Business Economics

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Business Economics

Related to Business + Economics

Business Economics deals with the application of economic principles and methods for business and managerial decision making of the firms.

Spencer & Siegelman

"Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning and management".

Prof. Evan J. Douglas

"Managerial Economics is concerned with the application of economic principles and methodologies to the decision making process within the firm or organisation under the condition of uncertainity".

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Hailstone and Rathwell

"Managerial economics is the application of economic theory and analysis to practices of business firms and other institutions"

Mansfield

"Managerial economics is concerned with application of economic concepts and economic analysis to the problems of formulating rational managerial decision"

Thus,

Business Economics is the study/application of principles, techniques and concepts of economics which are relevant or useful for business and managerial decision making of firms. The aim of such study is to solve the managerial problems of a business and industrial enterprise.

It is also known as Managerial Economics, Micro Economics, Economics of Enterprise, Applied Economics, Managerial Analysis etc.

Characteristics of Business Economics

- Business Economics is Micro Economics
- Business Economics is Normative Economics
- Business Economics is Pragmatic
- Business Economics is Multi Disciplinary
- Business Economics is Prescriptive
- Business Economics is Applied Economic Theory
- Business Economics takes the help of Macro Economics

1) Business Economics is Micro Economics

Economics

Micro Economics

Studies economic activities of an individual economic unit such as individual household, individual business etc.

Macro Economics

Studies economic activities related to economy as a whole such as national income, total employment etc.

Business Economics is

- Concerned with smaller units of the economy.
- Studies the problems of an individual business firm or an individual industry.

2) Business Economics is Normative Economics

Economics

Positive Economics

- Describes what was, what is and what would be under the given set of circumstances.
- Does not pass any value judgement
- Does not offer any suggestions about facts.

Normative Economics

- Study that deals which relates to : what ought to be?
- Offer suggestions for solving the problem

Business Economics is

- Concerned with what management should do under particular circumstances.
- Determines the goal of the enterprise and then develops the way to achieve it.

3) Business Economics is Pragmatic Economics

Business Economics is

Pragmatic

- Pragmatic means realistic
- In pure economic theory, analysis is performed, based on certain exceptions, which are far from reality.
- But, Business Economics is pragmatic and realistic in nature.
- It is applied to solve problems faced by the business firms.
- These problems are related to choice and allocation of resources which are economic in character.

4) Business Economics is Multi Discplinary

Business Economics is

- Related with different disciplines like Statistics, management, Operational research, Mathematics, Economics and Psychology.
- So, it is regarded as Multi Disciplinary.

5) Business Economics is also prescriptive

- Businesss Economics attempts to predict the outcomes of specific events. It is also called normative.
- It is concerned with 'what should happen" rather than ' what does happen'.
- Instead of explaining what a firm is doing , it explain what it should do to make its decision effective.

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6) Business Economics is Applied Economic Theory

- Business Economics is application of economic theory to managerial decision making. However it mainly uses the concept of micro economics.
- In the words of S.K.Deo "Managerial Economics is an application of economic theory, particularly of micro economics theory to practical problem solving '. But, it does not mean that it has nothing to do with macro economics.
- Since Macro economics studies total managerial environment including trade cycle, inflation, deflation, government's fiscal and monetary policies etc. it has relevance to Business Economics.

7) Business Economics takes the help of Macro Economic Factor

- Though Business economics is micro economics in character and deals with the study of problems of an individual firm or industry but it takes the help of Macro Economics also because it need an understanding of the circumstances and environment in which an individual firm or an industry has to work.

- Knowledge of many issues of Macro Economics has to work the successful management of a firm or an industry. These issues are- Business cycles, taxation policies, Industrial policy of the government, price and distribution policies, wages policies and anti- monopoly policies etc.

Significance/Importance Of Business Economics

- Base of Business Policies
- Predict relevant economic quantities
- Estimates economic relationship between various business factors
- Reconcile traditional theoritical concepts to actual business behaviour and conditions
- Understanding Significant External Forces

Significance/Importance Of Business Economics...Condt...

1) Base of Business Policies

- Business Economics is the foundation of all business policies.
- All the business policies are prepared on the basis of studies and findings of Managerial Economics.
- It plays an important role in the decision-making of a firm.
- It warns the management against all the turning points in national as well as international economy.

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Significance/Importance Of Business Economics...Condt...

2) Predict relevant economic quantities

- Sound business plans and policies for future can be formulated on the basis of economic quantities such as cost, profit, demand, capital, production, price etc. Since a business manager has to work in an environment of uncertainty, future should be well predicated in the light of these quantities.

Significance/Importance Of Business Economics…Condt…

3) Estimates economic relationship between various business factors

- It plays an important role in business planning and decision making by estimating economic relationships between different business factors such as income, elasticity of demand and cost volume profit analysis etc.

