1. Meaning & Scope of Business Economics

Q:1 Define Business Economics. Explain Scope of Business Economics?

(A) **Business Economics :-** Business Economics is a Science that deals with the use of economic theories to Business Management. The main focus of Business Economics is a Business Enterprises. The main Objective of business Enterprises is to earn maximum Profit. Modern Business is Full of Risks and Uncertainties. Business Executives has to make decisions about

- Business Policies
- Current data
- Future estimates
- Allocation of Scale Resources etc.

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(B) **Meaning :- According to Milton :-**

" Business Economics is the integration of economic Theory with Business Practice for the easy decision-making and forward Planning by Management."

(C) **Scope of Business Economics :-** Business economics is Practical in nature. It will guide to business executives to Solve Problems of business and make efficient use of resources.

Following Points Shows Scope of Business Economics →

① **Cost and Production Analysis :-** In Order to Produce maximum Production at minimum cost, a firm try to make optimum use of available resources. Cost Analysis and Production Analysis is essential for Profit, Cost Control, Sound Pricing etc.
It Cover the topics like – Cost Concepts, Production function, Economies and Diseconomies of scale.

② **Demand and Supply Analysis :-** Demand Analysis helps to identify various factors which influence the Demand.
Supply Analysis helps to Understand Production function. Producer try to determine the Price where demand force intersect supply force.

③ **Profit Analysis :-** The main objective of Producer is to earn maximum profit. Profit is a barometer of efficiency, Progress and Stability of the firm.
Profit Management Covers the topics like - Profit Planning, Profit Policies, Break Even Analysis etc.

④ **Market Structure :-** Market structure means the Nature and degree of Competition for goods and Services in market. Every Part of Business Economics is help to study market structure.
Example : Perfect Competition, Monopoly, Oligopoly, Monopolistic Competition.

⑤ **Pricing Decisions :-** An efficient Price Policy

brings huge Profits for Firm. Success and Failure of business depend Upon better Pricing Policy. Producer has to take Utmost Care while Pricing decisions or Pricing Policies.
It Cover the topics like - Price Determination, Pricing methods, Price Forecasting etc.

6) Project Planning :- The study of different methods of Project Planning is one of important Component of Business Economics.
Example :- Pay-Back Period, Net Present Value, Internal Rate of Return etc.

⑦ Capital Management :- Capital Management is a financial strategy which helps to meet day-to-day expenses and Financial requirement in short-term.
It helps to bring maximum efficiency in Capital Investment.
example- Capital Budgeting, Laws of Returns etc.

⑧ Business Policy and Forecasts :- A firms decisions are always influenced by - economic, social and Political environment. Government Policies, National Income, Population Explosion, Business Cycles etc. all affects a Firm decisions.
Forecasting Future Trends is important for the Producer because Success of Plans and Policies depends Upon Accurate Forecasting.

⑨ Optimisation Principle :- In business economics,

Optimisation Principle helps in Decision-making. Every Rational Producers wants to follow Optimisation Principle.

Example :- Optimum Utilisation of Resources, Optimum Production Capacity etc.

(10) Business Economics and Other Disciplines :-

Business Economics is related to other disciplines like – Micro Economics, Macro Economics, Accounting, Statistics etc.

Q:2 Explain the Meaning and Scope of Micro Economics?

(A) Micro Economics :-

The term 'Micro' is derived from the Greek word 'Mikro' which means 'small'. Micro Economics is the study of small individual Units like – Individual Consumer, Individual firm, Individual Factor Owners etc. It also studies about economic welfare.

Micro Economic Theory is also called Price Theory because it is related with determination of Prices of goods.

Example → Equilibrium Price is determined by Demand Force and Supply Force.

