Business Economics & Financial Analysis

UNIT – I

Introduction to Business and Economics

BUSINESS :- → Structure of Business firm

→ Theory of Firm

→ Type of Business entities

→ Limited liability companies

→ Sources of capital for a Company

→ Non Conventional Sources of finance

ECONOMICS – Significance of Economics

– Micro & Macro Economics Concepts

→ Concepts & Importance of National Income

→ Inflation

→ Money supply in Inflation

→ Business cycle – Features
– phases

→ Nature & scope of Business economics

→ Role of Business economist

→ Multidisciplinary nature of Business Economics

THEORY OF FIRM

The "theory of firm" has been developed on the basis of the assumption that rational firms ~~pursuing~~ pursue the objective of profit maximisation, subject to the technical and market constraints.

The basic propositions of the theory of firm

→ Firm is a unit which transforms valued inputs into outputs of a higher value, given the state of technology.

→ The firm strives towards the achievement of its goals – usually profit maximisation.

→ The market condition (like competition, monopoly etc) for a firm to operate are given.

› While choosing between alternatives, the firm prefers the alternative which helps it to consistently achieve profit maximisation

The primary concern of the theory of firm is to analyse changes in the prices and quantities of inputs and outputs.

Assumptions:-

① A firm has a single goal – profit maximisation
② A firm acts rationally to pursue its goal.
③ The firm is a single ownership one — Entrepreneur.

The term 'profit maximisation' is usually taken to mean the generation of largest absolute amounts of profits over the time period being analysed.

profit max. → time period → Short run / → Long run

The short run is defined as a period where adjustments to changed conditions are only partial. Eg: If demand for the product for a firm increases, in the short run it can meet the increased demand through

→ Changes in manhours
→ intensive use of existing machinery

In long run profit can only maximised through making changes in production capacity by setting up additional plant.

Criticisms :-

1. fear of attracting rivals in the business
2. Fear of provoking governments anger on egalitarian grounds, and perhaps, also to avoid attraction of nationalisation move from the political arena.
3. to maintain good public relations it may be thought that some profit is better than to have maximum profits.

Sole proprietorship / Sole trader

The sole trader means 'one' or single owner of the business. (9)

Characteristics :-

1. Easy formation
2. Limited resources
3. Unlimited liability
4. High degree of flexibility
5. Freedom of choice
6. prompt decision making
7. Very little legal hassels
8. Control - sole, operational freedom
9. No Continuity - Unless legal heir shows interest
10. close to customers.

ADVANTAGES :-

1. Easy formation
2. prompt decision
3. Secrecy
4. Economy - Small capital
   No legal forms
5. personal touch with customers
6. Benefit of inherited goodwill
7. Freedom of business
8. High degree of flexibility
9. Minimum interference of govt
10. Transferability is easy.

DISADVANTAGES :-

1. Unlimited liability
2. Limited amount of capital.
3. No specilisation / No division of labour.
4. Uncertain
5. Inadequate for growth & expansion.
6. More Competition
7. Low bargaining power (loans).

A business is an enterprise which are concerned directly or indirectly with the production, sale, transfer & exchange of goods & services on regular basis with profit motive.

Charecteristics :-

① Economic Activity

② It should concerned with production, sale, transfer & exchange of goods & services.

③ profit motive

④ Regularity

⑤ Satisfy human needs.

Sectors/ forms of business Enterprises

Private Sector	public Sector	Joint Sector
a) Sole trader	a) Dept orgn	
b) partnership	b) pulbic Corporation	
c) Joint Hindu family	c) Govt companies	
d) Co-operative Orgn		
e) Joint stock Company		

POINT OF DIFFERENCE	PVT SECTOR	PUBLIC SECTOR	JOINT SECTOR
1. OWNERSHIP	Owned by pvt individuals	Owned by Govt	Owned by pvt enterprise & govt.
2. OBJECTIVE	profit	Social & profit	profit with social
3. MANAGEMENT	professional managers, pvt managers	Govt officers	Joint management
4. ACCOUNTABILITY	Accountablity to owners	public	Both public & pvt

PARTNERSHIP

Indian partnership Act, 1932 defines partnership as the relationship between two or more persons who agree to share profits of the business carried on by all or any one of them acting for all.

CHARECTERSTICS :-

1. Relationship :- It is a relationship resulting out of an agreement.
2. Two or more person :- There should be two or more persons.
3. Agreement :- There must be a written agreement among the partners – partnership dead.
4. Unlimited liability :- The liability of partners is extented to their personal property.
5. No. of partners :- Minimum – 2
   Maximum – 10 for banking
   20 for other sectors.
6. Division of labour :- As there are more no. of partners work can be divided.
7. personal contact with customer.
8. Flexibility
9. Implied authority
10. Transferability of share → No – without consent of others
11. Taxation :- partnership profits & income of partners are taxed ~~sp~~ seperately.
12. Dissolution :- closure of partnership.

