

Business Economics

Introduction

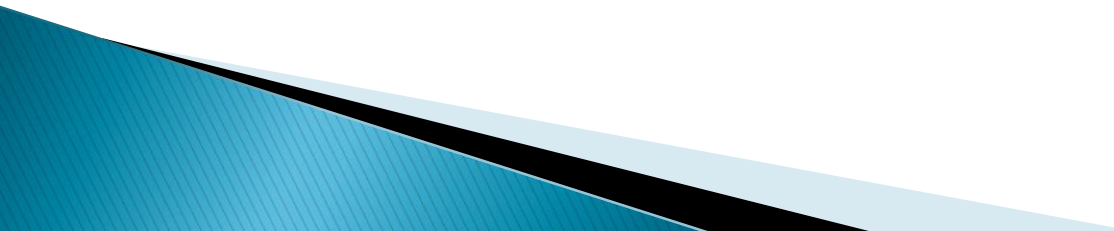
Economics

- ▶ The term economics is derived from two Greek words “OIKOS” and “NEMEIN” meaning the role or law of the household.

Economics

- ▶ Economics is the study of how people and society, choose to employ scarce resources with or without the use of money, that could have alternative uses in order to produce various commodities and to distribute them for consumption, now or in the future among various persons and groups in society.

Economics is as a Normative and Positive Science

- ▶ It deals with thing as they “ought to be”. Economics is not only explaining facts as they are but also justifies them.
 - ▶ Positive Science deals with things as they are means “What is”.
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Economics is as a Normative and Positive Science

Basis	Positive	Normative
Expresses	What is	What ought to be
Based on	Cause & effect of facts	& Ethics
Deal with	Actual or realistic situation	Idealistic situation
Value judgment	Are not given	Are given

