

# BUSINESS ECONOMICS - I

Syllabus: BACM35

Unit - 1: Introduction to business economics -

objectives of business profit maximization -

social responsibility of business.

Unit - 2: Demand analysis - Demand schedule

- Demand curve - different types of elasticity of demand - measurement - importance of elasticity of demand.

Unit - 3: utility analysis - cardinal - ordinal

- The Law of diminishing marginal utility -

Equi-marginal utility - indifference curve

- break even analysis - profit theories and concepts.

Unit - 4: Demand forecasting - different types of demand forecasting.

Unit - 5: Production - Production function

- The Law of diminishing Variable proportions -

Economics scale - Law of returns to

scale.

L<sup>2</sup>CO

L - Land

C - Capital

L - Labour

O - Organization

## Definition of Economics :-

Adam Smith (Wealth) The study of nature and causes of generating of wealth of nation.

Ricardo Production of wealth to the distribution of wealth.

J. S. Mill Practical Science of production distribution of wealth.

Marshall Study of causes of material welfare.

## Different views of Economics :-

\* Land is a natural resources such as sea, minerals & forests

\* Labour is a mental or physical works which is done for the sake of reward.

\* Capital refers to man-made resources which help to produce goods and services.

\* Organization is an act combining four factors production to produce goods & services for the sake of profit.

## Scope of Business Economics:

The scope of economics means the limits of its subject-matter. It studies man in the ordinary business of life and how he earns his income and how he satisfies his wants. It is connected not with individual actions but with social action. It studies how wealth is produced with limited resources in order to satisfy human wants. It studies about problems arising out of multiplicity of wants and scarcity of resources which satisfy these wants. It studies how wealth is produced, consumed, exchanged and distributed.

Consumption: Satisfaction of human wants is called consumption. It tells how people behave in consumption of goods and services in order to maximize their satisfaction. It has to be produced with the help of factors of production.

Production : Production tells how maximum goods are produced with minimum cost. Goods and services cannot be produced at one place. Goods produced by one are exchanged for the goods produced by the other.

Exchange : Goods and service are produced with efforts i.e. by combining the factors of production (L<sup>2</sup>CO). These efforts have to be paid to rewarded.

Distribution : The Land gets rent, the Labour gets wages, the Capital gets interest, the organisation gets profit.

Public Finance : This studies about the source of revenue to the government and the principal governing expenditure for the benefit of the people and also public debt and financial administration.

## Divisions of Economics :-

Economics is divided into the following divisions :

- Consumption
- Production
- Exchange
- Distribution
- Public Finance
- Conclusion

(i) Consumption :- The existence of human wants is the starting point of economic activity. We study about the consumption of wealth for the satisfaction of human wants, and the characteristics of human wants, the behaviour of the consumer, diminishing utility and consumer's surplus.

(ii) Production :- This division covers the factors of production viz., Land, Labour, Capital and organisation. The laws governing production, mobility of factors and the role of factors.

(iii) Exchange : In this division about trade and commerce, money and banking. For this, trade and commerce are essential for the movements of goods and service from one place to another.

(iv) Distribution : Commodity is produced with the efforts of L<sup>2</sup>CO, the produced wealth has to be distributed among the cooperating factors. The reward for factors of production is under rent, wages, interest and profit. Distribution studies about the pricing of factors of production.

(v) Public Finance : It studies about the income, expenditure and financial administration of the state. This tells about taxation & expenditure, budgeting and financial administration.

Conclusion : These divisions of economics should not be considered as water-tight compartments. We studied about the production and also consumption as well. Trade & commerce (exchange) as well as banking come into the study. So, all the division of economics are interrelated and inter-dependent.

### Objectives of Business Firm :-

#### Profit Maximization :-

- \* Profits are the primary measure of the success business.
- \* It is acid test (Quick) of the economic strength of the firm.
- \* Economics theory makes fundamental assumption that maximizing profit is the basic objective of every firm.
- \* The assumption does not always hold true in practice.

## Objectives :

- \* Achieving Leadership
- \* For avoiding potential competition
- \* For preventing government's intervention
- \* For providing customers goodwill
- \* For restraining wage demands
- \* For achieving financial soundness and liquidity.
- \* For avoiding risk
- \* Conclusion.

### (i) Achieving Leadership :

- Respective line of business
- Cost of profit
- Subordinate to leadership goal
- Maximize profit.

### (ii) For avoiding potential competition :

- Discouraging other entering
- Maximum profit
- Patents rights
- Weak or slender monopoly.

(iii) For preventing Government's intervention:-

- Higher profit earn under of monopoly.
- Attitude towards profits
- public demand
- financial structure
- Make a regulation of prices
- profits and dividends.

(iv) For maintaining customer Goodwill:-

- Restricted profit low price for the commodity (goods + services).
- Taxes and excise duty. (Act 1962)
- Reduce the profit margin. e.g. 100, 110  
is margin.
- Approval of the customers.

(v) For restraining wage demands:-

- Higher wages by the firms.
- Organised trade union - higher profit earned by the firm.
- Statutory obligation. (Legal)
- Wages boards (10%. or 20%. Bonus).
- Management for making all decisions.  
(CEO)

(vi) For achieving financial soundness and liquidity :-

- Huge investments in fixed assets.
- Distribution, sales, production increase

(vii) For avoiding risk :-

- Decisions regarding profit maximization may involve risk.
- New project.
- Rich, middle, poor people are 3 categories.
- Results even losing their jobs.

