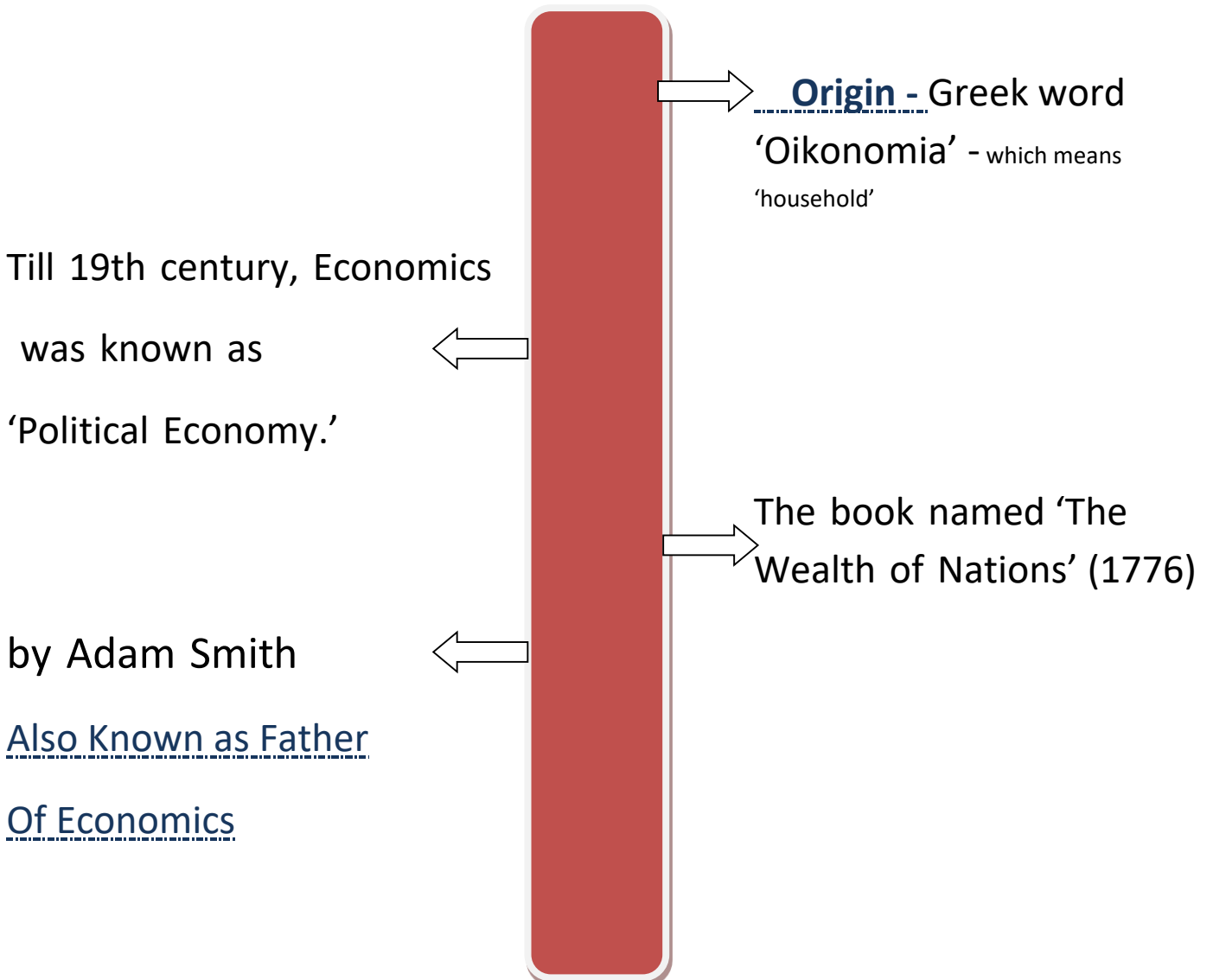


What is Business?

- A business is an economic activity, like manufacturing, mining, construction, agriculture So On.
- Transforming a set of inputs into a set of output.
- Input - men, materials, machines, management etc. or or as the economists classify as land, labour, capital and entrepreneurship
- Output - Different types of goods and services.
- *Within 'goods' also, we have consumer goods, producer goods, capital goods, private goods, public goods, merit goods like essential goods, non-merit goods like cigarettes. Some of these goods are non durable or single use goods and some are durable in nature.*

• What is Economics?



CHAPTER – 1

NATURE AND SCOPE OF BUSINESS ECONOMICS

UNIT – 1 - INTRODUCTION

DEFINITION-

Business Economics may be defined as the use of economic analysis to make business decisions involving the best use of an Organizations scare resources.

Joel Dean defined Business Economics and also known as managerial Economics

DIMENTION OF BUSINESS ECONOMICS -

Economics has been broadly divided into two major parts i.e.

- Micro Economics and
- Macro Economics.

