UNIT-I

Economics

It is defined "as a social Science which covers the action of Individuals and groups of Individual in the process of producing, Exchanging and consuming of goods and services to achive optimum of Resource use.

1. Production Decisions.
2. Exchange Decisions
3. Consumption Decision

According to Lord Robins, "Economics is the Science which studites human behaviour as a Relationship between ends and Scare means which have alternative uses.

Characteristics of Business Economics

* Micro Economic Nature:- Business Economics is micro economic in its nature because it deals with matters of a particular business firm only.
* use of Economic Theories :- Business Economics uses all economic Theories relating to the profits, distribution of income etc.
* Normative Science :- Business Economics is a normative Science. "It studies matters concerning the aims and objective of a business firm.
  ⇒ It determines the methods to be adopted for achieving such objectives.
  ⇒ It also makes necessary in to the good and Bad in decision making. Hence It is normative Theory.

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* macro-Economic uses:- Even Though Business Economics has The nature of micro-Economics, It also uses macro-Economic approaches frequently.
=> Certain matters in ~~micro~~ macro-Economics like Business Cycles, National Income, public finance, Foreign trade etc. are
=> Essential for Business Economics.
=> So business Economics uses The macro economic phenomenon for taking business decisions.

* Economics is a science or an art. It is considered as science if it is a systemized body of knowledge which studies The relationship between cause and effect.

* Art is nothing but practice of knowledge.
* where as science teaches us to know ~~the~~ and art teaches us to do.

It is science in which methodology and art in its application.

Scope of Business Economics

1. Demand forecasting:- Every business firm initiates and continues its production process on the basis of the anticipation of more demand for its goods in the future.
=> It makes research and fashions of the consumers.
=> It pools up the resources and starts production for meeting The future demand.
=> Business Economic analyses the demand behaviour and forecasts the quantity demand by the consumers.

2. Cost Analysis:- Business Economic deals with the Analysis of different costs and incurred by the Business firms.
=> Every firm desires to minimize its costs and increase its output by securing several economics of scale.

UNIT-I

=> Business Economic deals with the cost estimates and acquaints The entrepreneurs with the cost analysis of their firm.

3. Profit Analysis:- Every business firm aims to secure maximum profits. But at the same time it faces uncertainty and risk in getting profits.
   => Business Economic deals with the matters relating to profit Analysis like profit techniques, policies and break even-Analysis.

4. Capital management:- Capital management is another topic dealt in Business Economics.
   => It studies matters like cost of capital, rate of return, selection of Best project etc.

Importance of Business Economics

* Business Economics is a useful subject. In fact it is the most significant of all social science.
* Its study is highly usefull for analysing and understanding The various economic problems.
* Its study brings utility to all sections of the people, Business. Economics become the intellectual ~~seg~~ religion of the day.
* Business Economics is described by both light giving and fruit bearing science. It enriches our knowledge (light) and brings results (fruits)

1. Significance

1. Usefull to the finance minister:- The study of Business Economics is highly usefull to the finance minister and the personel working in the finance department.
   * It gives/provides a good knowledge about public Revenue, public debt and public Expenditure.
   Them in forming a sound financial policy and

2. Usefull to the minister for planning:- The study of Business Economics is also usefeel to the minister for planning and his personnel.
=> It furnishes a good knowledge about the various types of plans, mobilisation, plan implementation, Capital output ratio, Investment strategy etc.

3. Usefull to the Bankers:- Business Economics is also usefull to the bankers.
* It enables them to understand the nature, purpose and implications of different economic policies implemented by the business firms.

4. Trade Union leaders:- Knowledge of Business Economics is also significant for the trade union leaders.
* The study of Business Economics helps the trade union leaders to understand the nature and Causes of industrial disputes, wage problem etc.

5. Businessmen:- Business Economics is also useful to the businessmen. Businessmen, with the help of Business Economics.
* Can study the fluctuations in business, prices productions development,
* They Can adopt a proper strategy for producing goods and services according to the changes in demand.