Conclusion :-

We can see all the factors enumerated attempt to ensure profit maximization in the long-run. But we cannot decisively say that the behaviour of firms is always aimed at maximizing profit in the long-run.

## Social Responsibilities of business

- \* Low cost - no cost
- \* Conceptually.

## Characteristics of Business economics

There are five characteristics

- Micro economic nature
- Use of economic Theories
- Realistic one
- Normative science
- Macro economic uses

### (i) Micro economic nature :-

Business economic uses all micro economics (units) in its nature because it deals with a matter of particular business firm only.

### (ii) Use of economic theories :-

Business economic uses all economic theories relating to the profits and distribution of income.

### III) Realistic One:-

Business economic is a realistic science. It studies all matters concerning business organisation by considering real condition existing in the business field.

### (iv) Normative Science:

Business economics is a normative science. It studies the matter concerning the aims and objectives of the business firm. It determines the methods to be adopted for achieving the such objectives. It also makes enquiry in the good & bad. It is a decision making. Hence it is a normative science.

### (v) Macro economic uses:

Even though business economic has a nature of macro economic uses. It also approaches micro economic sequential certain matter a macro like business

- (a) Cycle
- (b) national income
- (c) public finance
- (d) foreign trade

also, the business economic uses  
the macro economic phenomenon for  
taking business division.

Conclusion :- Business economics  
involves the application of economic  
theories and methodology to business  
problems. More specifically it refers  
to the uses of tools and techniques  
are problems in business. It providing  
link between tradition economic and  
decision science in business decision  
making the focus is primarily  
concerned with the business solutions  
and application to all the types of  
organisation as also relevant to  
government department and public  
sector industries and others  
institution.

## Importance of Business Economics :-

There are two types of importance.

- (i) Theoretical significance
- (ii) Practical significance.

### I Theoretical significance :-

- (i) Helps in understanding economic behaviour.
  - (ii) Explains a working of economic system.
  - (iii) Provides intellectual value.
  - (iv) Provides economic tools.
  - (v) Enables maintenance of economic growth.
  - (vi) Provides for economic development.
  - (vii) Enables assessment for performance of economy.
  - (viii) Provides knowledge about economics and economic planning.
  - (ix) Enables economic event for business.
  - (x) Ethical values of economics.
- (i) Helps in understanding economic behaviour!!

The study of business economics helps to understand the economic behaviour for human being.

(ii) Explains a working of economic system

Business economics explains the conditions for which influence the progress of the economy. It makes suggestions for overcoming the complicated problems faced by the people and the government in various economic systems. Hence it is highly useful understanding the working of economic system.

(iii) Provides intellectual value :-

The knowledge about business economics sharpens refrence the intellectual calibars of individuals. It import certain qualities such as rational behaviour, proper allocation of resources which are highly useful for a business firm.

(iv) Provides economic tools :-

Economic is considered as box of economic tools. It provides good knowledge regarding the nature, causes and effects of various phenomenon.

(V) Enables maintenance of economic growth.

Business economics suggested the various ways enable for maintaining the growth of rates in the developed economies it also analysis the factors economic growth of these country.

(VI) Provides for economic development:

Developing countries aim at achieving economic development within a short span of time. Business economics enable us to understand the nature and conditions of necessary.

(VII) Enables assessment for performance of economy: Business economics access to

help the performance. we can judge the position and progress the future of an economy through the several theories and models of business economy.

Business economics helps to achieving the economic development.

viii) Provides knowledge about economics and economic planning: Economic planning is an important branch. Economic provides a good knowledge information regarding it. It sharpens our information mental ability by clearly explains the aims and objectives of economic plants.

(ix) Enables economic event for business:

Business economic series has the best manner in the economic event consequence of various economic phenomenon.

(x) Ethical values of economic:

Business economics includes certain ethical norms include honesty and responsibility and adjustability, moral and cultural values.

## II Practical Significance:

- (P) useful to the finance minister
- (II) useful to the minister for planning.
- (III) useful to the banker
- (IV) useful to the trade union leader
- (V) useful to the businessman
- (VI) useful to the statusman
- (VII) useful in solving international economics problems.

### (I) Useful to the finance minister:-

The present finance minister is Mrs. Nirmala Seetharaman. The study of business economics is highly useful to the finance minister personnel working in the finance department. It provides good knowledge about public revenue and public debt and public expenditure which helps them in forming a sound financial policy result oriented budget.

### (II) Useful to the minister for planning:-

The study of business economics is also useful to the ministry for

and her personnel. It furnish a good knowledge about various types of plants mobilization, plant implementation, capital output ratio and investment strategy.

(iii) Useful to the Banker :-

Business economics is also useful to the bankers. It enables them to understand the nature purpose and implication of different economic policies implemented by the business firm.

(iv) Useful to the trade union leader :-

Knowledge of business economics is also significant for the trade union leader. It helps the trade union leaders to understand the nature & causes of industrial dispute and wage problem.

(v) Useful to Businessman :-

Business economics is also useful to the business. The knowledge about the business economics enables them to study the fluctuation in business price

production and employment. They can adopt a proper strategy for productive goods & services (commodity) according to the changes in demand.

(vi) Useful to the Statusman :-

It enables them to understand the nature and causes of economic problem which helps them to solve the economic problems like unemployment, inflation of goods.

(vii) Useful in solving international economic problems :- It deals with matter like terms of trade and balance of payment and import & export regulation regarding its knowledge enables the international agents upon the foreign exchange values in various export currency.