

# Business Economics

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# Business Economics

## *Microeconomics*

- **Unit 1: Introduction**
- **Unit 2: Basics of Demand and Supply**
- **Unit 3: Theory of Consumer Behaviour**
- **Unit 4: Theory of Production**
- **Unit 5: Theory of Cost**
- **Unit 6: Market for Commodities**
- **Unit 7: Factor Price Determination**

## *Macroeconomics*

- **Unit 8: National Income Accounting**
- **Unit 9: Money and Inflation**

# Definition of Economics

- Economics is the body of knowledge or study that discusses how society tries to solve the human problems of unlimited wants and scarce resources.
- Economics is a social science, since it deals with the society as a whole and human behaviour in particular, and studies the production, distribution and consumption of goods and services.

# Definition

1. **Science of Wealth- Adam Smith**, the father of modern economics defines economics as “An inquiry into the nature and causes of the wealth of the nations”.
2. **Science of material well-being-** According to **Alfred Marshall** "Economics is a study of mankind in the ordinary business of life. It examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being. Thus, it is on the one side a study of wealth and on the other and more important side a part of the study of the man“
3. **Science of choice making- Robbins** gave a more scientific definition of Economics. His definition is as follows: "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses"

## 4. Science of dynamic growth and development

- "Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future amongst various people and groups of society". **Paul A. Samuelson**

# Economics As a Science and as an Art

- **Economics as a Science:** It is a systematic body of knowledge which studies the relation between cause and effect
- But it is to be noted that Economics is not a perfect science. This is because Economists do not have uniform opinion about a particular event.
- **Economics is an Art:** Art is nothing but practice of knowledge. Whereas science teaches us to know art teaches us to do. It helps in solving various economic problems which we face in our day-to-day life.

- Thus, Economics is both a science and an art.
- **It is science in its methodology and art in its application.**
- Study of unemployment problem is science but framing suitable policies for reducing the extent of unemployment is an art.

# Basic Concepts

- **Ceteris Paribus:** A Latin phrase, means that while certain variables can change, “all other things remain unchanged”.
- **Rationality:** It implies that consumer or producers measures and compares the cost and benefit of decision before going ahead.
- **Scarcity:** the fundamental economic problem that human wants exceed the availability of time, goods and resources.
- **Choice:** Because individuals and society can never have everything they desire, they therefore are force to make choices. We make choices about how we spend our money, time and energy so we can fulfil our **needs** and **wants**.



# Positive & Normative Economics

- **POSITIVE** economics establishes a relation between cause and effect. It is concerned with “what is”

For Example: Distribution of income in India is unequal.

- **NORMATIVE** economics is concerned with questions involving value judgement. It is “what should be” in economic matters
- For Example: Distribution of income in India should be equal.

# Short Run & Long Run

- Short Run is a time period not enough for consumers and producers to adjust completely to any new situation.
- Long Run is a time period long enough for consumers and producers to adjust to any new situation

# Marshall's definition of time period

- Market period
- Short Period
- Long Period
- Very Long Period

# Partial And General Equilibrium

- Equilibrium is a state of balance that can occur in a model
- Partial equilibrium analysis studies the internal outcome of any policy action in a single market only
- General equilibrium analysis explains economic phenomena in an economy as a whole.

# Opportunity Cost

- The opportunity cost is also known as alternative cost
- It is the benefit, profit, or value of something that must be given up to acquire or achieve something else.
- Since every resource (land, money, time, etc.) can be put to alternative uses, every action, choice, or decision has an associated opportunity cost.
- When you choose to do one thing, its value is measured by the value of next best choice.
- This can be time, energy or even money

# What is the opportunity cost of buying a Pizza?

If I buy a Pizza....

Then I can't afford the movies



# Time Value of Money(Discounting Principle)

- The time value of money (TVM) is the idea that money available at the present time is worth more than the same amount in the future due to its potential earning capacity.
- Time value of money is the concept that value of a rupee to be received in future is less than the value of a rupee on hand today

$$FV = PV (1+r)^n$$

$$PV = \frac{FV}{(1+r)^n}$$

# Marginality Concept

- The concept of marginality deals with a unit increase in cost or revenue or utility.
- According to this concept, marginal cost (or revenue or utility) is the change in total cost (or Total Revenue or total utility) due to a unit change in output.
- $MC_n = TC_n - TC_{n-1}$
- Marginal Cost =  $\frac{\text{Change in Total Cost}}{\text{Change in Total Output}} = \frac{dTC}{DQ}$