ADVANTAGES:-

1. Easy formation
2. More resources & talents
3. Legal protection to minor
4. personal relation
5. Lesser risk
6. flexibility

DISADVANTAGES:-

1. Unlimited liability
2. Limited resources
3. Difficulty in transfer of interest
4. Lack of quick decision
5. Temporary life
6. Slackness
7. Lack of initiative.

DIFFERENCE BETWEEN PARTNERSHIP AND SOLE TRADER.

Point of Difference	Partnership	Sole trader
1. Legislation	It is established according to partnership Act, 1932	It has no specific legislation.
2. No. of members	Min – 2 Max – 10 – Banking 20 – others	Single.
3. Agreement	There must be agreement among partners	No agreement is required.
4. Distribution of profits	profit is shared among partners	Entire profits is enjoyed by proprietor alone.
5. Capital	It has more capital, b'cos there are more members	limited capital
6. Secrecy	Business secrecy cannot be maintained.	Business secrecy is maintained.
7. personal touch	It does not have personal touch as much as the sole trader has with his customer.	It is located amidst consumers, so it has personal contact with customers.

JOINT STOCK COMPANY

A joint stock company is an artificial association of persons created by law with a fixed capital, divisible into transferable shares with perpectual succession & common seal.

INDIAN COMPANIES ACT, 1956.

DEFINITION:- 'A joint stock company is a voluntary association of persons for profit, whose capital is divided into transferable shares & ownership is required for its membership.

CHARECTERSTICS :-

1. An artificial person
2. Seperate legal existence
3. Limited liability
4. capital divided into shares.
5. Voluntary Association of persons.
6. Common seal.
7. Transferability of shares.
8. perpectual succession
9. Ownership & mgmt seperated
10. Winding up
11. The name ends with 'Ltd
12. Formation - Indian Companies Act, 1956.

ADVANTAGES :-

1. Mobilisation of larger resources.
2. Seperate legal entity
3. Limited liability
4. Transferability of shares.

5. Liquidity of Investments
6. Inculcates the habit of investment & savings among common man.
7. Democracy in management
8. Economies of large scale production
9. Continued existence
10. Institutional confidence.
11. professional management
12. Growth & expansion.

DISADVANTAGES :-

1. Formation of Company is a long process.
2. High degree of govt. interference.
3. Inordinate delay in decision making
4. promotes speculation
5. Lobbying with govt. depts.
6. Tends to monopoly.
7. Higher taxes.

Differance b/w JSC & partnership

Point of Difference	Joint stock company	Partnership
1. Formation	Companies are formed under Indian companies Act, 1956.	partnership firm is formed under Indian partnership Act, 1932.
2. No. of members	Pvt – min – 2 Max – 50 Pub – Min – 7 Max – unlimited	Min – 2 Max – 10 – Banking 20 – other.
3. Liability	limited to the face value of share	unlimited
4. Transfer of share	share of public company are transferable.	Partners can not transfer share in the firm.
5. Management	Board of directors (selected representatives of shareholders)	partners
6. Legal status	Distinct legal status	Not a seperate legal entity.
7. Registration	compulsory	Not Compulsory.
8. Implied Agency	A member is not a implied agent	partners are implied agents.
9. Filing of Document	The company must file all the copies (financial & auditors reports to registrar)	It is not required.

Difference between private & public Company.

Point of Difference	Private company	Public Company.
1. No. of members	The minimum no. of members in private company in 2 and maximum in 50	The minimum number is seven & the maximum number is unlimited as many as the number of shares.
2. Transferability of Shares	The restriction on the transfer of shares	shares are transferable
3. Issue of prospectus	The private company does not issue prospectus or statement in lieu of prospectus.	Prospectus or statement in lieu of prospectus must be issued.
4. Allotment of Shares	The private Company makes allotment of shares after receiving certificate of incorporation. Minimum Subscription need not be received	The public Company can make allotment of shares after the minimum subscription has been received.
5. Commencement of business	The business can be started after the certificate of incorporation has been received.	The business can be started after the certificate to commence business has been received.
6. Statutory meetings	Holding statutory meetings & filing statutory report is not required.	Holding statutory meeting & filing statutory report is necessary.
7. Minimum no. of directors	2	3
8. Retirement of directors	Is not necessary	1/3rd must retire by rotation.
9. Maximum age of directors	can exceed 65yrs	cannot exceed 65yrs.
10. qualification shares	The directors need not subscribe for qualification shares.	The directors of public company must subscribe for qualification shares.

PUBLIC SECTOR / PUBLIC ENTERPRISE

Public enterprise / public sector enterprise are owned, managed & Controlled by the government. It may be central government, state government or local body individually or jointly. The whole or major part of capital is contributed by the govt.

CHARECTERSTICS:-

1. Government ownership & control
2. Satisfying basic needs.
3. Investment of heavy fixed capital
4. Service motive.
5. public Interest

IMPORTANCE / NEED / OBJECTIVE:-

1. Economic need:- a) Availability of essential commodities of life in sufficient quantity at cheaper rates.
   b) Establishment of basic industries
   c) Balanced regional development.