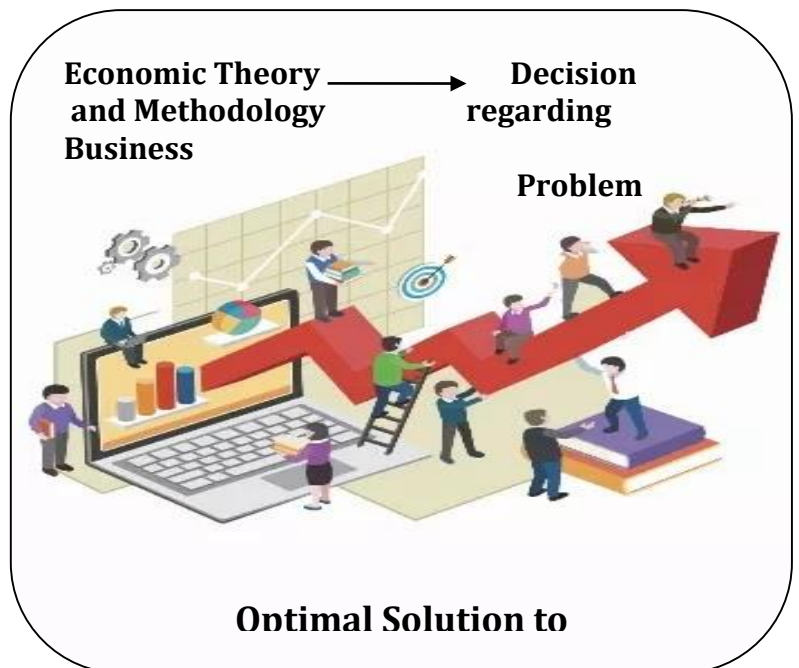
MICRO ECONOMICS -

Micro Economics is basically the study of the behaviour of different individuals and Organizations within an economic system.

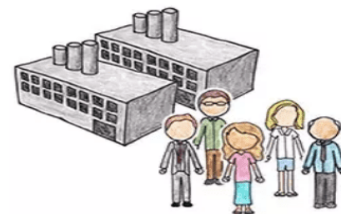
In other words, Micro-economics examines how the individual units (consumer or firms) make decisions as to how to efficiently allocate their scare resources.

We mainly study the Following in Micro -Economics:

- i. Product pricing;
- ii. Consumer behaviour;
- iii. Factor pricing;
- iv. The economic conditions of a section of people;
- v. Behaviour of firms; and
- vi. Location of industry.



MICRO



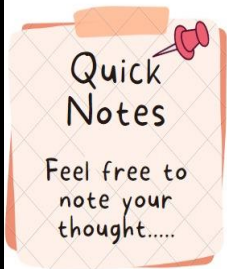
MACRO ECONOMICS-

Macro Economics is the study of the overall economic phenomena or the economy as a whole, rather than its individual parts.

It analyzes the overall economic environment in which the firms, governments and households make decisions.

A FEW AREAS THAT COME UNDER MACRO ECONOMICS ARE

- I. National income and National output;
- II. The general price level and interest rates;
- III. Balance of trade and balance of payments;
- IV. External value of currency;
- V. The overall level of savings and investment; and
- VI. The level of employment and rate of economic growth.



TOPIC – 1

INTRODUCTION, MICRO ECONOMICS, MACRO ECONOMICS



Question 1

The branch of economic theory that deals with the problem of allocation of Resources is:

- a) Micro Economics
- b) Econometrics
- c) Macro Economics
- d) None of these

Question 2

Business Economics is also known as?

- a) Applied Economics
- b) Managerial Economics
- c) Micro Economics
- d) All the above

Question 3

The practical application theory in business is called..... ..

- a) Macro economics
- b) Micro economics
- c) Business economics
- d) All the above

Question 4

Concept of Business Economics was given by:

- a) Joel Dean
- b) Alfred Marshall
- c) Adam Smith
- d) L. Robbins

Answer: 1(a), 2(b), 3(c), 4(a)

NATURE OF BUSINESS ECONOMICS-

1. Business Economic is a science:

Science is a systematized body of knowledge which establishes cause and effect relationships.

2. Based on Micro Economics:

Business Economics is based largely on Micro-Economics. A business manager is usually concerned about achievement of the predetermined objectives of his organisation so as to ensure the long-term survival and profitable functioning of the organisation.

3. Incorporates elements of Macro Analysis:

A business unit does not operate in a vacuum. It is affected by the external environment of the economy in which it operates such as, the general price level, income and employment levels in the economy and government policies with respect to taxation, interest rates, exchange rates, industries, prices, distribution, wages and regulation of monopolies

4. Business Economics is an art :

Business Economics is an art as it involves practical application of rules and principles for the attainment of set objectives.

5. Use of Theory of Markets and Private Enterprises:

Business Economics largely uses the theory of markets and private enterprise. It uses the theory of the firm and resource allocation in the backdrop of a private enterprise economy.

6. Pragmatic in Approach:

Micro-Economics is abstract and purely theoretical and analyses economic phenomena under unrealistic assumptions. In contrast, Business Economics is pragmatic in its approach as it tackles practical problems which the firms face in the real world.

7. Interdisciplinary in nature:

Business Economics is interdisciplinary in nature as it incorporates tools from other disciplines such as Mathematics, Operations Research, Management Theory, Accounting, marketing, Finance, Statistics and Econometrics.

8. Normative in Nature:

Economic theory has developed along two lines – positive and normative. A positive or pure science analyses cause and effect relationship between variables in an objective and scientific manner, but it does not involve any value judgement

Business Economics is generally normative or prescriptive in nature. It suggests the application of economic principles with regard to policy formulation, decision-making and future planning.



TOPIC - 2
NATURE OF BUSINESS ECONOMICS



Question 1

Business Economics is ____.

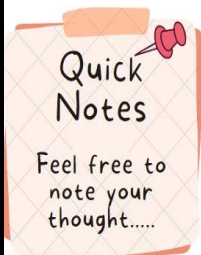
- a) Abstract and applies the tools of Microeconomics.
- b) Involves practical application of economic theory in business decision making.
- c) Incorporates tools from multiple disciplines.
- d) (b) and (c) above.

Question 2

Which one of the following is incorrect about Business Economics?

- a) It is applied economics that fills the gap between economic theory and business practice.
- b) Business Economics integrates economic theory with business practice.
- c) Business Economics is also referred to as Managerial Economics
- d) Business Economics is more concerned with Macro Economics.