Significance/Importance Of Business Economics...Condt...

4) Reconcile traditional theoritical concepts to actual business behaviour and conditions

- It attempts to reconcile(readjust) the tools, techniques, models and theories of traditional economics with actual business practises and with the environment in which a firm has to operate

Significance/Importance Of Business Economics...Condt...

5) Understanding Significant External Forces

- The management has to identify all the important factors that influence firm. These factors can be broadly be divided into two parts- Internal Factors and External Factors.
- External Factors are those factors over which a firm cannot have any control. Therefore, the plans, policies and programmes of the firm should be adjusted in the light of these factors.

Important external factors affecting decision making process of a firm are- Economic system of a country, business cycles, fluctuations in national income and national production, industrial policy of the government, trade and fiscal policy of the government, taxation policy, licensing policy, trends in foreign trade of the country, general industrial relation in the country etc. Business Economics plays an important role by assisting management in understanding these factors.

Scope of Business Economics

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Scope of Business Economics

The scope of Business economics refers to its area of study. The scope of the subject (Business Economics) extend itself to all those areas of business where economic consideration for decision making is essential. An overview is given below:-

1. Theory of Consumer behaviour/ Theory of Demand/ Demand Analysis & forecasting
2. Production and Supply Analysis
3. Cost Analysis
4. Theories of Market structure
5. Theory of Exchange or Price Theory
6. Theory of Investment
7. Theory of Profit

Theory of Demand

- Demand theory related to the study of consumer behaviour. It addresses questions such as what excites a consumer to buy a particular product, at what prices does he or she purchases the product etc. It also seeks to determine the effect of the income, habit and taste of consumers on the demand of a commodity and analyse other factors that influence this demand.

- For this demand analysis is done. Analysis of demand is undertaken to forecast demand, which is a fundamental concept in managerial decision making. Thus demand analysis and forecasting is a prime importance to business planning.

Supply Analysis

- Supply analysis is done from supplier perspective. It is actually study of supplier's behaviour.

- Important aspects of supply analysis are supply schedule, curves & functions, law of supply, elasticity of supply, factors influencing supply etc.

Production Analysis

Production is an economic activity that makes goods available for consumption or further production. Production and cost analysis is central for the continuous functioning of the production process and for project planning. Production analysis is narrower in scope than Cost Analysis. Production analysis is proceeds in physical terms, while cost analysis proceeds in monetary terms.

Production function shows the relationship between the quantity of a good /service produced (output) and the factors on resources (input) used. The input employed for producing these goods and services are called factor of production. There are two types of factors of production-

1)Variable factor of production:-

2) Fixed factor of production

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Cost Analysis

Estimation of cost is an essential part of managerial problems. The factors causing variation of cost must be found out and allowed for it management to arrive at cost estimates. This will helps for more effective planning and sound pricing policies.

Theory of Market structures

Theory associated with different market structures:- A firm profit-maximizing output decisions take into account the market structure which they operate. There are four kinds of market organisations/competitions :-

- Perfect competition
- Monopolistic competition
- Oligopoly
- Monopoly

Theory of Exchange or Price Theory

- Theory of exchanges popularly known as price theory. Price determination under different types of market conditions come under the span of this theory. It helps in determining the level to which an advertisement can be used to boost market sales of a firm.

- Price theory is pivotal in determining the price policy of the firm. Pricing is an important area in managerial economics. The accuracy of pricing model which is an idealised version of a real-world firm. The basic economic model of business enterprises is called the theory of firm.

Theory of Exchange or Price Theory Condt...

Pricing decision is vital in shaping the success of an enterprise. Price policy impresses upon the demand of a product. It involves the determination of price under different market conditions,pricing method, pricing policies, differential pricing, product line pricing and price forecasting.

The firm aims to profit which depends upon the correctness of pricing decisions. The pricing is an important area of managerial economics. Theories regarding price fixation helps the firm to solve the price fixation problems

Theory of Investment

The business managers have to take very important decisions relating to the firm's capital investment. The manager has to calculate correctly the probability of investment and to properly allocate the capital. Success of the firm depends upon the proper analysis of capital projects and selecting the best one.

Theory of Profit

Every business and industrial enterprise aims at maximizing profit. Profit is the difference between total revenue and total economic costs. Profitability of an organisation is greatly influenced by the following factors

- Demand of the product
- Price of the factors of production
- Nature and degree of competition in the market
- Price behaviour under changing conditions

Hence, profit analysis, planning and profit management are important requisites for improving profit earning efficiency of the firm. Profit management involves use of most efficient techniques for predicting the future. The probability of risks should be minimised as far as possible.