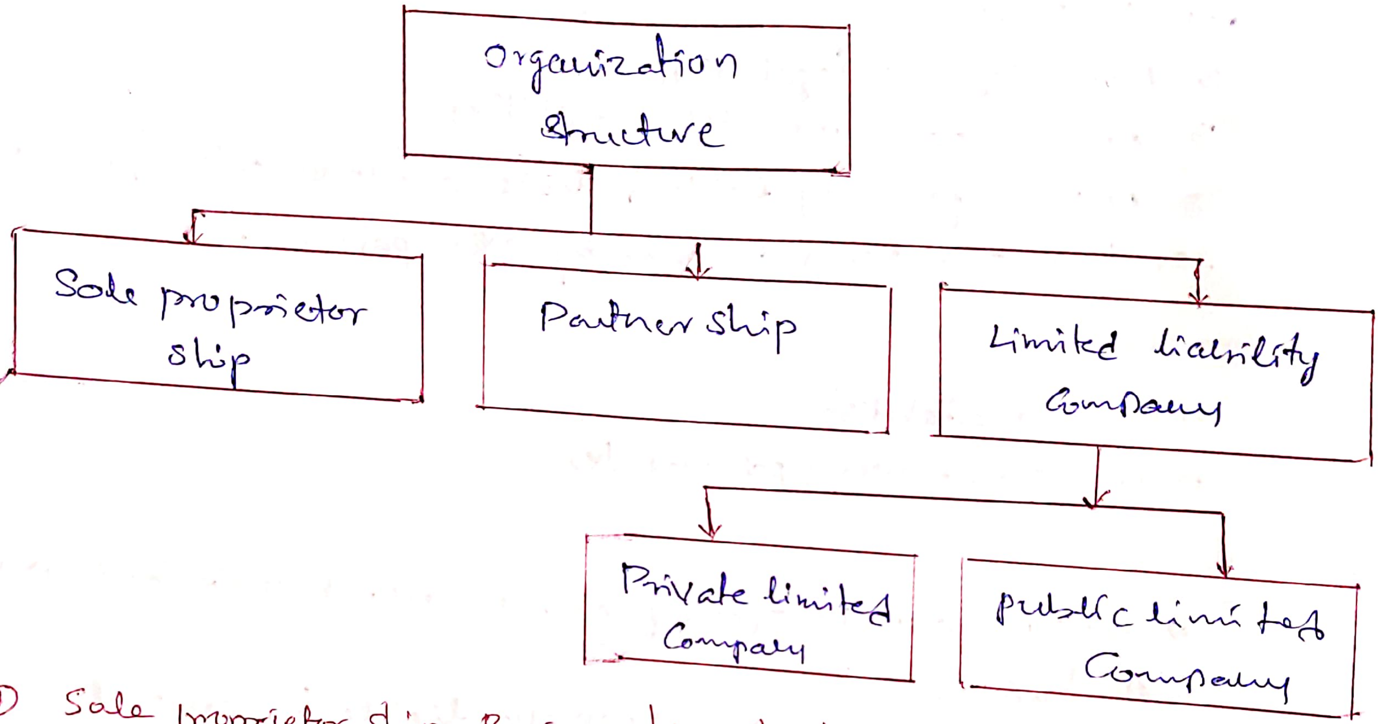
6. Statesmen:- Statement It help them to solve the economic problem like unemployment, Inflation, Scarcity of goods etc.

7. International Economic problems: International Economics is an important branch of Economics.
* It deals with matters like terms of trade, balance of payments, Export and import regulations etc.

It knowledge enables the International agencies to determine the foreign Exchange value of various national currencies.

Structure of Business Firm / Business Structure

A Commercial organization that operates on a for-profit basis and participates in selling goods or service to customers.



① Sole proprietor ship Business firm structure:-

Sole proprietor ship form of Business organization refers to a Business Enterprise Exclusively owned, managed and controlled by a single person.

- A business owned by one person.
- Not a Separate legal Entity
- owner has unlimited liabilities
- Owner is personally liable for debts and losses of the business.