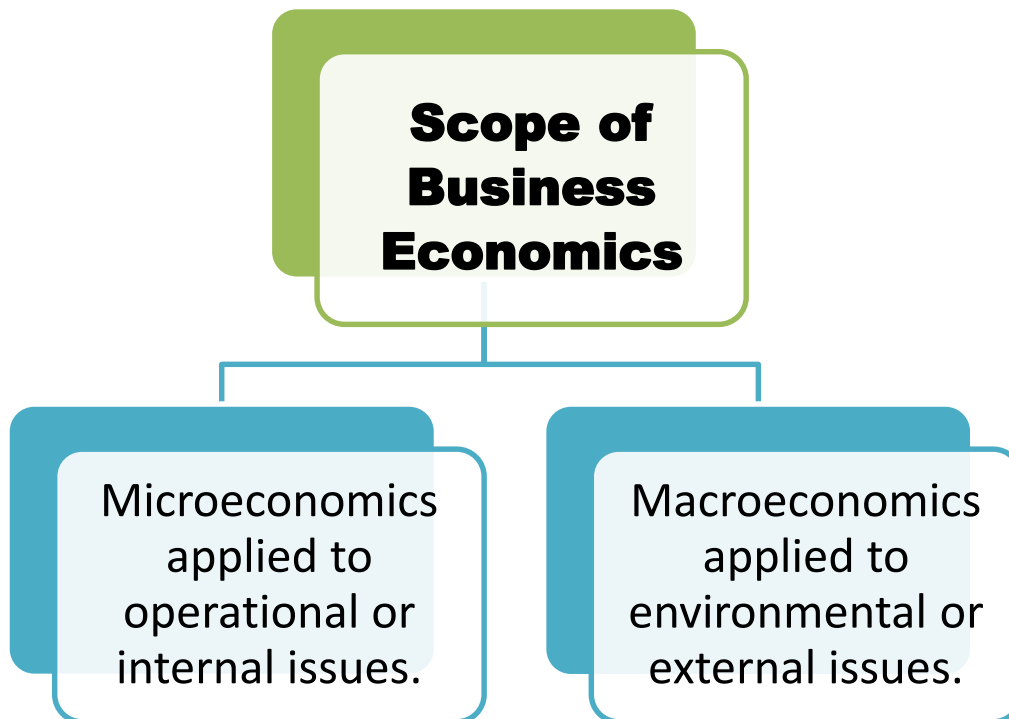
Answer: 1(d), 2(d)



SCOPE OF BUSINESS ECONOMICS -

The scope of Business Economics is quite wide. There are two categories of business issues to which economic theories can be directly applied, namely:

1. Microeconomics applied to operational or internal issues.
2. Macroeconomics applied to environmental or external issues.



MICROECONOMICS APPLIED TO OPERATIONAL OR INTERNAL ISSUES-

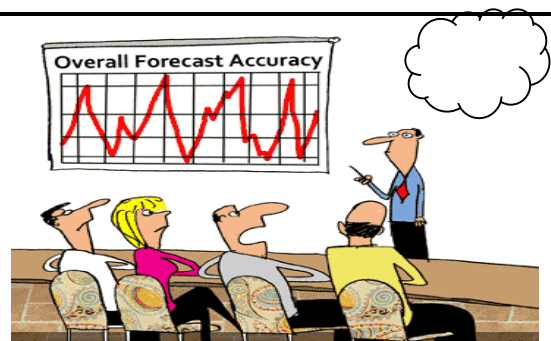
Operational issues include all those issues that arise within the organisation and fall within the purview and control of the management. These issues are internal in nature. Issues related to choice of business and its size, product decisions, technology and factor combinations, pricing and sales promotion, financing and management of investments and inventory are a few examples of operational issues.

The following Microeconomic theories deal with most of these issues.

1. Demand analysis and forecasting:

Demand analysis pertains to the behaviour of consumers in the market. Demand forecasting is the technique of predicting future demand for goods and services on the basis of the past behaviour of

factors which affect demand. Accurate forecasting is essential for a firm to enable it to produce the required quantities at the right time and to arrange, well in advance, for the various factors of production.



2. Production and Cost Analysis

Production theory explains the relationship between inputs and output. A business economist has to decide on the optimum size of output, given the objectives of the firm. He has also to ensure that the firm is not incurring undue costs.



Cost analysis enables the firm to recognise the behaviour of costs when variables such as output, time period and size of plant change. The firm will be able to identify ways to maximize profits by producing the desired level of output at the minimum possible cost.

3. Inventory Management:

Inventory management theories pertain to rules that firms can use to minimise the costs associated with maintaining inventory in the form of 'work-in-process,' 'raw materials', and 'finished goods'. Inventory policies affect the profitability of the firm.



4. Market Structure and pricing Policies:

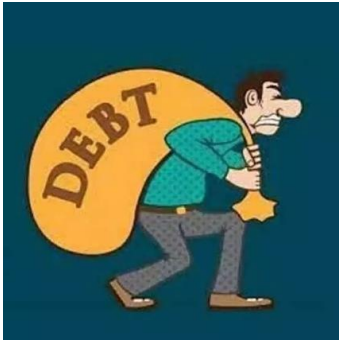
Analysis of the structure of the market provides information about the nature and extent of competition which the firms have to face. Price theory explains how prices are determined under different kinds of market conditions and assists the firm in framing suitable price policies.

5. Resource Allocation

Business Economics, with the help of advanced tools such as linear programming, enables the firm to arrive at the best course of action for optimum utilisation of available resources.