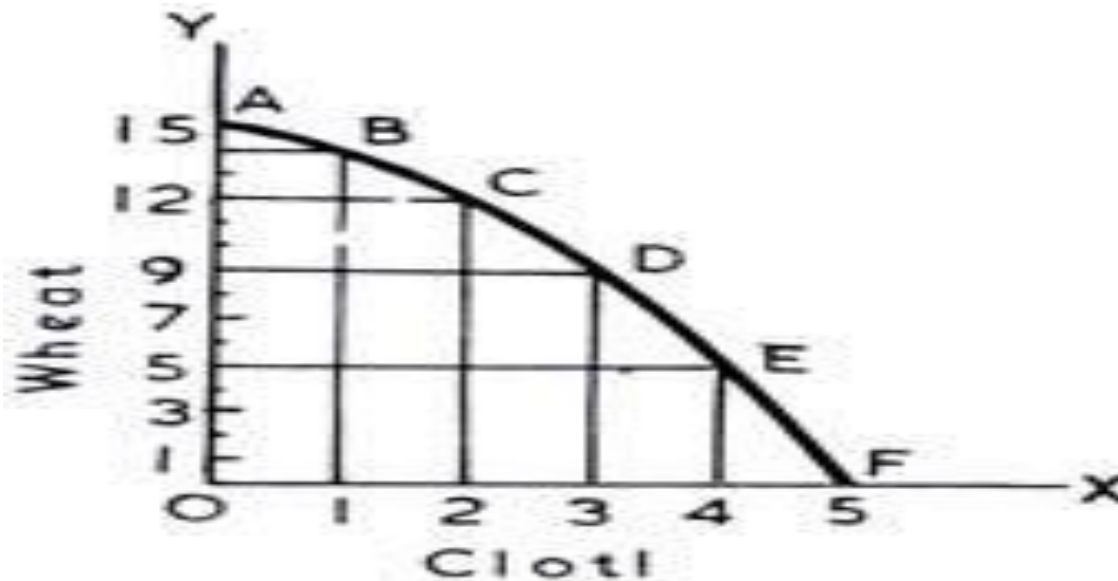
- 10 unit = 100 Utils = TU
- 11unit = 110 Utils = TR
- $MU_n = TU_n - TU_{n-1}$
- $110 - 100 = 10$

# Production Possibility Curve

- PPC is a graph that shows the different combinations of the quantities of two goods that can be produced (consumed) in an economy subject to limited availability of resources.
- The curve represent opportunity cost concept
- It also highlights the significance of scarcity of resources.

### Alternative Production Possibilities

<i>Production Possibilities</i>	<i>Cotton (in *000 quintals)</i>	<i>Wheat (in 000 quintals)</i>
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0



**Production Possibility Curve**  
Fig. 21.2

# Comparison between Micro and Macro

<b>Micro</b>	<b>Macro</b>
The branch of economics that studies the behavior of an individual consumer, firm, family is known as Microeconomics.	The branch of economics that studies the behavior of the whole economy, (both national and international) is known as Macroeconomics.
Individual economic variables	Aggregate economic variables
Applied to operational or internal issues	Environment and external issues
Covers various issues like demand, supply, product pricing, factor pricing, production, consumption, economic welfare, etc.	Covers various issues like, national income, general price level, distribution, employment, money etc.
Helpful in determining the prices of a product along with the prices of factors of production (land, labor, capital, entrepreneur etc.) within the economy.	Maintains stability in the general price level and resolves the major problems of the economy like inflation, deflation, reflation, unemployment and poverty as a whole.

# Kinds of Economic Decisions

- What to produce?
- How to produce?
- For whom to produce?
- Are resources used economically?
- Are resources fully employed?
- Is the economy growing?

# Business Economics

- Business Economics, also called Managerial Economics, is the application of economic theory and methodology to business.
- Managerial Economics is the mean to an end to managers in any business, in terms of finding the most effective way of allocating scarce organisational resources and reaching stated objectives.

# Business Economics: Micro as well as Macro in nature

- It is applied micro economics to a significant extent; though it draws extensively from macroeconomic theory as well.

# Normative bias of Business Economics

- It has a normative bias stating what firms should do in order to reach certain objectives.



# Business Economics: Decision resulting in partial equilibrium.

- It deals with partial equilibrium analysis, which focus on equilibrium of a firm or an industry , not the economy.

# Slope and Graph in Economics

- The concept of slope is very useful in economics, because it measures the relationship between two variables.
- A **positive slope** means that two variables are positively related—that is, when  $x$  increases, so does  $y$ , and when  $x$  decreases,  $y$  also decreases.
- A **negative slope** means that two variables are negatively related; that is, when  $x$  increases,  $y$  decreases, and when  $x$  decreases,  $y$  increases.