Registration for sole proprietorship: MSME, GST, TIN, FSSAI (Micro, Small-medium Enterprises, Goods service tax, Tax deduction Account no, Food safety and standard Authority of India)

Advantages:-

* Easy to Establish
* less Compliances (policy and rules)
* pan card of sole promiter ship are same
* A single Income tax returns.

Disadvantages:-

* lengthy process in opening a bank account in the name of Business
* The properitor will be personally liable for payments.

Partnership:-

partnership is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business and share is profit.

» Not a separate legal Entity
» partners have unlimited liabilities
» partners personally liable for debts and loses of the firm as well as debts and losses incurred by other partners.

Advantages:-

1) Easy to establish
2) less compliances (policy & rules)

DisAdvantages:-

» legality process in opening a bank account in the ~~same~~ name of business.
* All partners will be personally liable for payment.

Registration:-

MSME Registration (micro, Small & medium Enterprises)

GST (Goods and Service tax)

TIN (Tax deduction Account number)
(Tax payer Identification number)

FSSAI (Food Safety and standards Authority of India)

ESI (Employee State insurance)

1) LLC: Business Structure for (LLC)

As mentioned before one of the biggest benefits, formulated the assets of owners

Here they pool the money from share holders.

(Indian company Act 1956)

LLC

- Private Company (3–200 shareholder)
- Public limited Co (Managed by Directors & owned by share holders) (5Lk minimum share capital)

(Indian new Company Act 2013)

Limited Liabulity companey :=

* This is a ligally Registered BE stracture which is limited by shares.

* all the shareholders in such a structure are liable for all the liabilities The companey increas however. which are

* It's limited to the number of share to the companey. Individual contributers

* It should end with the descriptor 'LLC'

* Low cost and easy to set up

* Profits take at partner's personal income ~~tax~~ Rates and corporate tax raten.

* can sure or be sred in business name.

* Genabaly partners personally liable for debts and losses or the (LLC)

* Names and Registation Act

* NO continuty cannot be paned on sold or atract investor.

Scanned with OKEN Scanner

Theory of firms

The theory of firms consist of Number of economic Theories that expains and predict the Nature of the firm, Company or corporation. Including its existance, behavior, structure, and relationship to the market.

The Theory of the firm aims to answer these Questions.

1) Existance :- why do firm emerge ? why are not all transactions in the economy mediated over the market.

2) Bounderies := why is the bounderies b/n firms and the market located exactly there with relation to size and output variety ? which transactions are performed internally and which are negotiated on the market.

3) Organaization := why are firms structured in such a specific way for example as to hierarchy or decentraliazation ?

what is the inter play of formal and informal relationship.

4) Heterogeneity of firm actions/ performances, what drives different action and performaness of firms.

Types of theories =

* Transaction cost theory
* Managerial Theory
* Behavioral theory

Sources of finance :=

Long term finance :=

Long term finance available for a long period say five year and above.

* The long term methods out lined bellow are used to purchesed fixed assets such, as land and bulindi-g, plant and soon.

a) own capital :=

Money issued by the owners partners or promotor is a permanet and will stay will the business through out the life of Business.

b) **share capital :-**

Normally is the case of a company. The capital so rised is called share capital. The share capital can be two types

1) Perfect share capital
2) equity share capital.

c) **Debentures :=**

Debentures are the loans taken by the Companey. It is a certificate or letter by the companey. It is a safe aknoledging there capital under it's common loans.

D) **Governament - grants and loans :=**

Governament - may provide long term finance • directly to the business houses or by indirectly subscribing to the shares of the companies.

Medium term finance :=

=) **Banks loans :=**

Bank laans are entended at a fixed rate of interest. Repayment of the loan and intrest are schdueld at the begining and are usually directly debited to the current accoun of the borrower. These are secured loanes.

b) **Hire Purchases :=**

It is a facility to buy a fixed assets while paying the price over along period of time. In other words. The possession of the asset can be taken by making a down payment of a part of the price and the Balance will be repaid with a fixed rate of interest in agread. number of instalment.

c) **Leasing (or) renting :=**

where there is a need for fixed assets. The asset need not be Purched It can be taken on lease or rent for limited companies. venture capital is normally provided in such projects where. There is relativelly a higher degree of risk.