6. Theory of capital and Investment Decisions:



For maximizing its profits, the firm has to carefully evaluate its investment decisions and carry out sensible policy of capital allocation. Theories related to capital and investments provide scientific criteria for choice of investment projects and in assessment of the efficiency of capital.



7. Profit Analysis:

Profits are, most often, uncertain due to changing prices and market conditions. Profit theory guides the firm in the measurement and management of profits under conditions of uncertainty. Profit analysis is also immensely useful in future profit planning.



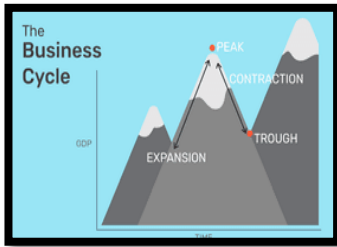
8. Risk and Uncertainly Analysis:

Business firms generally operate under conditions of risk and uncertainty. Analysis of risks and uncertainties helps the business firm in arriving at efficient decisions and in current information and future prediction.

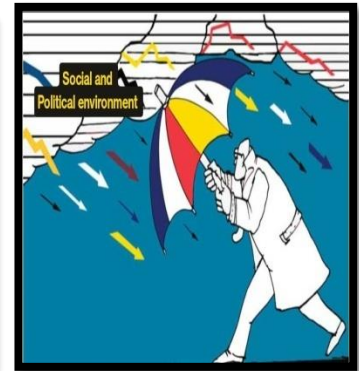
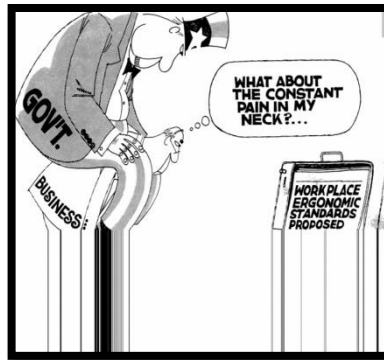
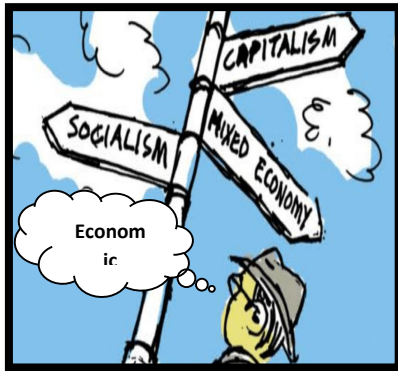


MACROECONOMICS APPLIED TO ENVIRONMENTAL OR EXTERNAL ISSUES-

Environmental factors have significant influence upon the functioning and performance of business. The major macro economic factors relate to:



General Trends



Quick Notes

Feel free to note your thought.....

TOPIC - 4
SCOPE OF BUSINESS ECONOMICS



Question 1

Micro economics does not study

- a) consumer behavior
- b) Factor pricing
- c) General price level
- d) None of these

Question 2

Which of the following is a part of the subject matter of macroeconomics?

- a) Study of firms
- b) Market demand for a product
- c) Aggregate profits of a firm
- d) None of these

Question 3

Which Factor is included in business Economics?

- a) Business Economics is an science
- b) Interdisciplinary in nature
- c) Normative in nature
- d) All of the Above

Question 4

Location of industries is matter of which economy

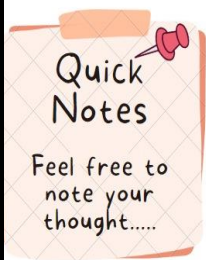
- a) Macro Economics
- b) Micro Economics
- c) Micro Economics
- d) None

Question 5

Micro economics applied for External uses.

- a) True
- b) False
- c) Partly True
- d) None

∴ 1(c), 2(c), 3(d), 4(b),5(b)



UNIT – 2

BASIC PROBLEMS OF AN ECONOMY AND ROLE OF PRICE MECHANISM

BASIC PROBLEMS OF AN ECONOMY

Every economic system, be it capitalist, socialist with this central problem of or mixed has to deal scarcity of resources relative to the wants for them. This is generally called 'the central economic problem'. The central economic problem is further divided into four basic economic problem. These are:



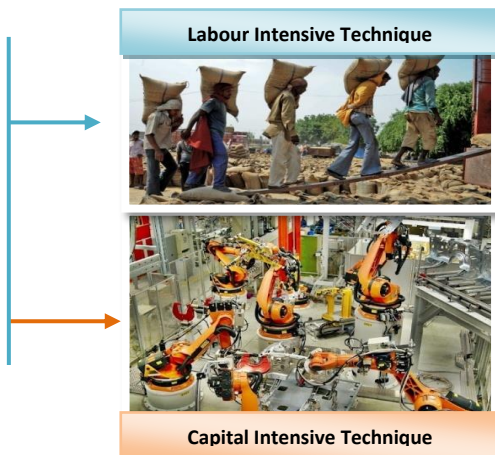
CENTRAL PROBLEMS OF ECONOMY-

1. What to produce?

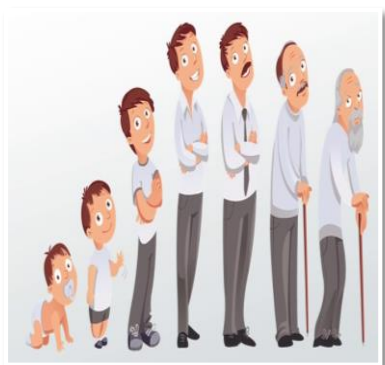
Since the resources are limited, every society has to decide which goods and services should be produced and how many units of each good (or service) should be produced



2. How to produce?



There are various alternative techniques of producing a commodity. Likewise, for all goods and services, it has to decide whether to use labour-intensive techniques or capital-intensive techniques. Obviously, the choice would depend on the availability of different factors of production (i.e. labour and capital) and their relative prices. It is in the society's interest to use those techniques of production that make the best use of the available



3. For whom to produce?

Another important decision which a society has to take is 'for whom' it should produce. A society cannot satisfy each and every want of all the people. Therefore, it has to decide on who should get how much of the total output of goods and services.



