

Economics Notes

Ch-1 Nature and Scope of Business Economics

UNIT - 1 - INTRODUCTION

- * Economics is originated from Greek word Oikonomia means household
- * Till 19th Century, Eco was known as Political Economy
- * First Modern work of Economics "The wealth of Nations" 1776 by Adam Smith.
- * Domain of modern neo classic micro eco is using scarce resource to satisfy human wants.
- * Periods in which Output failed to grow
Global Financial Crisis 2007 / Corona Pandemic 2019
- * Study of Economics Develop an Analytical approach
- * Decision Making Involves
 - Evaluation of Feasible Alternative
 - Rational Judgement
 - Choice of Particular Alternative
- * Decision Making Requires
 - Methodology * MCO
 - Tools & Techniques
- * Business Economics also known as Managerial Economics
- * Business Economics is component of Applied Economics

- _/_/_
- * Micro Greek Micros Founder Adam Smith
 - * Macro Greek makros Founder John Maynard Keynes

Micro Price Theory

macro

Producer Equilibrium

Product Pricing

Consumer behaviour

Factor Pricing

Method of Lumping

General Equilibrium Analysis

General Price Level & Interest Rate

Overall Savings & Investments

- * Economic theories are hypothetical and Simplistic

- * John Dean Defined Business Economics

NATURE OF BUSINESS ECONOMICS

- BE is a Science
- Based on Micro Economics
- Incorporate elements of Macro Analysis
- * Does not operate in Vacuum (Solely)

Practical

- BE is also an Art

- Pragmatic in Approach

* Micro Eco is abstract, Thus Unrealistic Assumptions

* BE is Pragmatic, Thus tackles, practical Problem

- Interdisciplinary in Nature

* Incorporate tools from other disciplines (Subjects)

Suggestive

- Normative in Nature/Prescriptive

- Use of Theory of Markets and Private Enterprises

* Price theory is known as Microeconomics

- | | | |
|--|-----|---|
| <p>Normative/Prescriptive</p> <ul style="list-style-type: none"> * It is <u>Suggestive</u> * what ought to be * Pass <u>Value Judgement</u> | ← → | <p>Positive/ Descriptive</p> <ul style="list-style-type: none"> * Studies the <u>Facts</u> * "things as they are" * Do not Pass Value Judgement * <u>May be true or false</u> |
|--|-----|---|

Scope of Business Economics

Two categories of business issues Internal
External

- 1) Internal (or) Operational (solved by Micro)
- 2) External (or) environmental (solved by Macro)

1) Micro applied to internal

- ch-2 * Demand Analysis and Forecasting
 - * Analysis Studies behaviour of Consumer in Market
 - * Forecasting Predict future demand for Goods.
- ch-3 * Production and Cost analysis
 - * Relation b/w input & Output
 - * Not incurring undue Cost
- * Inventory Management
 - * work in Progress / Raw Material / Finished Goods
- * Market Structure and pricing Policies
 - * Nature and Extent of Competition
 - * Degree of Market Power
- micro * Resource Allocation
- micro * Theory of Capital and Investment Decision
- micro * Profit Analysis
- micro * Risk and Uncertainty Analysis

2) Macro applied to External

- Type of Eco System (Capitalist / mixed / Socialist)
- Stage of Business Cycle (Inflation / Deflation)
- Govt Policies