2. Social motive.
3. political motive.
4. Reduced wasteful expenditure
5. Infrastructure.

Forms of public sector
- → Departmental undertaking
- → Statutory corporation
- → Government companies.

1. DEPARTMENTAL UNDERTAKING :- It works as the ministry or a department of the government. The budget of their departmental organisation is presented to the parliament just like other ministeries.

Eg:- Indian railways, post & telegraph, DRDL,

Characteristics :-

1. Department of government
2. More financial freedom - Govt treasury.
3. Meeting govt. needs
4. Own recruitment service (SSC, UPSC)

Advantages

1. Effective control
2. Responsible executives
3. less scope of misutilisation of funds.
4. Adds to govt. revenue.
5. Service motive.

Disadvantages

1. Decisions delayed
2. Least profit earning venture.
3. Red tapism
4. Lack of competent workers
5. political evils.
6. Lack of competition.

2. STATUTORY / PUBLIC CORPORATION :-

Public corporations are formed by the special act of parliament or legislative assembly. Their existence is seperate from the govt. That is why, these corporations are called autonomous bodies.

"public corporation is a combination of public own ownership, public accountability & business mgmt for public end."

Eg :- SBI, APSFC, LIC, Indian Airlines.

CHARECTERSTICS :-

1. Created by parliament / state legislature.
2. Seperate entity :- It is an autonomous body which has its existence seperate from govt.
3. Government control
4. Appointment of employees :- public corporation are free to select their employees. They may have their own
5. A corporate body
6. More freedom in day-to-day operations
7. Financial autonomy :- these corporations have financial freedom and they are not shown in the annual budget of government.
8. Run on Commercial principles.

ADVANTAGES :-

1. Independence, Initiative & flexibility
2. Scope of Red tapism & bureaucracy is minimised as they have flexibility in operations.
3. Public interest protected :-

4. Employee friendly work environment

5. Competitive prices as it can afford with minimum profit margin.

6. By increasing the size of its operations, it can achieve economies of large scale operations.

7. Public accountability :- It has to submit its annual reports on its working results.

DISADVANTAGES :-

1. Continued political interference :- The autonomy is on paper only and in reality, the continued political interference disturbs the work environment.

2. Misuse of power :- It takes time to unearth the misuse of power.

3. Burden of goverment :- Where the public corporation ignores the commercial principles & suffer losses.

GOVERNMENT COMPANY :-

Section 617 of the Indian companies Act defines a government company as "any company in which not less than 51% of paid up share capital is held by the central government or by any state government or governments or partly by central government & partly by one or more of the state govt and includes a company subsidiary of govt. company."

CHARECTERSTICS :-

① It is like any other registered company under Indian Companies, Act 1956.

② Shares are held by state / central government in the name of president of India.

③ Govt. ~~m~~nominates Board of Directors

④ It has administrative & financial freedom.

⑤ It is subject to ministerial control.

ADVANTAGES :-

① It is easy to form as it ~~it~~ need not require pass a bill.

② It is a seperate legal entity

③ It has ability to compete

④ Flexible than departmental undertaking & public Corporation.

⑤ Quick & prompt decision making

⑥ Private participation facilitated.

DISADVANTAGES :-

1. Continued government interference

2. High degree of govt. control

3. Poor sense of commitment or attachment

4. Flexibility only on paper.

5. Evades constitutional responsibility.

6. Divided loyalities.

Forms of public Enterprises :- Features at Glance.

FEATURES	DEPARTMENTAL UNDERTAKING	PUBLIC CORPORATION	GOVERNMENT COMPANY
1. Formation	Formed by an executive order of the govt.	statutory grant of parliament or state legislature	Registered under Indian Companies Act 1956.
2. Legal position	An extension to govt. department	Seperate legal entity	Seperate legal entity.
3. Finances	Budget of concerned ministry	Govt. provides initial Capital	Govt provides minimum 51% of Share capital.
4. Degree of autonomy	Nil	fairly good	High
5. Flexibility	Nil	More flexible	Total flexible (it will make rules & reg)
6. Power to recruit staff	Civil servants are recruited officially	Its own recruitment board	Its own recruitment board.
7. Control mechanism	Controlled by the officials of concerned ministry	Govt. nominates the directors	Govt. appoints directors.
8. Power to borrow	subject to approval of govt.	It can borrow from govt. & public	It can borrow from govt & public.
9. Suitability	Control over VITAL sectors	public utilities	To operate in free market environment
10. Examples	DRDO DRDL Indian railway Doordarshan	NTPC GHMC LIC SFC's	BHEL HPCL BSNL BDL.