⟹ **short term finance**

(a) **Bank over drafts :=** It is special arrangement with the banker where the customer can draw more than what he has in his saving current account subject to a maximum limit Interest. is charged on a day to day basis on. the amount overdrafts.

(b) Commercial papers :=

It is new money market instrument introduced in India in recently - times. commercial papers are issued in large denominations by the leading, nationally reputed, highly rated and credit worthy. large manufacturing and finance companies in the public and private sector

(c) Trade credit :=

This is short term credit facility extended by the creditors to the debtors, normally, it is common for the traders to buy the materials and other supplies from the supplies on credit basis.

Non conventional source of finance :=

1) Lease finance
2) Hire purchase
3) factoring services.

Economics

* The word Economics has been derived from Greek word. 'Eco'/Oikis means household. and nomics means mgt.

* According to Lionel Robbins defined economics as "The sciences which studies human behaviour as a Relationship b/w ends and scarce means which have alternative uses

Significance of Economics

Economics is the Application of Theory and methodology to business,

* BE help in the establishing Relationship b/w difference Economic factors such as Income, Profits losses and market structure,

* This helps in guiding managers in effective decision making and Running the organization.

→ what product and services should be produce

→ what Input and product technique should be used,

=) How much output should be produced and at what time

→ when Replaced the equipments

=) How should be capital allocated.

there are two types of Economics

1. Micro Economics :-

The micro Economics is the study of decisions made by people and business regarding. the allocation of resource and prices at which They trade goods and Services.

The Micro means "small" The micro economical Company, products maximize it's production and capacities so. That it Could lower prices and better Competitors.

The micro Economics is the Small scale industry of the Business goods and Services productivity.

2. Macro Economics :-

The Macro Economics is the also called as large business Economics

2) macro is Greak word 'large'

2) BE concerned the economical behaviour of the whole nation in terms of allocation of production, resources or Consumption pattern distribution.

2) This is large term a large BE in macro Economics

Ex:- national wide, whole

Micro Economics	Macro Economics
Studies the Individual level ; Economical units of Economics	Studies the Economy as a whole
Allocation of Resources of price determination	Determination of overall level of output & Employees
Individual Income Individual prices/ output	deals with aggregates national income national output general price levels
It is called price theory  1000 Single person salaries	It's called Income Theory  Total personal salaries.

21 National Income:-

21 Nation Income of a Country means the sum total of Incomes earned by the Citizens of that Country during a given period, Say one year.

(It is should be noted that national is not the sum of all incomes earned by all citizen, but only those income which accrue to (intermediate means)

Importance of National Income

- Economic policy
- Economic planing
- Inflation & deflation gap
- Budgetary policies

* National Expenditure
- Standard and living cost
- defence development

$NI = R+W+I+P[L, L, C, O, T]$

L = Land, L = Labour, C = capital, O = organaization, Technology

* National Income :-

National income of a country means the sum total of incomes earned by the citizen of the country during of a given period.

* Economic Policy
* Economical planing
* inflation & deflationary gap
* Budgetory Polacies
* National expenditure
* standerd and living cost
* Defence and development public sector

These all above using the national wide bulineses development earned by the citizen of the country.

* Inflation :=

Inflation refers to Generally rised in prices. Levels of purchesing measuring against a standard Power.

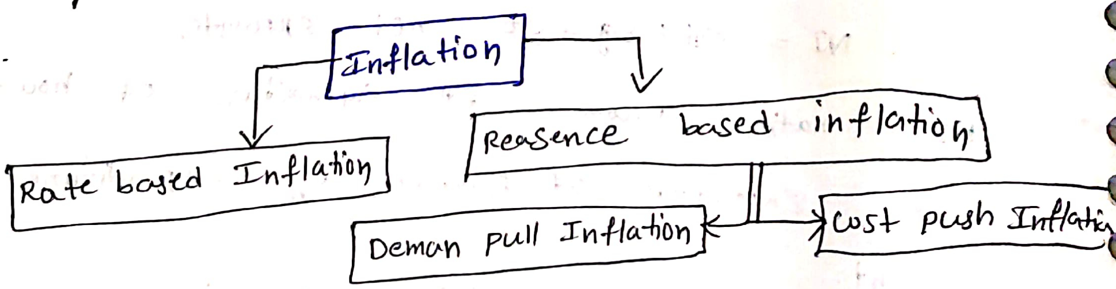


fig:- Inflation Models theory

rate of Inflation depends on the price value of products their are 4 types.

