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INDUSTRIAL ECONOMICS

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# CHAPTER I INTRODUCTION

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# INDUSTRIAL ECONOMICS

- Industrial Economics is the study of firms, industries, and markets. It looks at firms of all sizes –from local corner shops to multinational giants .
- And it considers a whole range of industries, such as electricity generation, car production, restaurants and service sectors.

# INDUSTRIAL ECONOMICS

**When analysing decision making at the levels of the individual firm and industry, Industrial Economics helps us understand such issues as:**

- the levels at which capacity, output, and prices are set;
- the extent that products are differentiated from each other;
- how much firms invest in research and development (R&D)
- how and why firms advertise
- how firms employ
- How firm negotiate to pay wages as well as how they settle disputes.

## INDUSTRIAL ECONOMICS

- Industrial Economics also gives insights into how firms organise their activities, as well as considering their motivation.
- In many microeconomics courses, profit maximisation is taken as given, but many industrial economics courses examine alternative objectives, such as trying to grow market share.

## SCOPE OF INDUSTRIAL ECONOMICS

- Industrial economics is a distinctive branch of economics which deals with the economic problems of firms and industries, and their relationship with society.
- In economic literature, it is known by several names with marginal differences such as 'Economics of Industries', 'Industry and Trade', 'Industrial Organization and Policy', 'Commerce' and 'Business Economics' etc.

# SCOPE OF INDUSTRIAL ECONOMICS

- There are two broad elements of industrial economics.
- **The first one, known as the descriptive element**, is concerned with the information content of the subject. It aims at providing the industrialist or businessman with a survey of the industrial and commercial organizations of his own country and of the other countries with which he might come in contact.
- It would give him full information regarding the natural resources, industrial climate in the country, situation of the infrastructure including lines of traffic, supplies of factors of production, trade and commercial policies of the governments and the degree of competition in the business in which he operates.
- In short, it deals with the information about the competitors, natural resources and factors of production and government rules and regulations related to the concerned industry.

## SCOPE OF INDUSTRIAL ECONOMICS

- The second element of the subject is concerned with the business policy and decision-making.
- **This is the analytical part** dealing with topics such as market analysis, pricing, choice of techniques, location of plant, investment planning, hiring and firing of labour, financial decisions, product diversification and so on. It is a vital part of the subject and much of the received theory of industrial economics is concerned with this.



## METHODOLOGY OF INDUSTRIAL ECONOMICS

- There are three major approaches to the study of industrial economics:
- The first approach is primarily descriptive and provides an overview of industrial organization.
- The second, price theory, uses microeconomic models to explain firm behaviour and market structure.
- The third approach is oriented to public policy as to economic regulation, antitrust law and more generally, the economic governance of law in defining property rights, enforcing contracts, and providing organizational infrastructure.

# INDUSTRIAL STRUCTURE

- Industry structure pertains to the number and size distribution of competitors in an industry.
- Some industries, such as the restaurant and retailing industries, contain many firms or competitors.
- Other industries contain relatively few competitors. Industries may also be comprised of different-sized competitors.
- The number and size of competitors and several other key factors are extremely important in determining a firm's profitability.

# INDUSTRY STRUCTURE ELEMENTS

- **I- Rivalry Intensity**
- Some firms exist in industries with intense rivalry levels. There may be three major competitors that make up the industry, for example. It is usually difficult for companies to dramatically increase profits in this type of industry.
- The firms are usually larger and well-established in their markets. Smaller firms may have been forced out because of their inability to compete. Larger companies usually enjoy lower cost structures because (of economies of scale) they purchase in volume.
- Companies in this type of industry environment also have less flexibility in lowering prices. Lower prices may set off price wars, furthering diminishing profitability.

## INDUSTRY STRUCTURE ELEMENTS

- **2- Ease of Entry**

The importance of industry structure is also evident with an industry's ease of entry. And the ease of entry is greatest in new industries. New industries also provide the best profit opportunities for smaller businesses.

- Sales are usually strong in a new industry because demand is relatively high among consumers. A smaller competitor may even be the industry leader, especially if it created a new technology or product.
- In contrast, industries that are difficult to enter have a negative impact on profits. Smaller companies may not have easy access to distribution.

## INDUSTRY STRUCTURE ELEMENTS

- **3- Availability of Substitutes**
- Another industry structure element influencing a firm's profitability is the availability of substitutes. Consumers will pay higher prices for certain products if no substitutes exist.
- Hence, companies in the industry earn greater profits. For example, pharmaceutical companies possess 20-year patents on new drugs.
- This means companies cannot manufacture generic substitutes for two decades. Conversely, consumers may seek cheaper substitutes when available, and this which has a negative impact on profits.