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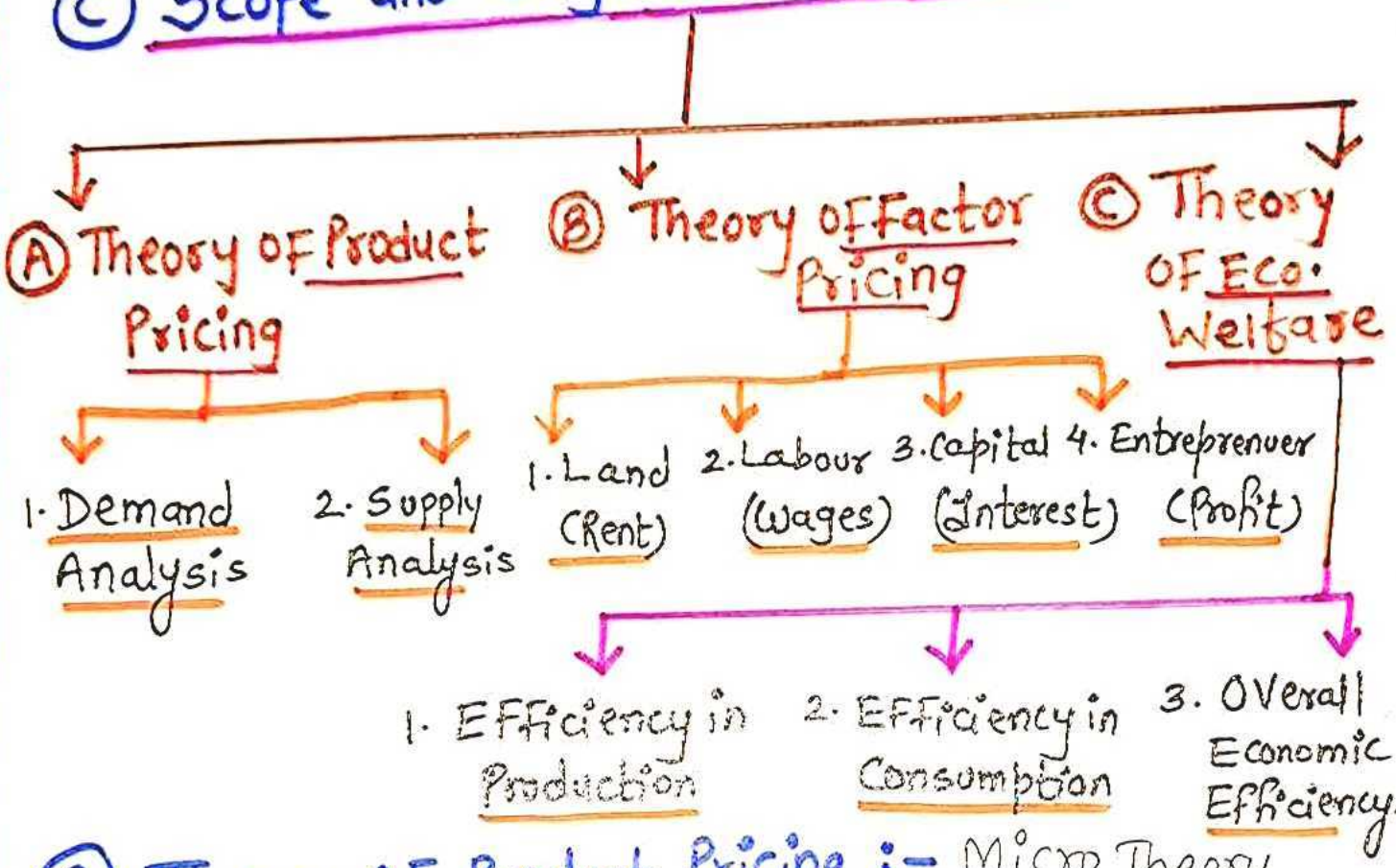
(B) Meaning :-

1. According to Maurice Dobb – "Micro Economics is the Microscopic Study of the economy."
2. According to Kenneth Boulding – "Micro

Economics is the study of particular firm, particular households, particular commodities, individual prices, wages income etc."

© Scope and Subject Matter of Micro Economics:



Ⓐ Theory of Product Pricing :- Micro Theory explains that how the Relative Prices of goods and Services are determined by demand force and supply force.

Demand Analysis explains Consumer behaviour where Demand and Price have inverse Relationship. Demand Curve is sloping downward from left to right.

Supply Analysis explains Producer behaviour where Supply and Price have Direct Relationship. Supply Curve is sloping Upward and it has Positive slope.

Ⓑ Theory of Factor Pricing :- Theory of Factor Pricing explains the theory Distribution among four factors

It explains how Rent to → Land, wages → Labour, Interest → Capital and Profit to → Entrepreneur are determined

3) Theory of Economic Welfare :- Theory of Economic welfare deals with efficiency in allocation of Resources. It deals with—

i) Efficiency in Production :- It means Producing Maximum goods with Optimum Use of resources. It helps Producer to earn maximum profit.

ii) Efficiency in Consumption :- It means Equal distribution of goods and services to the People so that People enjoy maximum Satisfaction with minimum Expenditure.

iii) Overall Economic Efficiency :- It means Producing Variety of goods and Services so that People enjoy better Standard of Living.