SOURCES OF FINANCE

There are three common methods of finance

- Long term finance
- Medium term finance
- Short term finance

Methods of finance

Long term finance	Medium term finance	Short term finance
→ Own capital	→ Bank loans	→ Commercial paper
→ Share Capital	→ Hire purchase	→ Bank overdraft
→ Retained profits	→ Leasing	→ Trade credit
→ Long term loans	→ Venture Capital	→ Debt factoring
→ Debentures		→ Advance from customer
→ Government grants & loans		

LONG TERM FINANCE :-

- Own capital :- The owners of the business have to invest their own finances to start with. Money invested by the owners, partners or promoters is permanent & will stay with the business throughout the life of the business.

-> Share capital :- The capital is raised by issue of shares. The liability of shareholder is limited to the extent of his contribution to the share capital of the company. The shareholder is entitled to dividend. The share capital is of two types :- - Equity share capital
- preference share capital

-> Retained profits :- The retained are the profits remaining after all the claims.

-> Long - term loans :- There are specialised financial institution offering long term loans, provided the business proposal is feasible.

-> Debentures :- Debentures are the loans taken by the company. It is a certificate or letter issued by the company under its common seal acknowledging the receipt of loan. A debenture holder is the creditor of the company. It is entitled to a fixed rate of interest.

-> Government grants & loans :- Government may provide long term finance directly to the business houses or by indirectly subscribing to the shares of the companies.

The government gives loans only if the proje satisfies certain conditions.

MEDIUM TERM FINANCE :-

→ Bank loans :- Banks loans are extended at a fixed rate of interest. Repayment of the loan and interest are scheduled at the begining.

→ Hire purchase :- It is a facility to buy a fixed asset while paying the price over a long period of time. The possession of the asset can be taken by making a down payme of a part of the price and the balance will be repaid with a fixed rate of interest in agreed number of installment.

→ Leasing :- When there is a need for fixed assets, the asset need not to be purchased. It can be taken on lease or rent for a specified no. of years.

Venture capital :- This form of finance is available only for limited companies. For a project when there is a higher degree of risk merchant banks may participate in equity to provide financial assistance.

IV. SHORT TERM FINANCE :-

→ Commercial paper :- The proceeds of the issue of commerci paper are used to finance current transactions which are also highly rated.

→ Bank overdraft :- This is a special arrangement with the banker where the customer can draw more than what he has in his ~~sav~~ current account subject to a maximum limit.

→ Trade Credit :- This is a short term credit facility extended by the creditors to the debtors i.e supplier providing raw material on ~~a~~ credit basis.

→ Debt factoring :- Debt factoring is arrangement with factor where the trader agrees to sell its accounts receivable or debtors at a discount to the specialised dealers called factors.

Advance from Customers :- It is customary to collect full or part of the order amount from the customers in advance.

Short term Deposits from Customers, sister companies and outsiders.

UNIT- I

INTRODUCTION :-

Managerial economics is economics applied in decision making. It is that branch of economics which serves as a link between abstract theory and managerial practice.

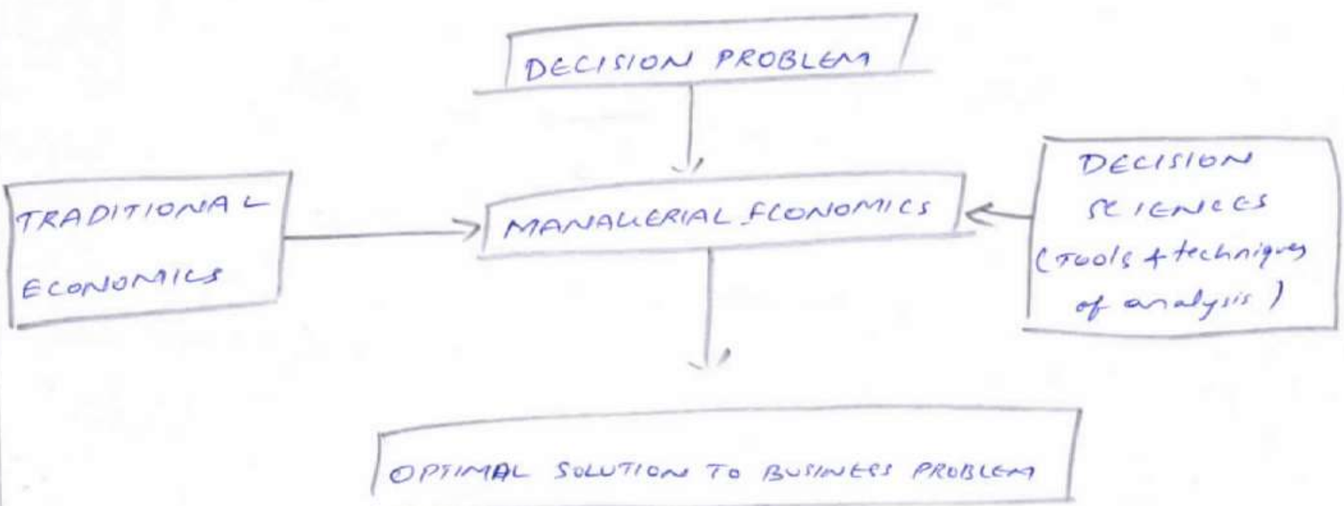
Economics as a science is concerned with the problem of allocation of scarce resources among competing ends. These problems of allocation are regularly confronted by individuals, households, firms as well as economies.