## MEANING OF INDUSTRIALIZATION

- The word **industrialization** is generally used in two senses—a narrow sense and a wider sense.
- In **the narrow sense**, industrialization refers to establishment and development of basic and manufacturing industries. Its main objective is to increase the general living standard by increasing efficiency and capacity of factors of production.
- On the other hand, in the larger perspective, under industrialization, not only basic and manufacturing industries are established but through this medium the changes in the entire economic structure of the country is carried out.
- The main objective of industrialization is to equally develop the overall factors of development of the economy.

## OBJECTIVES OF INDUSTRIALIZATION

**The following are the objectives of industrialization:**

- 1. Promote economic efficiency and growth
- 2. Bring about a structural shift in the economy in favour of industry
- 3. Promote balanced regional development
- 4. Promote the inter and intra-sectoral linkage
- 5. Create a sound base for the transfer adaptation and development of technology



## OBJECTIVES OF INDUSTRIALIZATION

- 6. Develop and achieve international competitiveness in areas of clear comparative advantages in industrial exports.
- 7. Generate employment opportunity.
- 8. Develop domestic technological capability for the production of intermediate inputs, outputs and capital goods.



# CHARACTERISTICS OF INDUSTRIALIZATION

- The main characteristics of industrialization can be outlined as follows:
- **1. Transfer of sources of production:** The factors of production transfer resources from primary sector (agriculture sector) to manufacturing industries and to services in tertiary sector as a result of industrialization.
- **2. Deepening and widening use of capital:** Industrialization make extensive use of capital. Industrialization is a process of deepening and making extensive use of capital. It reduces per unit cost of production and increases the profit potentiality of enterprises.
- **3. Development of new process:** In the process of industrialization number of new process take place, like mechanisation, automation, scientific management, rationalisation, development of new product and new market.

## CHARACTERISTICS OF INDUSTRIALIZATION

- **4. Social changes:** Industrialization sets out a new pattern in the society by enabling it to adopt modern and dynamic approach instead of traditional one. It develops the standard of education and reduces various constraints of society.
- **5. Economic development of the country:** Industrialization creates equal development of all the sectors in the country which expedites the pace of economic progress of the country.

## FORM OR PATTERN OF INDUSTRIALIZATION

- **I- Pattern according to Control:**
- Following are the patterns of industrialization according to control-
  - ☐ Industries working under government control
  - ☐ Industries working under private sector control
  - ☐ Industries working under the control of big industrial house
- Private industries working under the control of government regulations Industrialization
- ☐ Industries providing self-employment opportunities

# FORM OR PATTERN OF INDUSTRIALIZATION

- **2- Pattern according to Trend of Growth:**
- **Following are the patterns of Industrialization according to trends of growth:**
  - ☐ **Forward Industrialization:** Under this pattern of industrialization, industries of a country continuously keep on making progress and the rate of growth also increase regularly.
  - ☐ **Backward Industrialization:** Under this pattern of industrialization, Industries continuously keep on declining, and the rate of growth also decreases.

## FORM OR PATTERN OF INDUSTRIALIZATION

- **3- Patterns According to Ownership of Capital:**
- **Following are the patterns of industrialization according to ownership of capital:**
- **A) State Initiated Pattern:** If the state takes initiative in the establishment of industries; such pattern is known as 'State Initiated Pattern'.
- This pattern of industrialization is often found in Russia, China and other socialist countries. Such industries are also termed as industries of public sector.

## FORM OR PATTERN OF INDUSTRIALIZATION

- B) Private Initiated Pattern: If initiative is taken by private industrialists in the establishment of industries, such pattern of industrialization is known as 'Private Initiated Pattern'.
- This kind of group of industries is also termed as industries of private sector.
- This form of industrialization is mostly found in capitalist countries such America, Germany, Japan.

## FORM OR PATTERN OF INDUSTRIALIZATION

- C) **Jointly Initiated Pattern:** When industries are established by joint initiatives of Government and Private Sector both, such pattern is known as Jointly Initiated Pattern.
- This kind of group of industries is also termed as joint sector industries.
- This form of industrialization is often found in countries having mixed economy such as India, British.

## FORM OR PATTERN OF INDUSTRIALIZATION

- **4- Pattern according to Location**
- Following are the pattern of industrialization according to location:
- A) Centralised Industrialization: When the establishment and development of a industry is based on some particular location, such industrialization is known as Centralised Industrialization.
- Prior to independence this form of industrialization was found in India.
- In Centralised Industrialization some places are industrially developed while other are highly backward leading to unbalanced industrialization.



