

BE ASSIGNMENT

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Economics is the study of human behavior as a relation between ends & scarce means which have alternative uses. Business economics refers to the integration of economic theories with business practices. Business economics is the application of principles and theories of economics in practice to run successfully the business. Everyday business manager has to face different problems, while running the business. They would solve with the help of economic theories. Business economics plays an important role in our daily economic life and business practices. The scope of business economics is quite wide. The following aspects generally fall under business economics.

1. Demand Analysis & Forecasting

Demand analysis pertains to the behavior of consumers in the market. It studies the nature of consumer preferences and the effect of changes in the determinants of demand such as price of the commodity, consumer tastes & preference etc. Demand analysis helps to identify the various factors influencing the product demand & thus provides guidelines for manipulating demand. Demand analysis & forecasting are the basis of business planning.

2. Production & Cost Analysis

Production theory explains the relationship between inputs and output. Production analysis enables the firm to decide on the choice of appropriate technology & selection of least cost combination of input mix to achieve technically efficient way of producing output, given the inputs. The main concept coming under production & cost analysis are cost & its classification, output-cost relationship, production function, economies and diseconomies of scale & cost control.

3. Pricing Decisions

Pricing is an important factor of business economics. Success of a business depends on the pricing policy of firms. Profitability of a firm largely depends on how correctly the pricing decisions are taken. Suitable pricing policy can be implemented with the help of business economics.

4. Resource Allocation

Business economics with the help of advanced tools such as linear programming enables the firm to arrive at the best course of action for optimum utilization of resources.

5. Profit Analysis

The main objective of the business concern is to earn profit. Profit is considered as an indicator of the performance of business organisation. Profit theory guides the firm in the measurement & management of profits under conditions of uncertainty.

The relevance of business economics can be discussed as under:

1. Business economics is concerned with those aspects of traditional economics which are relevant for business decision making in real life. These are adapted or modified with a view to enable the manager to take better decisions. Thus, business economics accomplishes the objective of building a suitable tool kit from traditional economics.
2. It also incorporates useful ideas from other disciplines such as psychology, sociology etc if they are found relevant to decision making. In fact, business economics takes the help of other disciplines

having a bearing on the business decisions in relation with various explicit & implicit constraints subject to which resource allocation is to be optimized.

3. Business economics helps in reaching a variety of business decisions in a complicated environment. Certain examples are:

- (i) What products & services should be produced?
- (ii) What input & production technique should be used?
- (iii) How much output should be produced & at what prices it should be sold?
- (iv) What are the best sizes & locations of new plants?
- (v) When should equipment be replaced?
- (vi) How should the available capital be allocated?

4. Business economics makes a manager a more competent model builder. It helps him appreciate the essential relationship characterising a given situation.

5. At the level of the firm, where its operations are conducted through known functional areas, such as finance, marketing, personnel & production, business economics serves as an integrating agent by coordinating the activities in these different areas.

6. Business economics takes cognizance of the interaction between the firm & society, & accomplishes the key role of an agent in achieving its social & economic welfare goals. It has come to be realised that a business, apart from its obligations to shareholders, has certain social obligations. Business economics focuses attention on these social obligations as constraints subject to which business

decisions are taken. It serves as an instrument in improving the economic welfare of the society through socially oriented business decisions.

The usefulness of business economics lies in borrowing & adopting the toolkit from economic theory, incorporating relevant ideas from other disciplines to take better business decisions, serving as a catalytic agent in the process of decision making by different functional departments at the firm's level, and finally accomplishing a social purpose by orienting business decisions toward social obligations.