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.
- The graphs and charts will assist them in revision of concept discussed in study material in minimum time.

NATURE AND SCOPE OF BUSINESS ECONOMICS

Definition

Scope
- Micro Economics
- Macro Economics

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

Basic Economic Problems
- What to Produce?
- How to Produce?
- For whom to Produce?

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.

Two fundamental facts: Human beings have unlimited wants 'The means to satisfy these unlimited wants are relatively scarce' form 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

- A Science
- Based on Micro Economics
- Incorporates elements of Macro Analysis
- Use of theory of Markets and Private Enterprises
- Pragmatic in Approach
- Normative in Nature
- Interdisciplinary 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,

Internal issues or operational issues (this can be solved using Micro Economics)

External issues or environmental issues (this can be solved using Macro Economics)

In Micro Economics we study about-

Product Pricing

Consumer Behaviour

Factor Pricing

Behaviour of firms

Location of Industry

The Economic condition of a section of people

In Macro Economics we study about-

National Income and National Output

Consumer Behaviour

The General Price Level and Interest Rates

The overall Level of Savings and Investment

The Level of Employment and Rate of Economic Growth

External value of Currency

Basis of Difference	Economics	Business Economics
Meaning	It involves the framing of economic principles to solve economic problems.	It involves the application of economic principles to solve economic problems.
Character	It is microeconomic as well as macroeconomic in character.	It is microeconomic in character.
Main Task	The fulfilment of needs of individuals as well as entities.	Proper decision making in a particular business entity.
Nature	It is positive as well as normative in nature.	It is only normative in nature.
Scope	It has a wider scope.	It has a comparatively narrow scope.
Branches	It has business economics as its applied branch.	It is an applied branch of economics.
Concerned with	All the theories from production to consumption including distribution.	It is concerned with only profit theory ignoring other theories.
Analysis Involved	It includes the analysis of macro level issues like growth, inflation and employment, etc.	It includes the analysis of micro level issues like demand, supply and profit etc.
Concentration	It concentrates only on the economic aspects of any business problem.	It concentrates on both economic as well as non-economic aspects of any business problem.
Validity of Assumptions	It is based on certain assumptions.	Some assumptions become invalid when applied.

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 Problems:

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

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