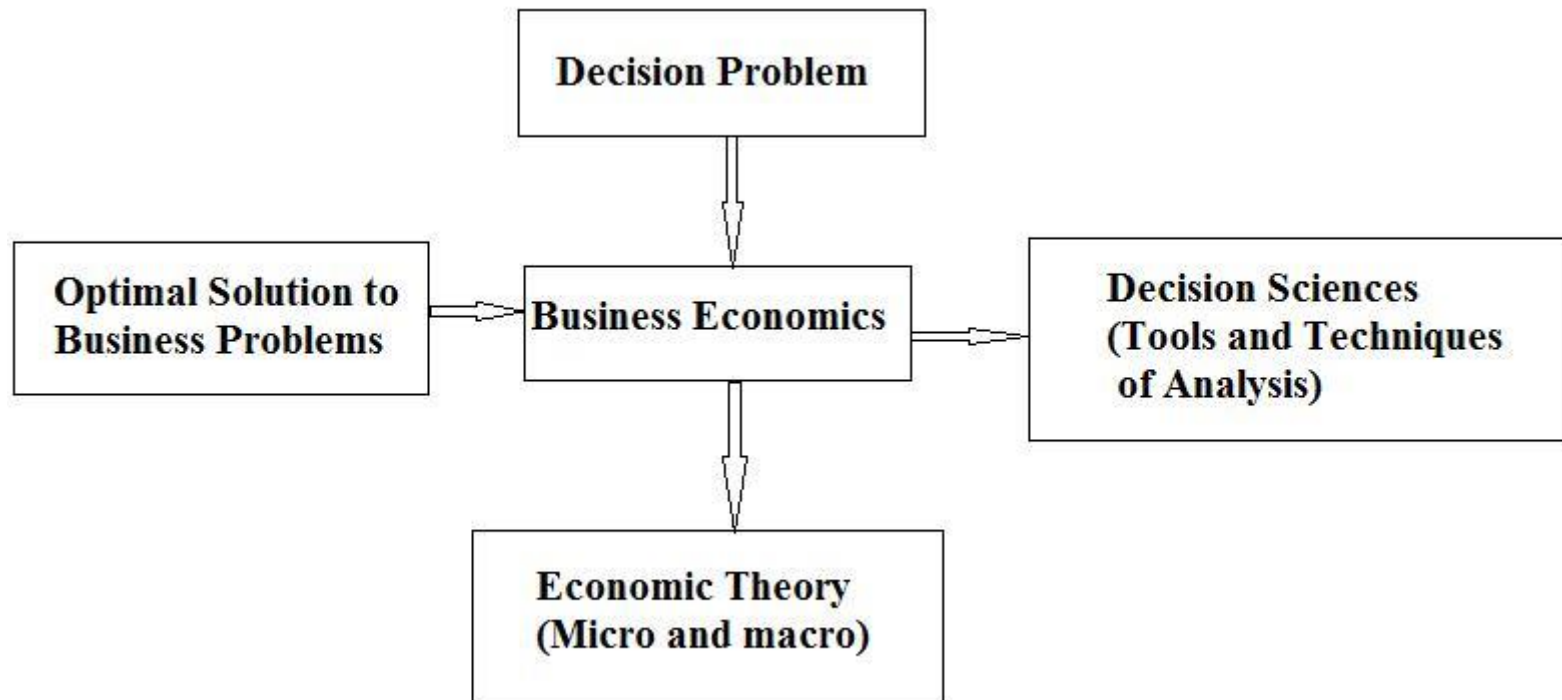
Micro & Macro

S.No	Basis	Micro	Macro
1	Study	Individual	Economy as a whole
2	Deals with	Individual Units	Aggregate Units
3	Tools	Demand & Supply of a Particular Commodities	Aggregate Demand and Aggregate Supply of Economy as a whole
4	Central problems	Price Determination of Commodities or Factors of Production	Determine Level of Inco-me & Employment
5	Prices	Relative Prices Decide	Absolute Price Decide
6	Factors of production	Individual Factors	Aggregate Factors

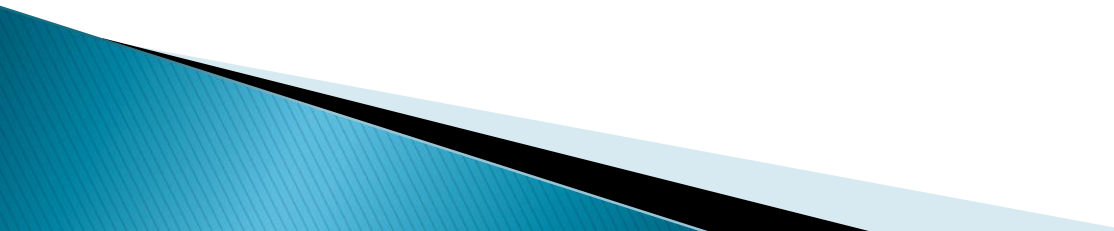
Business economics

- ▶ **It is that branch of knowledge in which theories of economics analysis are used for solving business management problem and determination of business policies.**

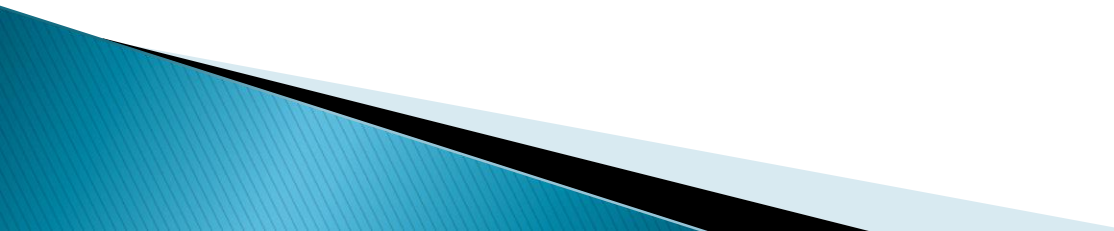
Business economics



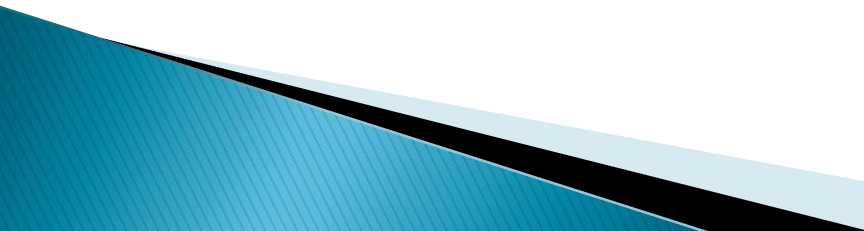
Scope of business economics

- ▶ Demand Analysis and Forecasting
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 - ▶ Cost and production Analysis.
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 - ▶ Pricing Decisions, policies and practices.
 - ▶
 - ▶ Profit Management.
 - ▶
 - ▶ Capital Management
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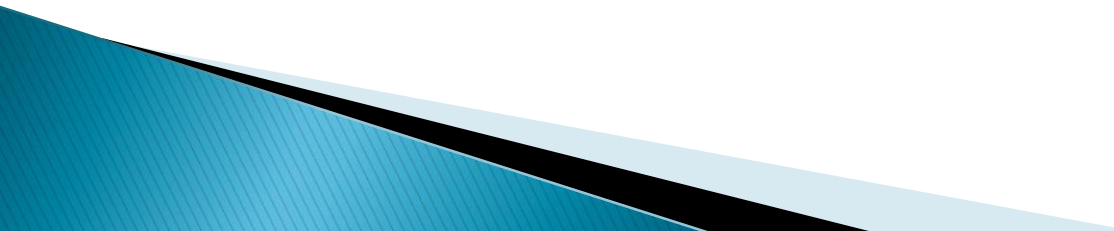
Demand Analysis and Forecasting :

- ▶ A business firm is an economic organisation which transforms productive resources into goods to be sold in the market. A major part of business decision making depends on accurate estimates of demand.
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 - ▶ The main topics covered are: Demand Determinants, Demand Distinctions and Demand Forecast.
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Cost and Production Analysis