Topic – I

BASIC PROBLEMS OF ECONOMY



Question 1

Which of the following is the central problem of an economy?

- a) Assigning limited resources in a way that unlimited desires and needs of the society are satisfied
- b) Ensuring a minimum income for each citizen
- c) Assuring that production happens in the most effective way
- d) Analysing the demand with market economies

Question 2

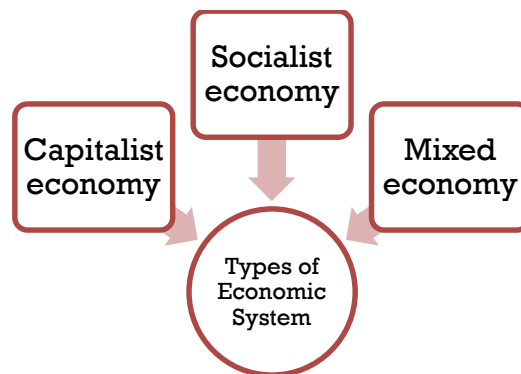
Central Economic Problem is?

- a) What to Produce
- b) How to Produce
- c) For whom to Produce
- d) All the above

Answer: 1(a), 2(d)

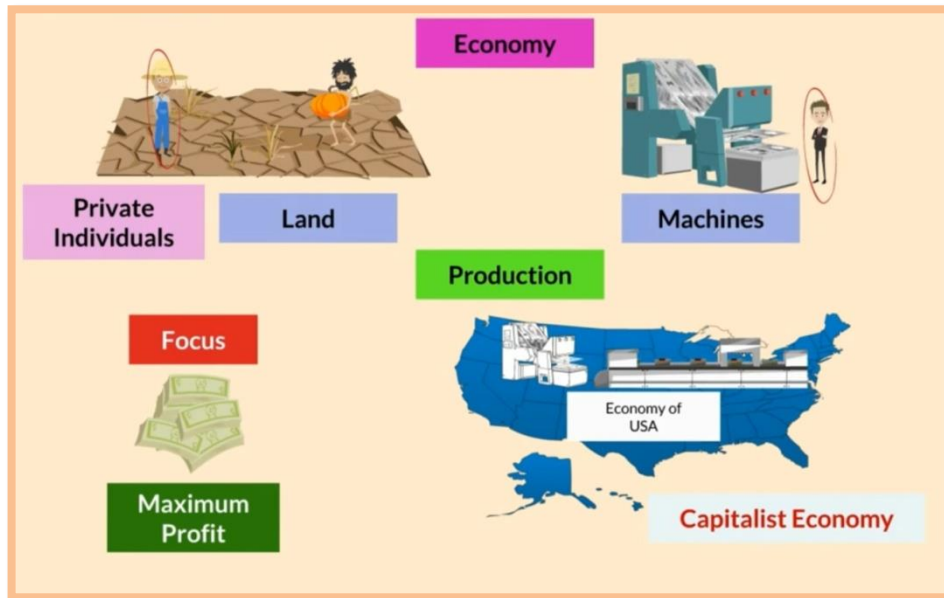
TYPES OF ECONOMY:-

We divide all the economies into three broad classifications based on their mode of production, exchange, distribution and the role which their governments plays in economic activity. These are:



CAPITALIST ECONOMY

Is an economic system in which all means of production are owned and controlled by private individuals for profit. In short, private property is the mainstay of capitalism and profit motive is its driving force.

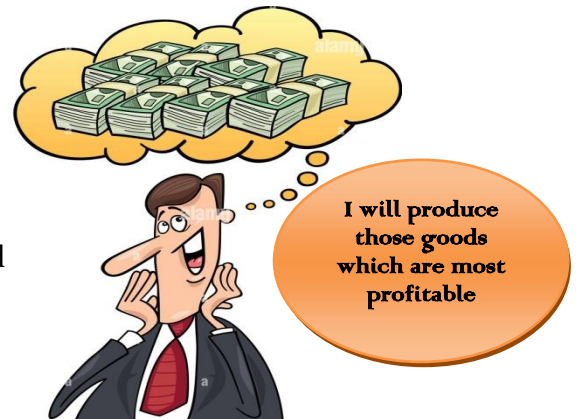


An economy is called capitalist or a free market economy or laissez-faire economy if it has the following characteristics:

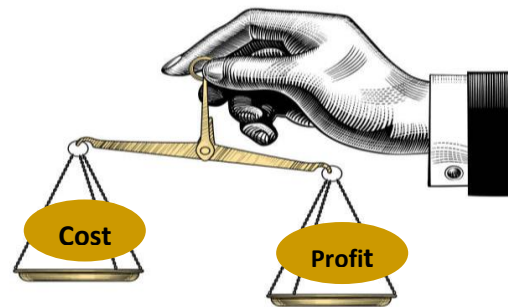
1. Right to private property: The right to private property means that productive factors such as land, factories, machinery, mines etc. can be under private ownership. The owners of these factors are free to use them in any manner in which they like and bequeath it as they desire. The government may, however, put some restrictions for the benefit of the society in general.
2. Freedom of enterprise: Each individual, whether consumer, producer or resource owner, is free to engage in any type of economic activity.
3. Freedom of economic choice: All individuals are free to make their economic choices regarding consumption, work, production, exchange etc.
4. Profit motive: Profit motive is the driving force in a free enterprise economy and directs all economic activities. Desire for profits induces entrepreneurs to organize production so as to earn maximum profits.
5. Consumer Sovereignty: Consumer is the king under capitalism. Consumer sovereignty means that buyers ultimately determine which goods and services will be produced and in what quantities. Consumers have unbridled freedom to choose the goods and services which they would consume.
6. Competition: Competition is the most important feature of the capitalist economy. Competition brings out the best among buyers and sellers and results in efficient use of resources.
7. Absence of Government Interference: A purely capitalist economy is not centrally planned, controlled or regulated by the government. In this system, all economic decisions and activities are guided by self interest and price mechanism which operates automatically without any direction and control by the governmental authorities.