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Q:3 Define Macro Economics. Explain Scope of Macro Economics?

(A) Macro Economics :- The word 'MACRO' is derived from Greek word 'MAKRO' which means 'Large'. It is the study of economic System as a whole. It Studies about - Total Employment, Total National Income, Aggregate Demand, Aggregate Supply, Agg. Consumption, Agg. Saving etc.

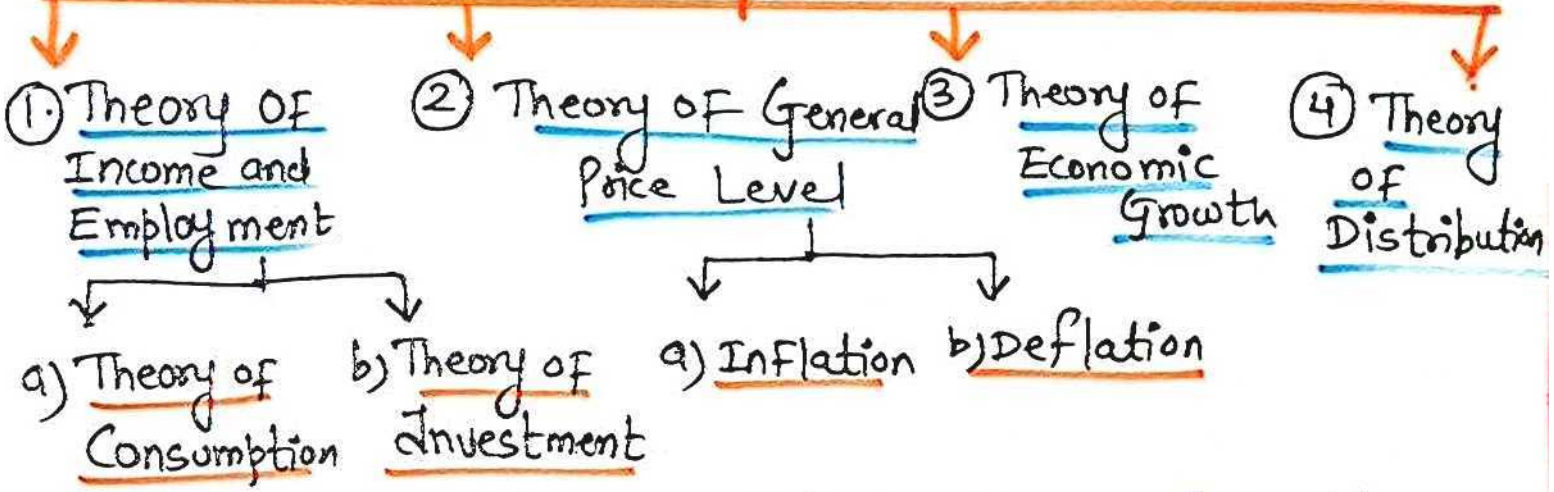
Thus, Macro Economics is also known as Agg. Study or Income theory. It Studies about General Equilibrium Analysis.

(B) Meaning :-

1. **According to Prof. Carl Shapiro →** " Macro Economics deal with the functioning of economy as a whole. "

2. **According to K. Boulding :-** " Macroeconomics deals not with Individual Quantities but with Aggregate Quantities, Not with Individual Income but with National Income, Not with Individual Prices but with General Price Level, Not with Individual Output but with National Output "

(C) Scope of Macro Economics :-



1] Theory of Income and Employment :- Macro

economics explains Theory of Income and Employment, Total Output, Total National Income. This Theory explains Level of Employment with the helps of Consumption function and Investment function. In Macro economics studies the Causes, effects and remedies of General Unemployment.

2] Theory of General Price Level :- Macro

Economics helps to study the Change in general Price-level.
" A Rise in General Price Level is called Inflation. "
" A Fall in General Price Level is called Deflation/Recession "
Macro economics studies Problems, Causes, Effects and Government Policies Related to inflation and Deflation.

3] Theory of Economic Growth :- Macro Economics Suggest Theories for economic growth and development It Suggest → Full Utilisation of Resources to Reduce Poverty, Unemployment and Inequalities of Income. Plans Can be made and implemented to increase national Income, Output and employment of economy.

4] Theory of Distribution :- Macro Economics helps in better allocation of Resources among four Factors of Production. It deals with - Rent, wages, Interest and Profit distributed among Four Factors of Production.

