Business Economics

Nov 2022

Chapter I - Nature & Scope of Business Economics

Unit I - Introduction

- Joins CSG family
- Use code - CSG10
- Get 10% off

Nature and Scope of Business Economics

Definition

Scope

Micro Eco

Macro Eco

Nature

- A Science
- Based on Micro Eco
- Incorporates Macro
- An Art
- Pragmatic
- Normative

Economic Problems

- what to Produce?
- How to Produce?
- whom to Produce?

- Economics owes its origin to the Greek word 'Oikonomia' which means 'household'.
- Economics closely related with the word 'Political Economy'.
- Father of Mordern Economics – Adam Smith

Book Name – An Inquiry into the Nature & Causes of Wealth of Nations.

Book Year – 1776

Book abbreviation

The Wealth of the Nations

- Problem solved by Economics – Subject Matter of Economics

  1. Human beings have unlimited wants and
  2. The means to satisfy these unlimited wants are relatively scare.

Economy VS Economics

- It is the set of resources which are used for attainment of earning of livelihood.

- It is a study to slove the problem of providing maximum satisfaction by use of limited scarce resources

But the problem is :- Limited Resources

Thats the clear distinction between Economy & Economics

- Economic Analysis – The study of Economics will enable us to develop an analytical approach that help us in understanding and analysing a wide range of economic issues.

- The management of business involves 3 types of decisions

  (i) Strategic
  (ii) Tactical
  (iii) Operational

- Decision making involves problems of
  - imperfect knowledge
  - uncertainty

  which requires
  - proper Methodology
  - Analytical tools & techniques.

- This brings us to the question that how to make decision making easy?

Business Economics is the practical application of Economics theory in the field of Business.

Business Economics is more Micro Economics dominated.

Business Economics = Managerial Economics

- Applied Economics that fills the gap between economic theory and Business practice.

Subject matter of Economics

Economics has been divided into two parts
- Micro Economics
- Macro Economics

Micro - Economics

- Product Pricing
- Consumer Behaviour
- Factor Pricing
- Location of Industry
- Behaviour of firms
- The economic conditions of a section of people (eg. Poor People)

• Study of the behaviour of different individuals and organizations with an economic system.

- Capitalistic Economy
- Socialistic Economy
- Mixed Economy

• It is decisions with respect to allocation of resources

Macro - Economics

- it is a study of overall economy as a whole, rather than its individual parts.
- It considers behaviour of all economic agents
  - Households
  - Firms
  - Government
  - External Sector

- National Income and Output.
- General Price level & interest rates.
- Balance of Trade.
- Balance of Payments.
- External value of currency.
- Overall level of Savings.
- Overall investment.
- level of savings
- Rate of Economic growth.

Business Economics is basically concerned with Micro Economics analysis also has got an important role to play.

Nature of Business Economics

– features of business Economics

- Business Economics is a Science – systematic body of Knowledge + cause and effect relationships
- Based on Micro Economics – Business Economics is based largely on Micro Economics.
- Incorporates Macro Analysis – It is affected by the external environment of the economy in which business operates.
- Business Economics is an Art – as it involves practical application of rules and principles for the attainment of set objectives.
- Use of Market Theory & Private Enterprises – Business Economics uses the theory of resource allocation used by private enterprises.
- Pragmatic Approach – Business Economics is Pragmatic in its Approach.

  ↓ Realistic Implementation

- Interdisciplinary in Nature – Business Economics incorporates tools and other disciplines.

- Nature of Economics

Normative	Positive
• contains value judgements	• does not involve value judgement
• What should be course of action	• What is ✓ what ought to be ✗
• They focus on solution to problem	• They recognise the problem.

Scope of Business Economics

There are two categories of business issues to which economic theories can be directly applied namely:-

1. Internal Issues or operational Issues. (solved by Micro Economics)
2. External Issues or environmental issues. (solved by Macro Economics)

- Demand Analysis
- Production & Cost Analysis
- Inventory Management
- Market Structure
- Resource Allocation
- Theory of Capital & Investment.
- Profit Analysis
- Risk Analysis

- Type of Economic System
- Stage of Business Cycle
- Trends in national income
- Economic & Industrial Policy
- Work of central banks
- Social & Political environment