- ▶ Production analysis is narrower, in scope than cost analysis. Production analysis frequently proceeds in physical terms while cost analysis proceeds in monetary terms. The main topics covered under cost and production analysis are: Cost concepts and classification, Cost-output Relationships, Economics and Diseconomies of scale, Production function and Cost control
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Pricing Decisions, Policies and Practices :

- ▶ Pricing is an important area of business economic. In fact, price is the genesis of a firm's revenue and as such its success largely depends on how correctly the pricing decisions are taken. Price Determination in Various Market Forms, Pricing Method, Differential Pricing, Product-line Pricing and Price Forecasting
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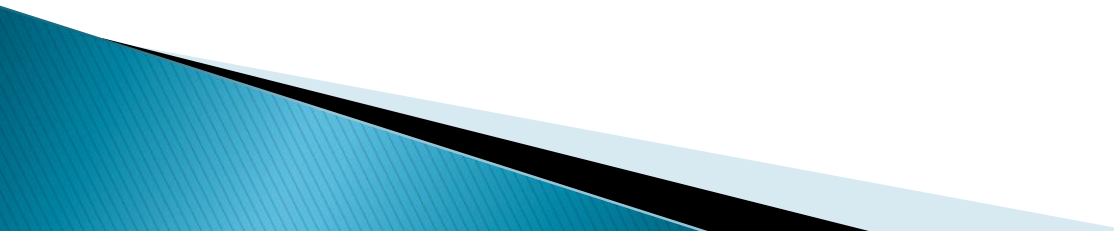
Profit Management

- ▶ Nature and Measurement of profit, Profit policies and Technique of Profit Planning like Break-Even Analysis.

Capital Management

- ▶ Briefly Capital management implies planning and control of capital expenditure. The main topics dealt with are: Cost of capital Rate of Return and Selection of Projects.

Significance of Business Economics

- ▶ Business economics is concerned with those aspects of traditional economics which are relevant for business decision making in real life.
 - ▶ Business economics takes the help of other disciplines having a bearing on the business decisions in relation various explicit and implicit constraints subject to which resource allocation is to be optimized.
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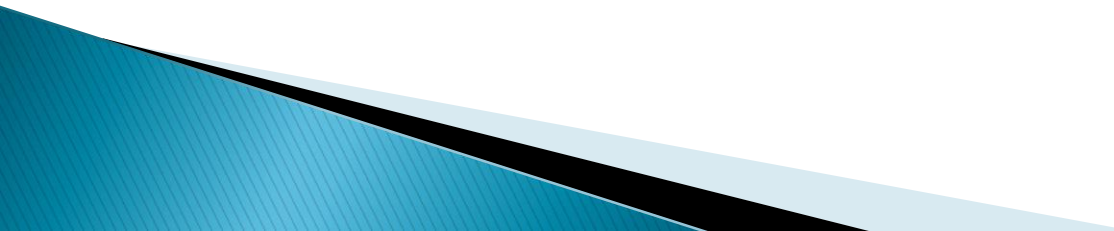
Significance of Business Economics

- ▶ Business economics helps in reaching a variety of business decisions in a complicated environment. Certain examples are:
 - ▶
 - What products and services should be produced?
 - What input and production technique should be used?
 - How much output should be produced and at what prices it should be sold ?
 - What are the best sizes and locations of new plants ?
 - When should equipments be replaced ?
 - How should the available capital be allocated ?

Significance of Business Economics

- ▶ Business economics makes a manager a more competent model builder. It helps him appreciate the essential relationship characterizing a given situation.

Difference between business economics & economics

- ▶ **Economics** is the social science that studies the production, distribution, and consumption of goods and services. Economics aims to explain how economies work and how economic agents interact. Economic analysis is applied throughout society, in business and finance but also in crime, education, the family, health, law, politics, religion, social institutions, and war. Economic textbooks distinguish between microeconomics ("small" economics), which examines the economic behavior of agents (including individuals and firms) and "macroeconomics" ("big" economics), addressing issues of unemployment, inflation, monetary and fiscal policy.
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- ▶ **Business economics** (also called managerial economics), is a branch of economics that applies microeconomic analysis to specific business decisions. As such, it bridges economic theory and economics in practice. It draws heavily from quantitative techniques such as regression analysis and correlation, linear. If there is a unifying theme that runs through most of business economics it is the attempt to optimize business decisions given the firm's objectives and given constraints imposed by scarcity, for example through the use of operations research and programming

Area of differences	Economics	Business economics
Nature	Economics deals with the body of principles itself	It deals with application of economics principles to the problems of business firms
Nature of economics principles study	Deals with macro & micro economic principles	Deals with micro economics principles
Focus of study	Under micro economics as a branch of economics distribution theories like rent and wages dealt with the theories of profit	Main focus is profit theory
Approach to study	Economic theories take assumptions ,hypothesis of economic relation and generate economic models	It modifies already existing economic models to suit the specific conditions and problem of the business firm
Methodology	Economic theory avoids complexities and makes simplified assumptions	Business economic is pragmatic in sense.