Definition :-

"the study of nature and uses of national wealth"

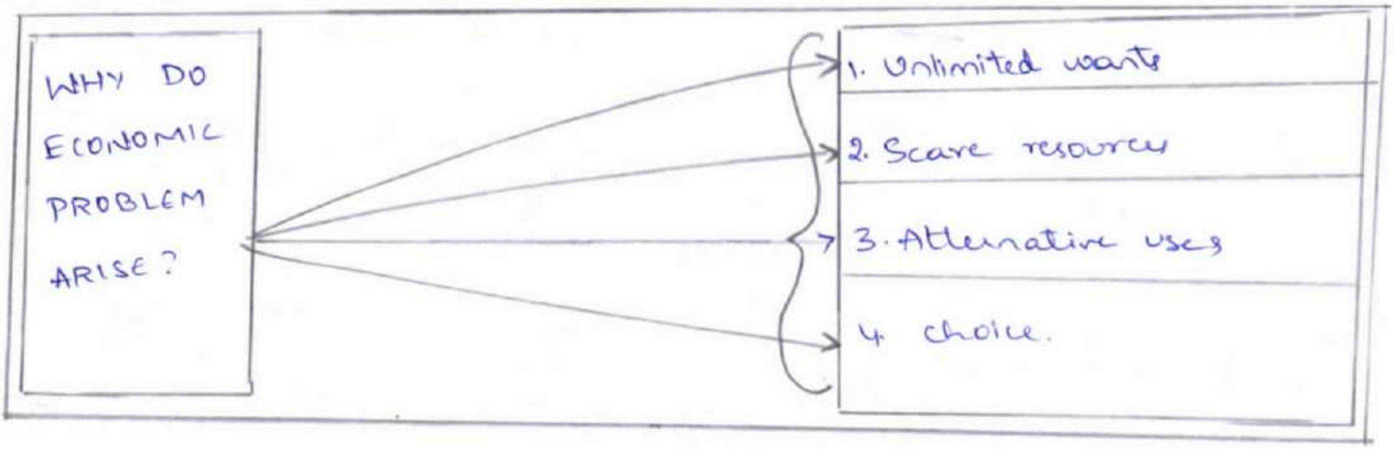
— Adam Smith.

"the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" — Robbins.



CONCEPTS OF MANAGERIAL ECONOMICS :-

Economic problem arise due to the following facts of economic life.



1. Unlimited wants :- Human wants are unlimited. As we satisfy one want, many more new wants come up. Beside this, one cannot satisfy even one particular want for all time to come.

2. Scarce resources :- If means would have also been unlimited to satisfy unlimited wants, there would have been no economic problem. The reality of the life is different i.e, the existing supply of resources is inadequate in relation to the known desires of individuals. This gives rise to the problem of scarcity which is the basis for all economic problem.

3. Alternative uses :- Means are not only limited but they can also be used for different uses. For eg:- wood may be used as furniture, fuel, construction etc.

4. choice :- All wants are not equally important. So man can satisfy his different wants in order of his priorities.

BRANCHES OF ECONOMICS:-

MICRO ECONOMICS:- It came from the word 'mikros' which means small or individual. It is called firm theory or value theory.

It consists of the study of :-

a) price of the commodity / product

b) Individual-consumer behaviour

c) a producer

d) wages

e) Industries individually.

MACRO ECONOMICS:- Macro economics came from the word 'makro' which means large. This deals with the aggregate behaviour of the economy. This includes:

a) National Income

b) Total savings

c) Total consumption

d) Total Investments

e) Money supply

f) price level

g) Employment rate

i, fiscal + monetary policy

j) Economic growth rate.

NATURE AND SCOPE OF MANAGERIAL ECONOMICS

NATURE OF MANAGERIAL ECONOMICS:-

1. Close to Micro Economics:- Managerial economics is the study of economic behaviour of individual decision making units, such as individual consumer, resource owner, business firms in a free enterprise system.

2. Macro Touch:- The managerial decisions of individual firms are vitally affected by the macro conditions of the economy, such as aggregate level of output, income, consumption, investment, general price levels, rate of inflation & interest rate.

3. Normative statements:- It deals with norms of facts and suggests, what ought to be or what ought have been. Economic is a normative science, because it suggests ways and measures to be adopted for economic betterment of the people.

Eg: i, Agricultural income should also be taxed.

ii, There should not be consumer goods industries in our country.

iii, private sector should be encouraged for accelerating the pace of our industrialisation.