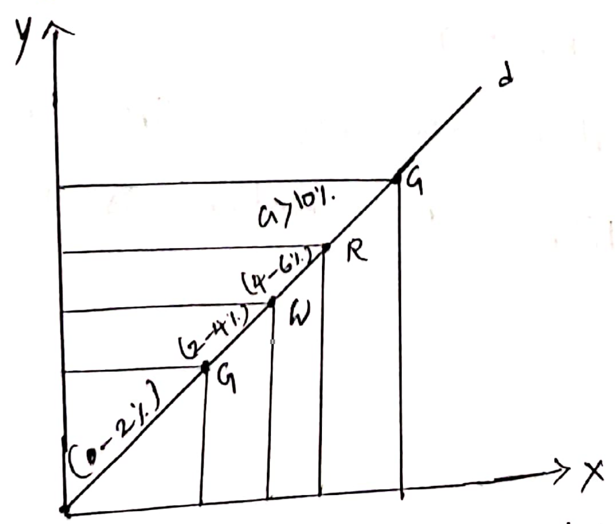
1) creping := This is the slow moving of price on the business. moving cost value is compart onther product (0-2%)

2) walking := The moving rate of inflation just (2-4%) change of price value.

3) runing := Inflation is the risky area. hear the price value difference from (4-6%)

4) Galloping := The Galloping inflation is the more then 10% inflation runing and Galloping inflation values effect on the economic situations. running and Galloping is the vity degrjone. of lining cost is also highly.

ex;= petrol rates and gas oil, cleaning products etc.... [note;= figer showing economic values are decresing price Increasing Inflation Increasing].



(0-2%) - creaping, (2-4%) walking, (4-6%) running 6% and above 10%.

...lloping.

* Resonce of Inflation

Demand pull Inflation := The demand pull Inflation are using one goods and one products demand highly.

* Demand based on the price {ex := cool dring – summer}
* value Attomaticall changed in situvations.

cost push inflations :=

cost push inflation defends up on the product and cost value. bassed on the sichuvation. {ex := pen value retile value manifacturing distabenses}.

Money supply and Inflation :=

→ The total stack of money circulating in an economy is the money supply. The circulating money involves the currency, printed notes, money in the deposit accounts and in the form of other assets.

→ Monetorists belive there is a strong link b/n the money supply and inflation. If the money supply increase faster then real out put. then, prices will increase cousing inflation. This is know at the quantity theory of money (mv = PT)

→ However, other economists belive this link b/n the money supply and inflation is more complicated.

⇨ **Business cycles :=**

The alternating periods of exponsion and contraction in economic activity has been called business cycles. They are also known as trade cycles.

[Note := U.K shaw rapid growth in 1920'S]

Activities
- Economical Activities
- Non econamical Activities

Economic Activities

The Business cycles Activites choose the 2 types of Activities are their - Economic Activities better then Economic Activity non economical Activities why because non economic Activities Profite base business Activity. non economic non Activity.