HOW DO CAPITALIST ECONOMIES SOLVE THEIR CENTRAL PROBLEM?

1. Deciding 'what to produce': The aim of an entrepreneur is to earn as much profits as possible. This causes businessmen to compete with one another to produce those goods which consumers wish to buy. Thus, if consumers want more cars, there will be an increase in the demand for cars and as a result their prices will increase. A rise in the price of cars, costs remaining the same, will lead to more profits. This will induce producers to produce more cars.



2. Deciding 'how to produce': An entrepreneur will produce goods and services choosing that technique of production which renders his cost of production minimum. If labour is relatively cheap, he will use labour intensive method and if labour is relatively costlier he will use capital-intensive method.



3. Deciding 'for whom to produce': Goods and services in a capitalist economy will be produced for those who have buying capacity. The buying capacity of an individual depends upon his income. Higher the income, higher will be his buying capacity and higher will be his demand for goods in general.



4. Deciding about consumption, saving and investment: Consumption and savings are done by consumers and investments are done by entrepreneurs. Consumers' savings, among other factors, are governed by the rate of interest prevailing in the market. Higher the interest rates, higher will be the savings. Investment decisions depend upon the rate of return on capital. The greater the profit expectation (i.e. the return on capital), the greater will be the investment in a capitalist economy. The rate of interest on savings and the rate of return on capital are nothing but the prices of capital.

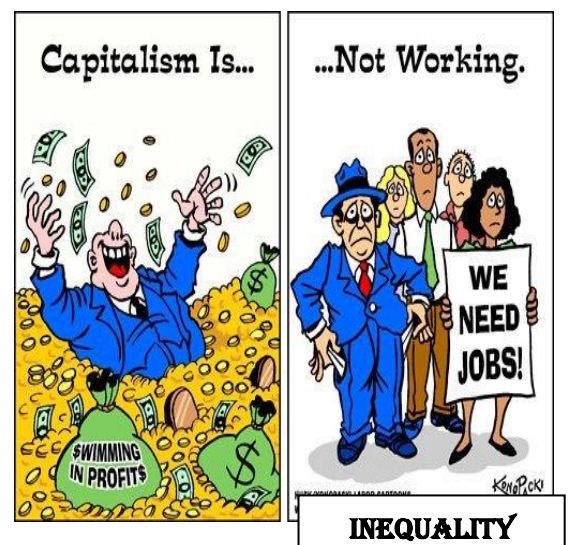
MERITS OF CAPITALIST ECONOMY:

1. Capitalism is self regulating and works automatically through price mechanism
2. The existence of private property and the driving force of profit motive result in greater efficiency and incentive to work.
3. The process of economic growth is likely to be faster under capitalism..

4. Resources are used in activities in which they are most productive. This results in optimum allocation of the available productive resources of the economy.
5. There is usually high degree of operative efficiency under the capitalist system.
6. Cost of production is minimized as every producer tries to maximize his profit by employing methods of production which are cost-effective.
7. Capitalist system offer incentives for efficient economic decisions and their implementation.
8. Consumers are benefitted as competition forces producers to bring in a large variety of good quality products at reasonable prices.
9. Capitalism offers incentives for innovation and technological progress.
10. Capitalism preserves fundamental rights such as right to freedom and right to private
11. Capitalism rewards men of initiative and enterprise and punishes the imprudent and inefficient.
12. Capitalism usually functions in a democratic framework.
13. The capitalist set up encourages enterprise and risk taking and emergence of an entrepreneurial class willing to take risks.

DEMERITS OF CAPITALISM:

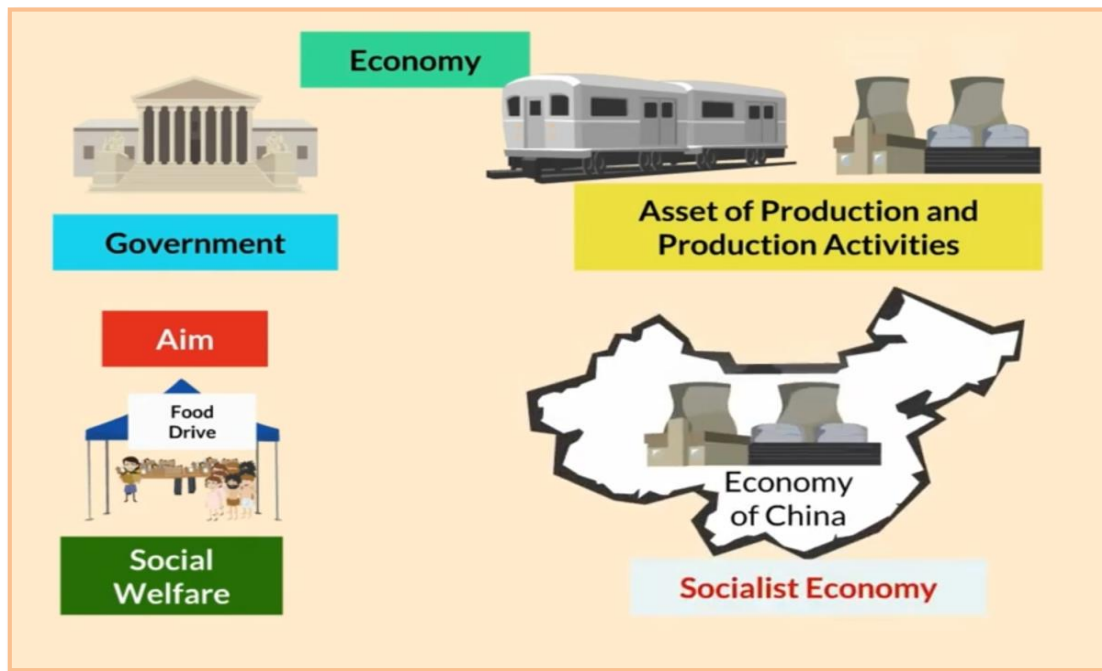
1. There is vast economic inequality and social injustice under capitalism. Inequalities reduce the aggregate economic welfare of the society as a whole and split the society into two classes namely the 'haves' and the 'have-nots', sowing the seeds of social unrest and class conflict.
2. Under capitalism, there is precedence of property rights over human rights.
3. Economic inequalities lead to wide differences in economic opportunities and perpetuate unfairness in the society.
4. The capitalist system ignores human welfare because, under a capitalist set up, the aim is profit and not the welfare of the people.
5. Due to income inequality, the pattern of demand does not represent the real needs of the society.
6. Exploitation of labour is common under capitalism.
7. Consumer sovereignty is a myth as consumers often become victims of exploitation
8. There is misallocation of resources as resources will move into the production of luxury goods.
9. Less of merit goods like education and health care will be produced.



SOCIALIST ECONOMY

The Concept was Propounded by Karl Marx & Frederic Engles Engels in their work 'The Communist Manifesto' published in 1848.

In this economy, the material means of production i.e. factories, capital, mines etc. are owned by the whole community represented by the State. All members are entitled to get benefit from the fruits of such socialized planned production on the basis of equal rights. A socialist economy is also called as "Command Economy" or a "Centrally Planned Economy".



SOME IMPORTANT CHARACTERISTICS OF THIS ECONOMY ARE:

- Collective Ownership: There is collective ownership of all means of production except small farms, workshops and trading firms which may remain in private hands.
- Economic planning: There is a Central Planning Authority to set and accomplish socio- economic goals; that is why it is called a centrally planned economy. The major economic decisions, such as what to produce, when and how much to produce, etc., are taken by the central planning authority.
- Absence of Consumer Choice: Freedom from hunger is guaranteed, but consumers' sovereignty gets restricted by selective production of goods.
- Relatively Equal Income Distribution: A relative equality of income is an important feature of Socialism. Among other things, differences in income and wealth are narrowed down by lack of opportunities to accumulate private capital.

- Minimum role of Price Mechanism or Market forces: Price mechanism exists in a socialist economy; but it has only a secondary role, e.g., to secure the disposal of accumulated stocks.
- Since allocation of productive resources is done according to a predetermined plan, the price mechanism as such does not influence these decisions.
- Absence of Competition: Since the state is the sole entrepreneur, there is absence of competition under socialism.

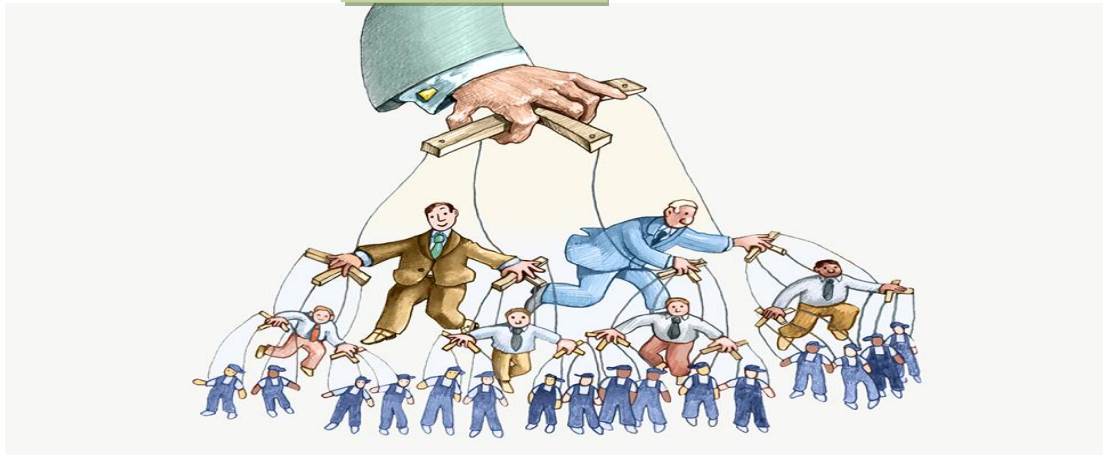
Merits of Socialism

- Equitable distribution of wealth and income and provision of equal opportunities
- Rapid and balanced economic development is possible in a socialist economy
- Socialist economy is a planned economy so better utilization of resources and it ensures maximum production
- unemployment is minimised, business fluctuations are eliminated and stability
- absence of profit motive
- Under socialism, the labourers and consumers are protected from exploitation by the employers and monopolies respectively.
- There is provision of comprehensive social security under socialism and this makes citizens feel secure.