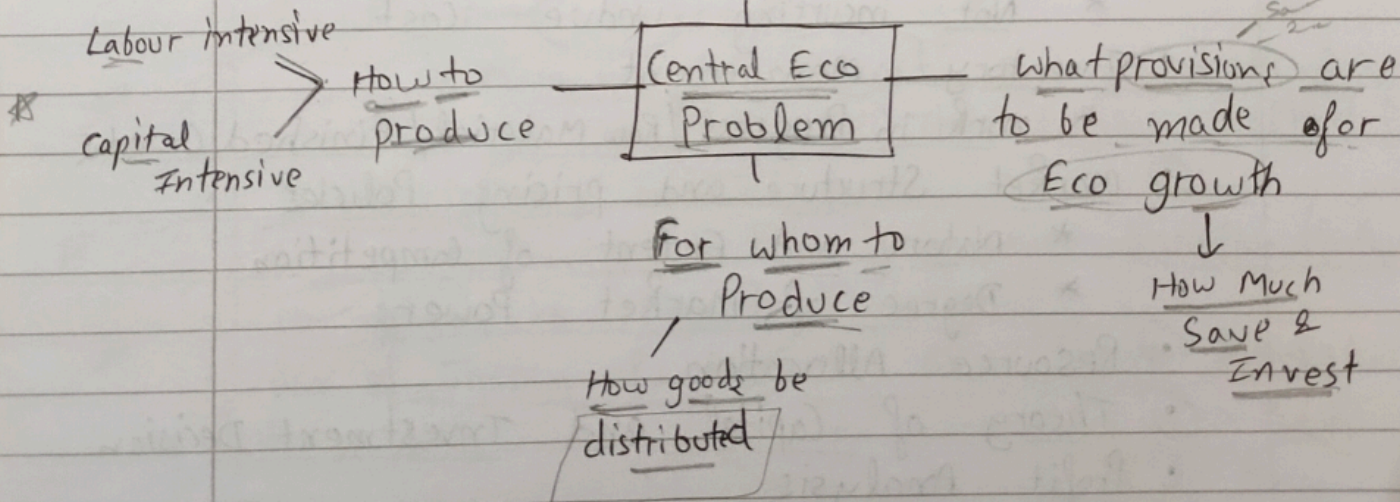
Diff Economics

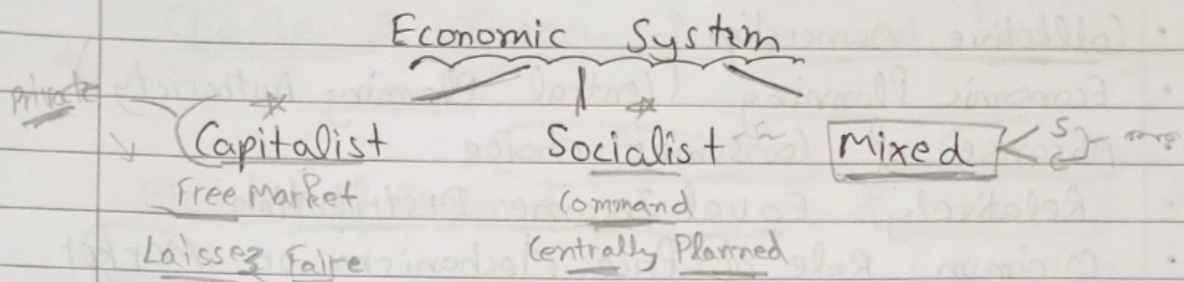
Business Economics

<u>Meaning</u>	• Framing of <u>Eco Principles</u>	<u>Application of Principles</u>
<u>Character</u>	• <u>Micro</u> as well as <u>Macro</u>	• <u>Micro</u>
<u>Main Task</u>	• Fulfilment of <u>Needs</u>	<u>Proper decision Making</u>
<u>Nature</u>	• <u>Positive</u> as well as <u>Normative</u>	<u>Only Normative</u> <small>only suggestions</small>
<u>Scope</u>	• <u>Wider</u>	<u>Narrow</u>
<u>Branch</u>	• It has <u>Business Eco</u> as its <u>Applied branch</u>	It is an <u>Applied branch of Eco</u>
<u>Theories</u>	• <u>All theories</u>	<u>Only Profit Theory</u>

UNIT-2 Basic Problems of an Economy and Role of Price mechanism

what to produce → How much





(1) Capitalist ÷ USA, UK, Hong Kong, South Korea, Germany

- Right to Private Property
- Freedom of Enterprise
- Freedom of Eco choice
- Profit motive
- Consumer sovereignty - ^{Consumer King} challenge
- Competition
- Absence of Govt Interference

[waste of competition] ^{price}

* Problems are tackled by Price Mechanism or Market Mechanism

* Capitalist reward men of initiative, Punishes the imprudent

* Consumer Sovereignty is a myth, consumer is exploited and profit motive work against consumer welfare

* Also known as Free Market and Laissez Faire

(2) Socialist / Command / Centrally Planned ÷

* USSR was Socialist from 1917 to 1990

Vietnam, China, Cuba, North Korea

- ★ • Collective Ownership
- Economic Planning (Central Planning Authority) ★
- Absence of Consumer choice
- Relatively Equal Income Distribution
- ★ • Minimum Role of Price Mechanism or Market forces
- Absence of Competition

* This ^{socialist} Concept was propounded by Karl Marx and Frederic Engels in

"The Communist Manifesto" in 1848

* Means of Production are owned by whole Community represented by state

* Prices Prevailing are 'administered Prices'

③ Mixed Economy [India]

- Coexistence ←
- Three Sector of Industries
 - * Private —
 - * Public —
 - * Combined —

Imp Definations

Scarcity ÷ Lionel Robbins

welfare ÷ Alfred Marshall

Growth ÷ Paul A. Samuelson [last line - consumption now or in future among various persons & grps]