4. Perspective actions:- It is rightly said that managerial economics is perspective in nature rather than descriptive. This means that its is goal oriented to resolve certain business problems through the application of the principles of economics. Managerial economics does not try to explain concept of economics without their usage to business situations.

5. Interdisciplinary :- Managerial economics is a new disciplin Its techniques, tools, theories and contents emerge from differen subjects such as Economics, management, statistics, mathematic Accountancy, sociology and psychology. As such, it is integrated form of mutli-disciplines.

6. Based upon assumptions and have limitations :- The disciplines forming part of the managerial economics suffer from certain limitation. Consequently, managerial economics also has its own limitations. Every concept of managerial economics is based on certain assumptions.

7. Managerial economics in study of allocation of resources :- Resource allocation is key to managing business. In fact, theory of economics also deals with the problem of resource allocation like what to produce; how to produce and for whom to produce.

Input allocation: Raw material, labour hrs, machine hrs.

Output allocation: It includes meeting customers demand in different segments of market at different locations.

Allocation of funds: It includes efficiency of usage of cash and other resources. Ratio analysis and financial statement analysis helps in making decision about fund allocation.

8. Applied in nature :- Some aspects of economic theory which can be applied to business management for decision making are Econometrics, mathematical economics etc which is in the form of equation to give a functional relationships between economic variables.

9. OFFER SCOPE TO EVALUATE EACH ALTERNATIVE :- As it is applied in nature, by using mathematical, statistical models quantitative evaluation of each alternative can be done for optimum solutions.

SCOPE OF MANAGERIAL ECONOMICS :-

1. Demand Analysis :- This is one of the most important aspect of the study of managerial economics. This indicates the Consumer's behaviour towards the firm's product. Every firm has to do thorough demand analysis as regards the consumers sensitivity towards price of the product, its quality, after sales services etc.

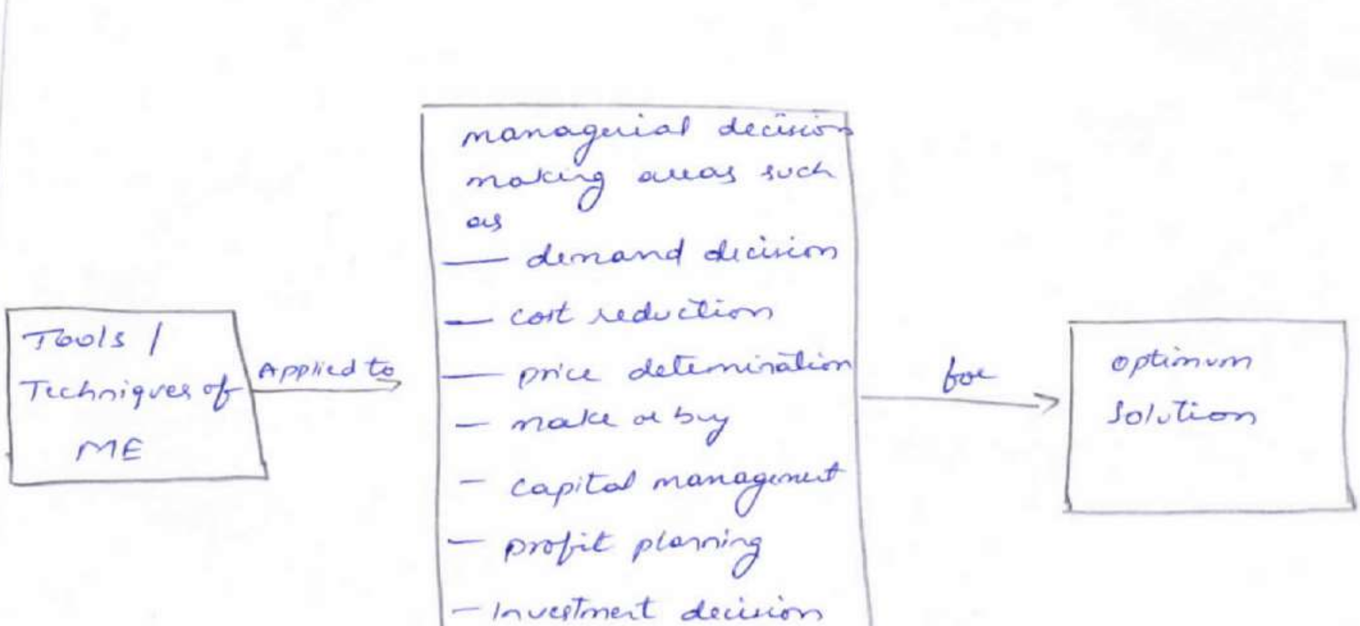
2. Input - output decision :- Here, the cost of inputs in relation to output are studied to optimise the profits. Input - output decision relates to costs and production. The firm has to arrive to a balanced quantity of production which neither result to over, or under production. Some costs are fixed, some are variable and others are semi-variable. The quantity of production increases, remains constant or decreases with the additional increase in input.