Demerits of Socialism

- Socialism involves the predominance of bureaucracy and the resulting inefficiency and delays
- state direction and control of nearly all economic activity. & State Ownership
- Socialism takes away the basic rights such as the right of private property.
- not provide necessary incentives to hard work in the form of profit.
- State monopolies created by socialism will sometimes become uncontrollable
- the consumers have limited freedom of choice
- No importance is given to personal efficiency and productivity & Labourers are not rewarded according to their efficiency
- The extreme form of socialism is not at all practicable.

GOVERNMENT



1. Tight Pants and Skinny Jeans. North Korea is banning residents from wearing tight and skinny pants, as part of a broader crackdown on foreign pop culture. Supreme Leader Kim Jong-un has issued a fashion decree after increasing numbers of young people were spotted wearing skinny jeans. 20 May 2022



IndiaTimes

<https://www.indiatimes.com> > ... > Social Relevance

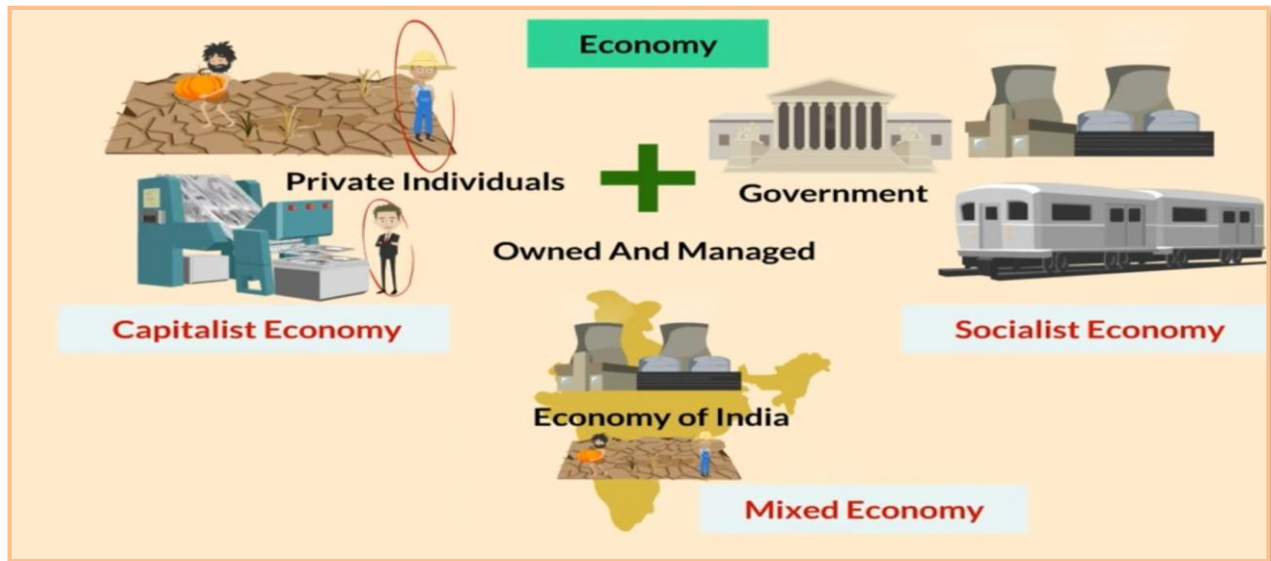
Kim Jong-un's North Korea - 9 Strange Fashion Bans In The ...

Quick Notes

Feel free to note your thought.....

THE MIXED ECONOMY -

The mixed economic system depends on both markets and governments for allocation of resources. In fact, every economy in the real world makes use of both markets and governments and therefore is mixed economy in its nature.



FEATURES OF MIXED ECONOMY -

Co-existence of private and public sector: The first important feature of a mixed economy is the co-existence of both private and public enterprise.

In fact, in a mixed economy, there are three sectors of industries:

- a) Private sector: Production and distribution in this sector are managed and controlled by private individuals and groups. Industries in this sector are based on self-interest and profit motive. The system of private property exists and personal initiative is given full scope.
- b) Public sector: Industries in this sector are not primarily profit-oriented, but are set up by the State for the welfare of the community.
- c) Combined sector: A sector in which both the government and the private enterprises have equal access, and join hands to produce commodities and services, leading to the establishment of joint sectors.

Mixed economy has the following merits available to capitalist economies and socialist economies.

1. Economic freedom and existence of private property which ensures incentive to work and capital formation

2. Price mechanism and competition forces operating in the private sector promoting efficient decisions and better resource allocation.
3. Consumers are benefitted through consumers' sovereignty and freedom of choice.
4. Appropriate incentives for innovation and technological progress.
5. Encourages enterprise and risk taking.
6. Advantages of economic planning and rapid economic development on the basis of plan priorities.
7. Comparatively greater economic and social equality and freedom from exploitation due to greater state participation and direction of economic activities.
8. Disadvantages of cut-throat competition averted through government's legislative measures such as environment and labour regulations.



Quick Notes

Feel free to note your thought....

TOPIC – 4
MIXED ECONOMY



Question 1

Which economic system depends on both markets and government for allocation of resources?

- a) Mixed Economy
- b) Capital Economy
- c) Social Economy
- d) None

Question 2

In India, Mixed Economy exists due to:-

- a) Coexistence of public sector
- b) Individual forces of demand and private sector
- c) Orders by government
- d) None

Question 3

In which economy market and government both play an important role?

- a) Mixed Economy
- b) Socialistic economy
- c) Capitalistic economy
- d) None

Question 4

In which economy, cost benefit analysis is used to answer the fundamental questions of economy?

- a) Mixed Economy
- b) Socialistic economy
- c) Capitalistic economy
- d) Regulatory economy

Answer: 1(a), 2(a), 3(a), 4(a)

