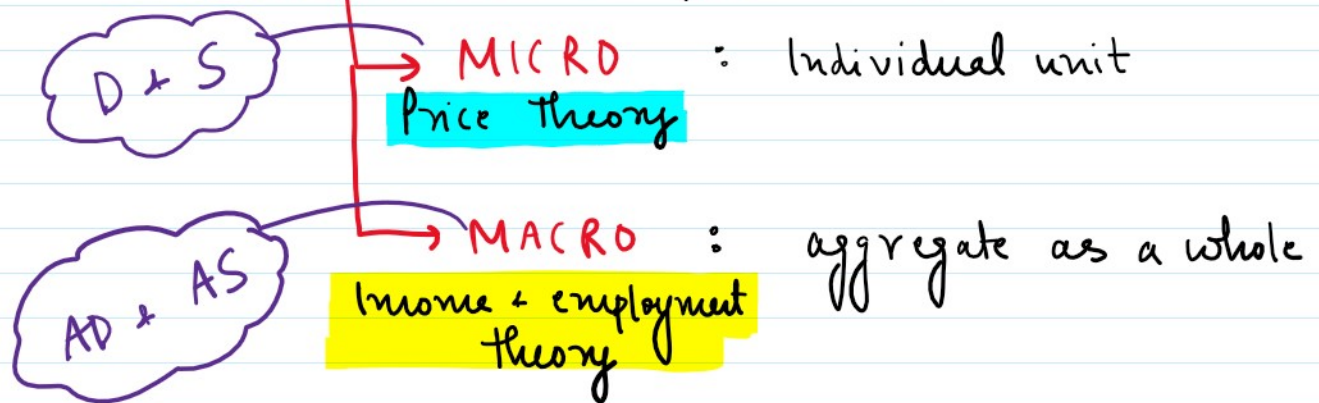
- Science → cause & effect relation
- Art → apply that
- ⊛ Based on Micro
  - Macro
  - uses theory of market
- ⊛ PRAGMATIC → practical
- NORMATIVE

| Positive                             | Normative                                                  |
|--------------------------------------|------------------------------------------------------------|
| "What is"<br>check ✓<br>Fact based ✓ | "What ought to be"<br>check X facts X<br>value judgement ✓ |

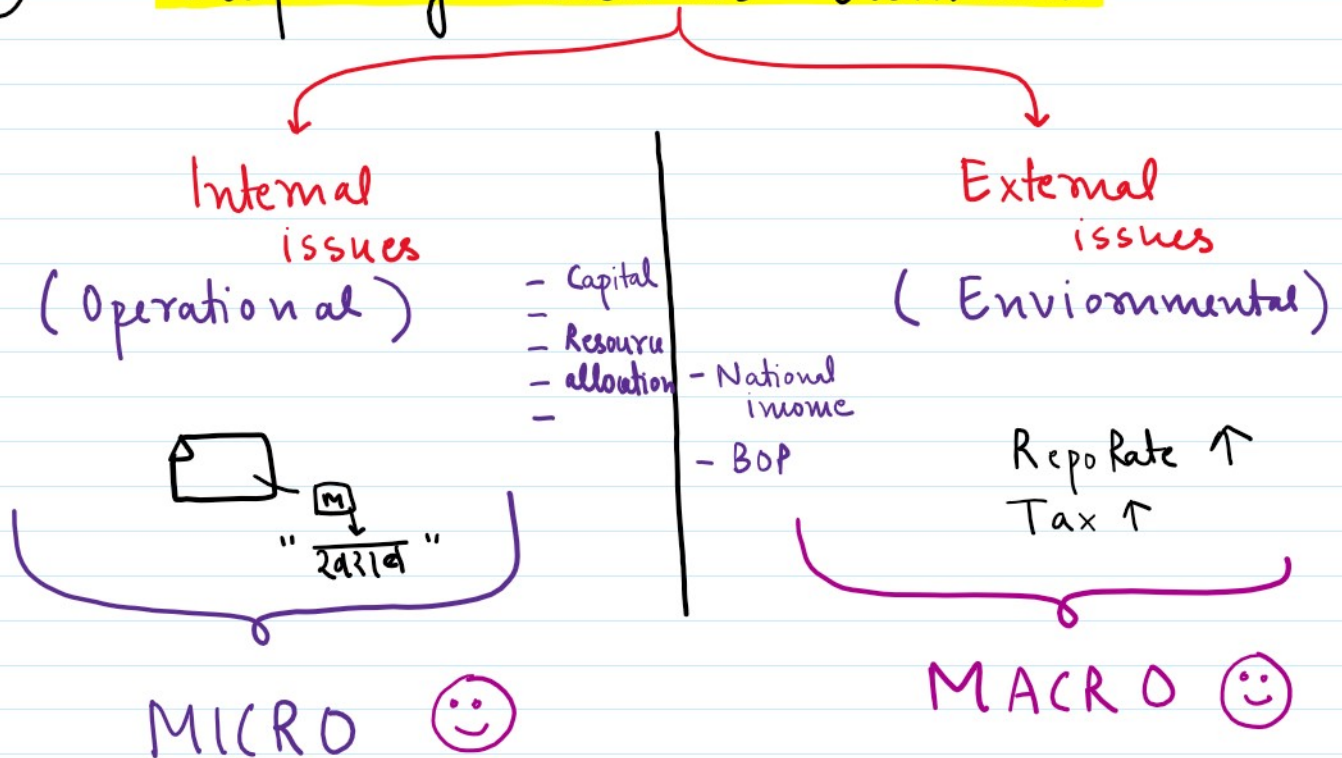
Fact based ✓  
opinion X  
Mercury is the largest planet.