## FORM OR PATTERN OF INDUSTRIALIZATION

- B) Decentralised Industrialization: When the establishment and development of industry is not on some particular location, but industries are located in entire areas in a balanced manner such industrialization is known as Decentralised Industrialization.

## FORM OR PATTERN OF INDUSTRIALIZATION

- **5- Pattern according to Size:**
- **Following are the pattern of industrialization according to size:**
- **A) Large –scale industries:** Large-scale industries are the exact opposite of small-scale industries. Here the capital invested is large and advanced technology is in use here. Example, Automobiles and Heavy Machinery.
- **B) Small-scale industries:** Small scale Industries are those industries which operate mainly with hired labour and are concentrated in urban areas.
- **C) Medium sized industries:** The enterprises, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees are known medium enterprises.

## FORM OR PATTERN OF INDUSTRIALIZATION

- **6- Pattern according to Intensity**
- **Following are the pattern of industrialization according to Intensity:**
- ☐ A) Capital Intensive Industrialization: When priority is given to such industries in which comparatively more capital is invested; such form of industrialization is known as Capital Intensive Industrialization.
- ☐ B) Labour Intensive Industrialization: When priority is given to such industries in which more labour is required, such form of industrialization is known as Labour Intensive Industrialization.

## DETERMINANTS OF INDUSTRIALIZATION GROWTH

- There are two kinds of determinants of industrial growth- (I) Economic Factors
- and (II) Non-economic Factors.
- These factors are described as follows-
- 1) Economic Factors: Following are the economic factors of industrial growth
- A) Natural Resources:
- The economic prosperity of any country depends upon the availability of its abundant natural resources and their suitable exploitation. The production of an economy depends upon its resources quality and quantity of soil, minerals, climate, geographical situation, forest resources, rivers, sea-shore and power resources.
- The possibilities of industrial growth are more if a country is rich in natural resources.

## DETERMINANTS OF INDUSTRIALIZATION GROWTH

- B) Capital Formation:
  - Capital is required for industrialization, modernisation of agriculture and development of means of transportation.
  - The increase in the rate of capital formation helps in industrial growth. Capital formation is the main basis of modern industrial growth.
- C) Human Resources:
  - Growing population is an important factor of industrial growth. Workers are needed to work in factories/industries. The growing population also provided an opportunity for business to sell their product to more people.

## DETERMINANTS OF INDUSTRIALIZATION GROWTH

- 2) Non-economic Factors
  - **A) Political Stability:** According to professor The behaviour of Government plays an important role in encouraging or discouraging economic activities.
  - **B) International Condition:** International conditions also affect industrial growth to some extent. If relations are good with neighbouring countries, then there are adequate possibilities of export and international co-operation is there, the industrial growth will be at a faster speed and vice versa.
  - **C) Social Changes:** Social environment has a decisive effect on industrial growth. Society's desires of progress rapidness towards growth and anxiousness to use new method, etc. are included in social environment.

## SPEED OF INDUSTRIALIZATION

- Like the pattern of industrialization, the speed of industrialization is also found to be dissimilar in different countries. The exact measurement of the speed of the industrialization is not possible because following are the main factors affecting the speed of industrialization:
- 1) Nature of Industrialization:
- If the industrialization is followed through manufacturing consumer goods, then the speed of the industry will be low.
- But speed of industrialization will be higher if it followed through manufacturing capital goods industries.



## SPEED OF INDUSTRIALIZATION

- 2) Level of Technological Development:
  - If any country adopts low level of technological development in its initial stage of industrialization, then the speed of industrialization is often slow and vice versa.
- 3) Government Policy:
  - If the policy of government shows adequate interest in country's industrialization, the speed of industrialization would be higher and vice versa.
  - Government's price policy, trade policy and tax policy can encourage the industrialization.



## SPEED OF INDUSTRIALIZATION

- 4) Change in Social Conditions:
  - If the social conditions of the country change in hand in glove with the industrialization, the speed of industrialization will increase otherwise it decreases.
- 5) Population:
  - If the population is less in comparison to economic and natural resources, the speed of industrialization will be faster in that country.
  - If the population growth and density of population is high in the country, the speed of industrialization will be low.

## SPEED OF INDUSTRIALIZATION

- 6) Ability and Efficiency of Human Resources:
  - The speed of industrialization in any country depends upon the ability and efficiency of available human resources of that country. If the human resources of the country are able, efficient and disciplined, then they will give their full productive co-operation in industrialization and the speed of industrialization will be higher and vice versa.
- 7) Other Factors:
  - Industrialization Availability of Natural Resources, political stability and labour relations are other factors which give pace to the speed of industrialization.