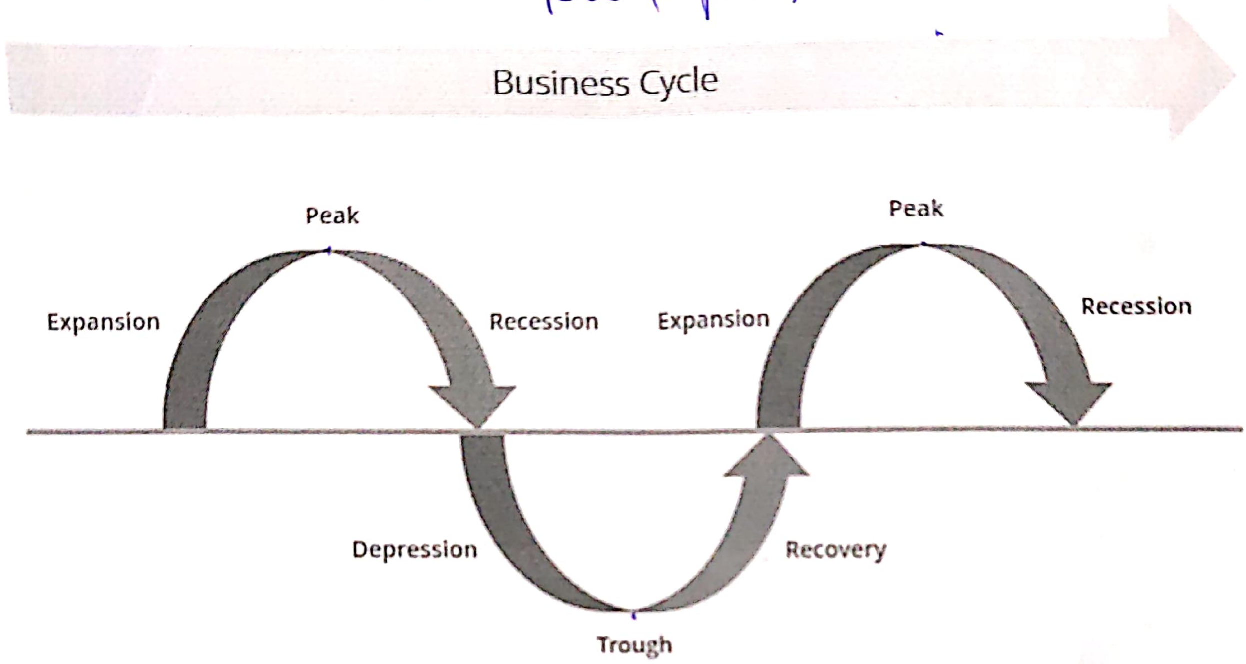
The Rhythemic fluctuvation in aggregate economic activity by that an economic experiences over aperiad of time

Ex:- 2017 year and 2019 year Indian total economical good economical cycle.

Trade of economical

* Good trade.
* Bad trade.

* Business cycle & phases of Business Cycle.



Stages of the Business Cycle

In the diagram above, the straight line in the middle is the steady growth line. The business cycle moves about the line. Below is a more detailed description of each stage in the business cycle:

1. Expansion

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services. Debtors are generally paying their debts on time, the velocity of the money supply is high, and investment is high. This process continues as long as economic conditions are favorable for expansion.

2. Peak

The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal point in the trend of economic growth. Consumers tend to restructure their budgets at this point.

3. Recession

The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages, etc., consequently start to fall.

4. Depression

There is a commensurate rise in unemployment. The growth in the economy continues to decline, and as this falls below the steady growth line, the stage is called a depression.

5. Trough

In the depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services, contract to reach their lowest point. The economy eventually reaches the trough. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

6. Recovery

After the trough, the economy moves to the stage of recovery. In this phase, there is a turnaround in the economy, and it begins to recover from the negative growth rate. Demand starts to pick up due to low prices and, consequently, supply begins to increase. The population develops a positive attitude towards investment and employment and production starts increasing.

This is lower it cango this is the -ve saturatio for an Economy.

* Nature of BE

Economics is that branch of social which is concerned with the study of how individuals, house hold firms. idustries and governament take decision relating to the allocated of limited resources to productive uses, so as to desire maximum gain or satisfaction

Indentify the relationship b/n price, demand supply and other economic factors.

1) positive economics

A positive science is one that studies the relationship b/n two varlable but does not given any value judgment i.e it states' what is it deals with facts about the entire economy.

2) Narmative Economic

As a narmative science economic passes value judgment. i.e what ought to be it is concerned with economi goals and polices to attain these goals.