value judgement ✓  
opinion ✓  
Burger > Pizza

### ③ Subject Matter of B.E



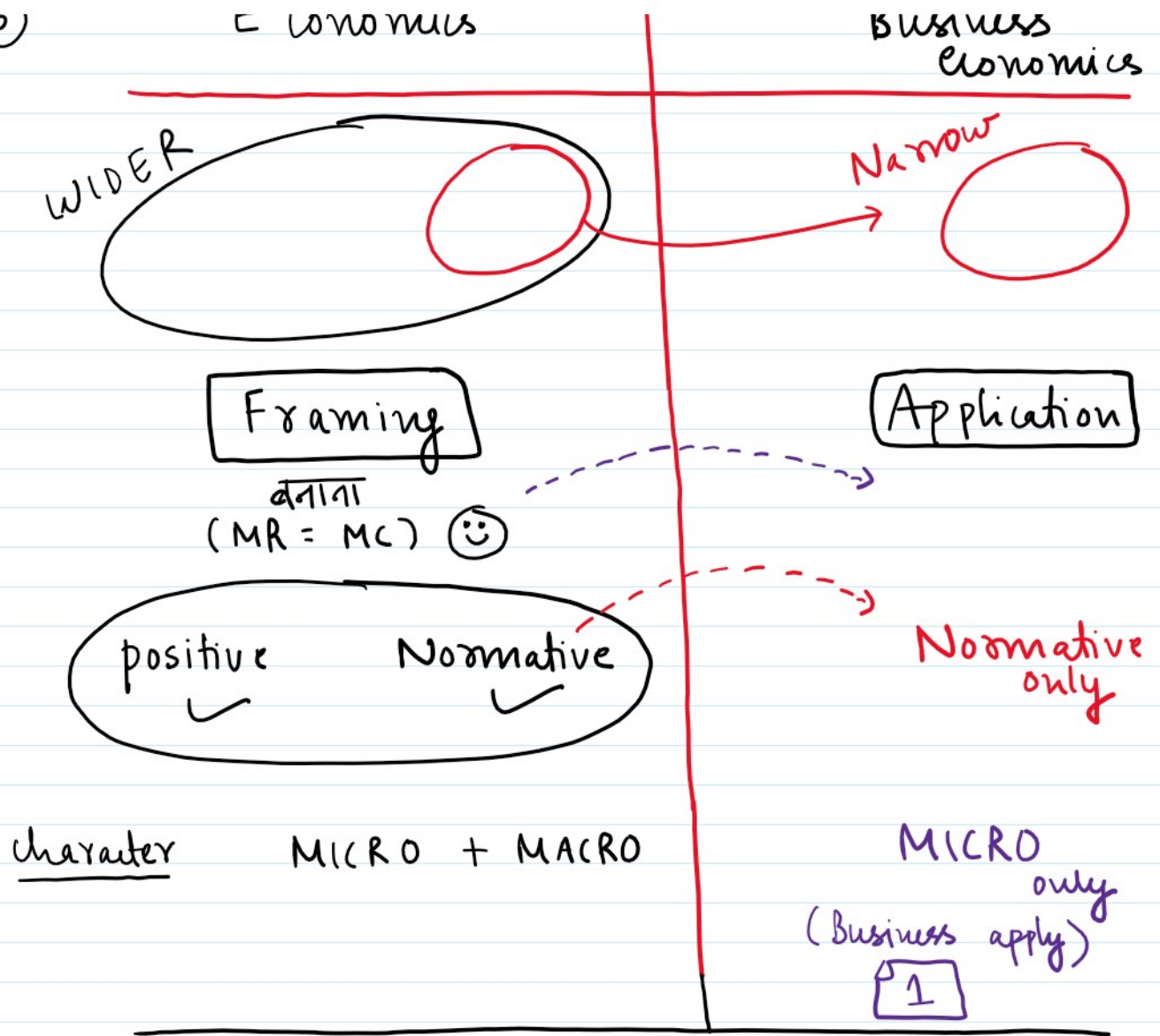