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Thus, Macro Economics is Very useful to Study Following areas ——

1. **National Income :-** Macro economics helps to measure National Income and Changes there in. National Income is an Important Yard Stick to measure Economic development of the Country.
2. **Employment and Unemployment :-** Macro economics studies the Causes, effects and Remedies of General Unemployment

According to Classical and Neo-classical economists - If Prices and Wages are Flexible then economy will Operate at Full employment level. Market forces will helps to maintain Full-employment in Long-Run.

But according to Modern economist J. M. Keynes, General Level of Employment is depends Upon Effective Demand. So every economy must try to increase effective demand by increasing - Total investment, Total output, income and Consumption of economy.

3. **Business Cycles :-** Macroeconomics studies the Causes and Effects of Business cycles. It also Suggest Remedial measures to control inflation and Deflation.

4. **Economic Policies :-** There are Various Macro economic Problems like - Poverty Unemployment, inflation, Recession, Low economic growth, BOP disequilibrium etc.
Various Economic Policies like - fiscal Policy Monetary Policy, Foreign Trade Policy, Foreign Investment Policy and Exchange Rate Policy are used to solve the Macro economic Problems.

5] **Working OF the Economy :-** Macroeconomics helps to study the working of whole economy.
(example) Circular Flow of National Income helps to understand Smooth working of economy among Various Sectors.

6. Foreign Trade and Balance of Payment :-

Modern economies are Open economies. Due to International trade mostly economies suffer the problem of Inflation or Recession. Foreign Trade may increase the demand for or supply of Foreign Exchange. Thus Foreign Trade Create a Problem of BOP-disequilibrium Macroeconomics helps to solve and Correct BOP-disequilibrium.

7] Monetary Problems :- Macro economics studies helps to control adverse effects of inflation or Deflation. Government adopt - fiscal policy, Monetary Policy or Direct control measures to reduce Problem of Inflation and Deflation.

8] Money Supply :- The stock of money supply is influenced by monetary policy of the Central Bank. Macro economics studies all these issues related to money supply, Central bank and Commercial banks.

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Q:4 Explain the Relation between Economics and Business Economics ?

(A) Economic Problem :- According to Prof. Robbins –

" Economics is a Science which studies human behaviour as a relationship between Unlimited wants and Limited means which have alternative Uses."

Thus Economic problem is a Problem of Choice

between Unlimited wants and Scarce resources with the objective of Maximisation of satisfaction.

(B) Business Economics :- According to Milton :-

" Business Economics is the integration of Economic Theory with Business Practice for the easy decision making and Forward Planning by Management "

A Firm has to take Various decisions like —

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What to Produce ?
How to Produce ?
How much to Produde ?
Where to Produce ?
When and where to distribute ? etc.

Thus every business firm has decision between Scarce Resources and alternative choices which brings maximum profit.

Thus Both, Economic Problem and Business Economics are closely Related.

i) Here Both deals with Scarcity and alternative uses of Scarce Resources.
ii) People wants to enjoy maximum Satisfaction with Limited Resources.
iii) Similarly Producer wants to enjoy Maximom Profit with Limited investment.

(C) Application of Business Economics to the Decision making Process of Management :-

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Business Decision Problems

Economic Theory
i- Micro Economics
ii- Macro Economics

Decision Sciences
i- Mathematical Eco.
ii- Econometrics

Business Economics
Application of Economic Theory and Decision Science Tools to Solve business Decision Problems.

Optimal Solution To Business Decision Problems

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1) Business Management takes decision and find Solution to management problem with the help of → Economic Theory.
→ Tools of Decision Science.
2) Economic Theory include Micro and Macro Economics. Decision Science include Mathematical Economics and Econometrics.
3) With the Help of Economic Theory and Decision Science, Best business decision are taken for the Welfare of Firm.
4) Thus, Business Economics integrate Various functions areas like - Finance, Production, Marketing Human Resource Management while taking managerial decisions.

Q:5 Fill in the blanks with most appropriate term from those given below each question :—

1. The Nature of Economic and business problem is b- Similar

a) identical b) Similar c) different.

2. The Central Problem of economics and business is b- Scarcity of Resources

a) Plenty b) Scarcity c) Variety.

3) To be a Successful manager the knowledge of Micro Economics and Macro Economics is Very essential.

a) Economics and Politics b) Micro Economics and Macro economics © Internal and International Trade

4) Macro economics is concerned with the analysis of behaviour of b- Whole Economy

a) Firm b) whole economy c) Industry.

5) C- Macro Economics studies the problems related to measurement of National Income.

a) Micro Economics b) International economics
c) Macro Economics.