3. Price - output decision :- The firm has to be aware of the kind of markets it is operating in. It may be a highly competitive market like perfect competition or monopolistic competition or the firms may be operating in a low competitive segment of the market. Market analysis helps in arriving at an effective pricing decision.

4. **Profit related decision :-** Since, the firms main objective is to maximise profits, they employ techniques such as breakeven analysis, cost reduction and cost control. Ratio analysis is ascertained the level of profit.

5. **Investment Decisions :-** Investment decisions is also called as capital budgeting decisions. As firm need to take care of its long term investments, and evaluate each investment carry on a sensible policy of capital budgeting.

6. **Economic forecasting and forward planning :-** Economic forecasting leads to forward planning. A firm has to operate in an environment which may have impact on decision making. Macro economic variable like national Income, Industry outlook, fiscal and revenue policy, investment consumption etc. has an important role in the application of managerial economics in business decision.



National Income

INTRODUCTION :-

One of the most important concepts in all economic syste is National income, which gives us a means to measure the economic performance of an economy as a whole. National income accounting is a set of rules and definitions for measuring economic activities in an economy National income is defined as " the money value of all the final goods and services produced in an economy during an accounting period of time, ~~goods~~ generally one year.

COMMON MEASURES OF NATIONAL INCOME :-

1. Gross Domestic product (GDP)
2. Gross National product (GNP)
3. Net Domestic product (NDP)
4. Net National product (NNP)

) GROSS DOMESTIC PRODUCT :- GDP is the sum of money values of all goods and services produced within the domestic territories of a country during an accounting year. However, it does not include the earnings of nationals working abroad as also of foreign natinals working in our country. It includes incom...

and payments made on exports imports during the ye

$$\boxed{GDP = C + I + G + (X - M)}$$

where

C = Consumption expenditure

I = Investment expenditure

G = Government expenditure

$(X - M)$ = exports − imports.

2) GROSS NATIONAL PRODUCT :- Here the catch word is 'nation which refers to all the citizens of a country.

GNP is the aggregate final output of citizens and businesses of an economy in a year.

$$\boxed{GNP = GDP + NFIA.}$$

Net factor income from Abroad is the difference b/w Net income received from abroad for rendering factor services and income paid towards services rendered by foreign nationals in the domestic territory of a country.

$$\boxed{GNP = C + I + G + (X - M) + NFIA.}$$

Net Domestic product = It is calculated GDP after adjusting the value of depreciation. NDP of an economy is always lower than its GDP, since their depreciation can never be reduced to zero.

$$\boxed{NDP = GDP - \text{Depreciation.}}$$

D) Net National product = It is calculated by subtracting Depreciation from Gross National product.

$$NNP = GNP - \text{Depreciation}$$

* This deduction is done because a part of current produc goes to replace the depreciated parts of the products already produced. This part does not add value to current year's total produce.

⇒ Transfer payments :- A payment made by the government to individuals for whom there is no economic activity is produced in return.

Eg:- old age pensions, Scholarship etc.

⇒ Personal income :- It refers to the income collectively received by all of the individuals or households in a country. It includes compensation for a number of sources including salaries, wages and bonuses received from employment or self-employment; dividends and distributions received from investments; rental receipts from real estate investments and profit share from businesses.

personal income = NI − Undistributed profits − Corporate taxes − Social security contributions + Transfer payments + Interest on public Debt.

⇒ DISPOSABLE INCOME (OR) PERSONAL DISPOSABLE INCOME :-

It means the actual income which is available to be spent on consumption by individuals and families.

DI = PI − Personal taxes

PERCAPITA INCOME (PCI) :-

The average income of the people of a country in a particular year is called per capital income. In simple words, it is income per head of a country for a year.

$$PCI = \frac{\text{National Income}}{\text{Total population.}}$$

METHODS OF NATIONAL INCOME CALCULATION:-

There are three approaches and methods of measuring national income.

(A) INCOME METHOD

(B) PRODUCT METHOD

(C) EXPENDITURE METHOD.

(A) INCOME METHOD:- By this national income is calculated compiling income of factors of production like land, labour, capital & entrepreneur.

National income = Total wages + Total Rent + Total interest + Total profit.

(B) PRODUCT METHOD:- It is used by economists to calculate GDP at market prices, which are the total values of outputs produced at different stages of production.

) EXPENDITURE METHOD:- It measures all spending on currently produced final goods & services only in an economy.

There are three main agencies which buy goods & services

-> Households -> firms -> Government.

This final expenditure is made up of sum of 4 expenditure items namely,

→ Consumption (C)

→ Investment (I)

→ Government (G)

→ Net exports (X − IM)

$$NI = C + I + G + (X - M)$$

INFLATION

Inflation is a situation of persistently rising prices; it is also a situation of persistently rising money supply. In simple words it can be said that inflation implies an upward movement in the average level of prices. It is seen as a situation in which the volume of purchasing power (money in hands of consumers) is persistently more than the goods and services available to consumers.