### ④ Scope of Business Economics



⑤ Economics | Business Economics

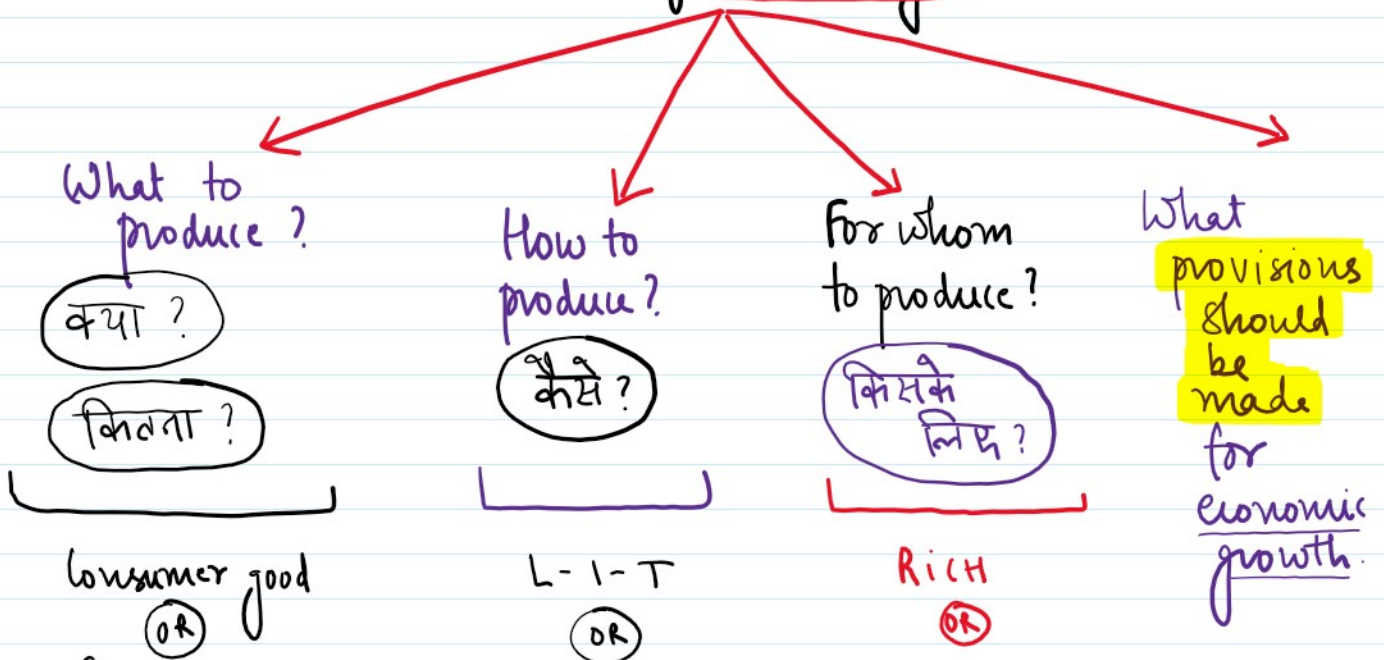


3)