Q:6. State whether the Following Statements are True or false giving Reasons :—

1. Micro economics deals with Individual house holds and Firms.

Ans:- True. Reasons :- Q:2- A Part

2. Micro economics can explain the functioning of the economy as whole.

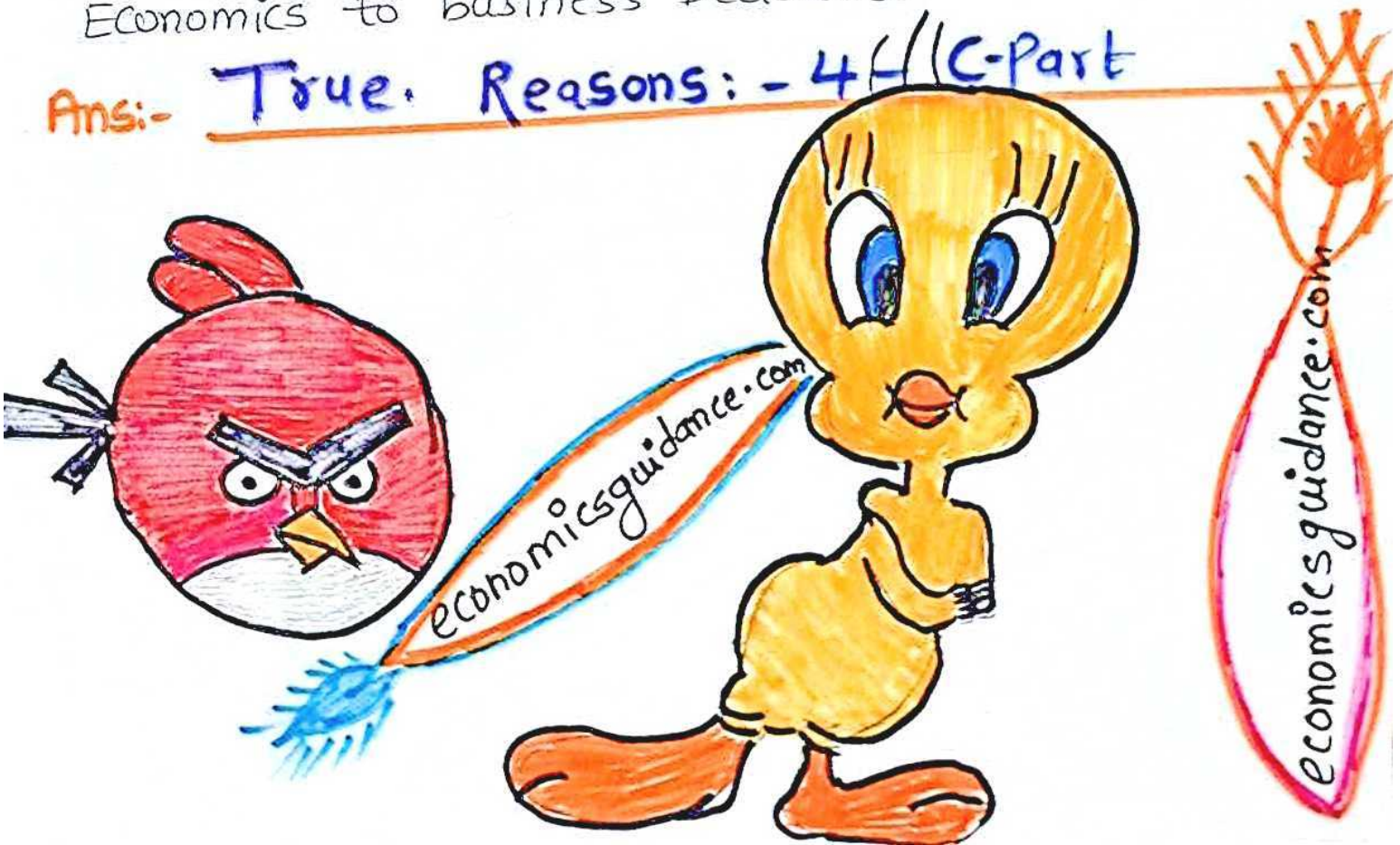
Ans:- False. Reasons :- Q:2- A Part

3. Macro economics is Concerned with the study of Small Units of the economy.

Ans:- False. Reasons - Q:3 - A Part

4. Foreign Trade and Balance of Payments do not Come under the scope of Macro economics.

Ans:- False. Reasons :- Q:3 - 6th Point

5. Business Economics is the application of Economics to business Decisions.

Ans:- True. Reasons :- 4th C-Part