Scope of Business Economics

As regards the scope of BE no uniformity of Business economics no uniformity of views exists among various authors However the following aspects are said to generally fall under business economics.

(1) Demand Analysis and forecasting.
(2) Cost and production Analysis.
(3) Pricing Decision . Policies and Practies.
(4) Profit Management
(5) capital Management

Roles and Responsibillities of Business Economistes

* The role of BE become increasingly important in view of the different objective of the firm.

* He has a significant role to play in assisting the managment of the firm in decision- making and forword planing by specialization skils an techniques.

* In Advanced countries large companies Employ Business Economist or ME to assist the management.

The environment of BE using External factors Ex:= general prices, national income and output , valume trade etc...

positive or descriptive theory. Thus, Business economics normative and positive economic theory, the emphasis being more on the former than the latter.

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As regards the scope of business economics, no uniformity of views exists among various authors. However, the following aspects are said to generally fall under business economics.

1. Demand Analysis and Forecasting
2. Cost and production Analysis.
3. Pricing Decisions, policies and practices.
4. Profit Management.
5. Capital Management.

Role and Responsibilities of Business Economists

The role of Business Economist becomes increasingly important in view of the different objectives of the firm. He has a significant role to play in assisting the management of the firm in decision-making and forward planning by using specialized skills and techniques. In advanced countries, large companies employ Business Economist or Managerial Economist to assist the management.

- **Business Economists should study the Environment**

It is the primary duty of Business Economists to make extensive study of the business environment and the external factors affecting the firm's interest, viz., general prices, national income and output, volume of trade, etc.

- **Business Economists should make decisions regarding Business Operations**

The Business Economist can help the management in making decisions regarding the internal business operations by studying and analyzing the following:

1. What should be the production schedule and inventory policies for the coming year?

2. What should be the appropriate price and wage policies?

3. How much cash will be available in the coming months and how should it be invested?

Questions

1.Define Business? State the factors governing choice of form of business organization.
2.Write short notes on Theory of Firm?
3.What do you mean by sole proprietorship? Explain its meant and limitations.
4.Define partnership from of business. Explain its salient features
5.Define a joint stock company & explain its basic features, advantages & disadvantages
6.Write short notes on
(a) Commercial Papers (b) Hire Purchase.
7.Define Business Cycle? Explain various Phases of Business Cycle?
8.Discuss the relationship of Money Supply with Inflation?
9. Discuss the nature & Scope of Business economics?
10.Evaluate the Multidisciplinary nature of Business Economics?
11. Explain the role and responsibilities of a Business Economist?

Objective Questions

1. Which subject studies the behaviour of the firm in theory and practice? ( )
(a) Micro Economics (b) Macro Economics (c) Managerial Economics (d) Welfare Economics
2. Business Economics is close to__________Economics ( )
(a) National (b) Business (c) Micro (d) Industrial
3. The theory of firm also called as______________. ( )
(a) Welfare Economics (b) Industrial Economics (c) Micro Economics (d) None
4. "Any activity aimed at earning or spending money is called_____activity". ( )
(a) Service activity (b) Accounting activity (c) Economic activity (d) None

5. "One man one vote" Principle is adopted in_______. ( )
(a) Partnership firms (b) Company (c) Co-operative enterprises (d) Hindu family business
6. The management of 'Joint Hindu Family' business vests in the eldest member of the family, called______. ( )
(a) Director (b) Grand father (c) Kartha (d) Manager
7. Minimum Two and maximum______members are permitted in Private limited company. ( )
(a) Un-limited (b) 20 (c) 50 (d) 10
8. Minimum_____and maximum______members are permitted in Public limited company. ( )
(a) 50 ; Un-limited (b) 20 ; 50 (c) 7 ; Un-limited (d) 7 ; 50
9. Liability of sole proprietor is________________. ( )
(a) Limited (b) Minimum (c) Un-limited (d) None
10. Liability of Shareholder________________. ( )
(a) Un-limited (b) Maximum (c) Limited to the share capital (d) None
11. Certificate of commencement of business should be obtained by_____company to start its functions. ( )