## UNIT 2

### Central Problems of Economy



consumer good  
(OK)  
Capital good

L-I-I  
(OK)  
C-I-T

rich  
(OK)  
Poor

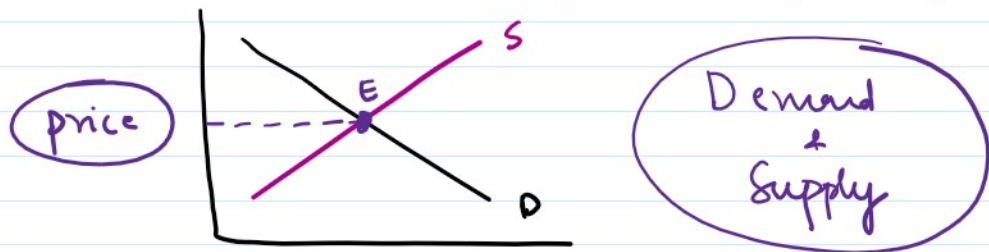
—

SOLUTION ???

(I)

## CAPITALIST Economy

→ Free Market (NO. Govt)



→ Profit Motive

→ Laissez-Faire

→ Resources are owned by private entrepreneurs.

→ freedom of choice

→ High competition

→ Optimum utilisation of resources

→ Effective work.

→ Consumer Sovereignty King

→ ~~Needs~~ Wants ✓

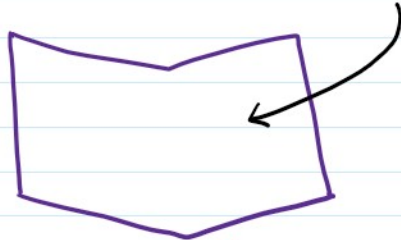
→ Merit goods / Public goods (धर्म)

- Merit goods / Public goods (dht)
- Property rights > Human rights
  - { stick figure → [£10] → person with red X }
- No security of employment
- Punishes the inefficient.

(2)

## Socialist Economy

(command economy or centrally planned economy)



Communist Manifesto

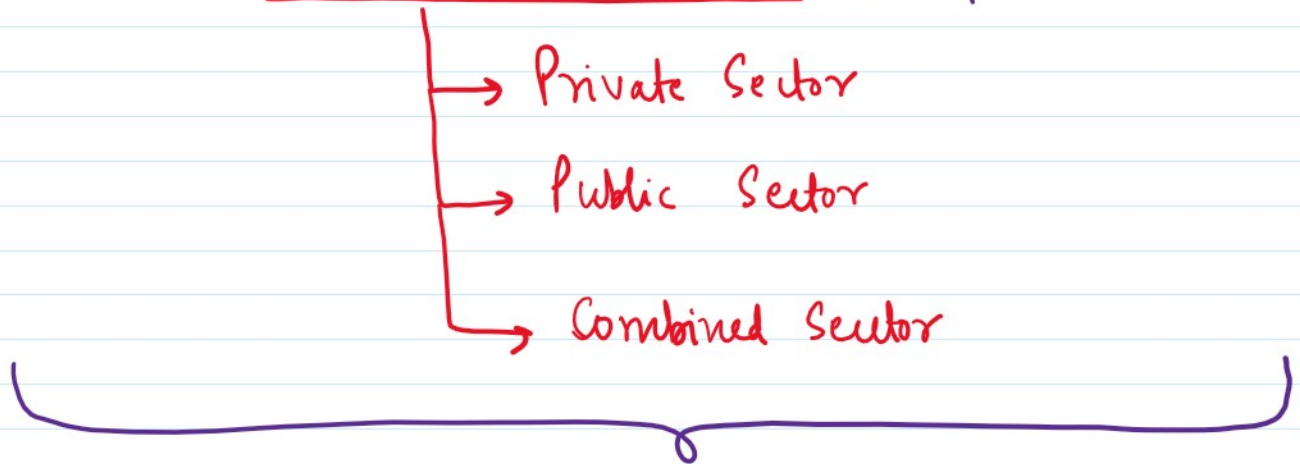
Karl Marx  
&  
Fredric Engels

(1848)

- Social welfare
- No freedom of choice
- Government (✓)
- Human rights > Property rights
- \* → Distribution of Income - Equitable
- Red Tapisism

- Red Tapism
- Corruption
- Inefficient
- No incentive for hard work

\* MIXED ECONOMY (Capitalist + Socialist)



SOLUTIONS ↓

|            | WTP ?                 | HTP ?                    | FWTP ?                   |
|------------|-----------------------|--------------------------|--------------------------|
| Capitalist | Consumer's preference | Least cost of production | who have Buying Capacity |
| Socialist  | Govt decides          | Govt decide              | Govt decide              |

X ————— X ————— X ————— X ————— X