Thus, inflation can be defined as a persistent increase in general price level or a persistent decline in real income of people, i.e decline in value of money.

SITUATIONS OF INFLATION :-

→ Headline inflation :- This is a measure of the total inflation within an economy, and is affected by the areas of the market which may experience sudden inflationary spikes, such as food/energy. As a result, headline inflation may not present an accurate picture of the current state of the

→ Hyper inflation:- The wage price spiral, if not checked, ultimately turns into hyper inflation, in which prices increases at such a speed that the value of money erodes drastically and the economy is trapped between rising prices and wages. This is known as galloping inflation / runaway inflation.

→ Suppressed Inflation:- This is a ~~stage~~ state when inflationa conditions exist, but the government makes such policies which temporarily keep prices under check, and as soon as these checks are removed, inflation burst out. petrol & diesel prices in India are examples of suppressed inflation.

→ Disinflation:- It is a process of keeping a check on price rise by deliberate attempts, It is a well planned process to bring down prices moderately from a very high level

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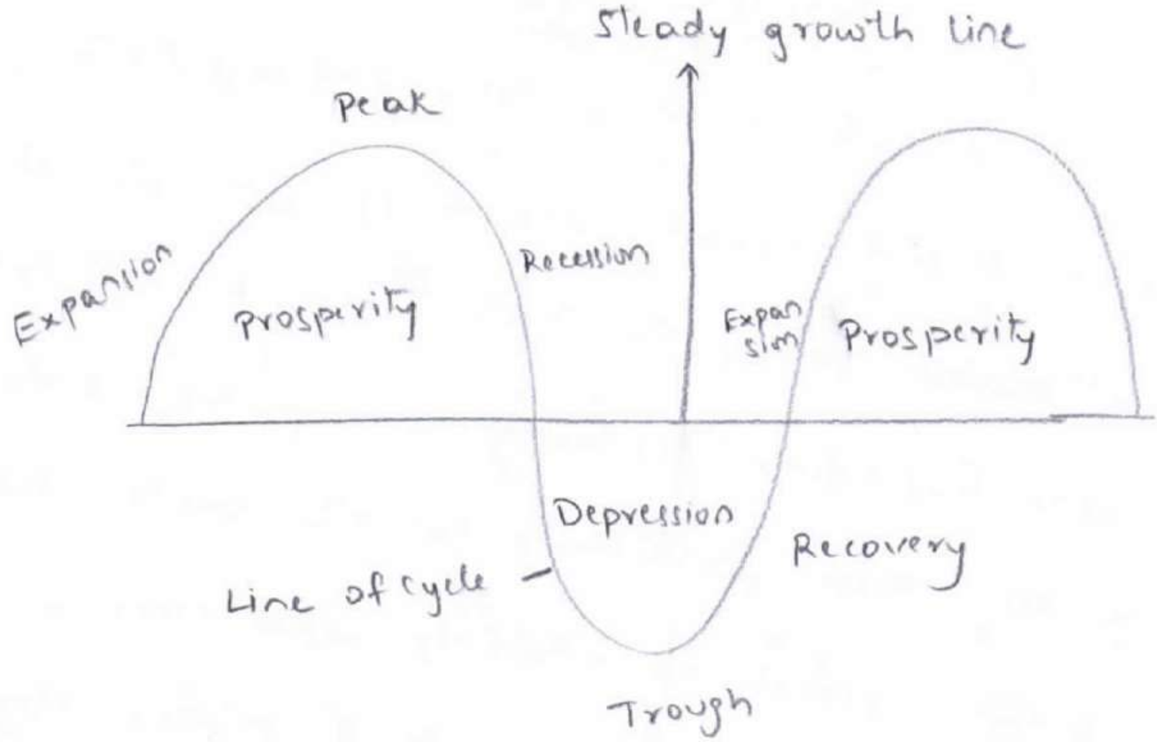
BUSINESS CYCLE

The business cycle or economic cycle and (or) trade cycle is downward and upward movement of GDP around its long term growth trend. The length of a business cycle is the period of time containing a single boom and contract in sequence. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth (expansion or booms), and periods of relative stagnation or decline (contractions or recessions)

Business cycles are usually measured by considering the growth rate of real gross domestic product. Despite the often-applied term cycles, these fluctuations in economic activity do not exhibit uniform or predictable periodicity.

PHASES OF BUSINESS CYCLE

- → Expansion
- → Peak
- → Recession
- → Trough
- → Recovery



1. EXPANSION :- The line of cycle that moves above the steady growth line represents the expansion phase. In this stage, there is an increase in various economic factors, such as production, employment, output, wages, profits, demand and supply of products and sales. In addition, in the expansion phase, the prices of factors of production and output increases simultaneously. In this phase debtors are generally in good financial position to repay their debts; therefore creditors lend their money @ higher intrests. This leads to an increase in the flow of money.

2. peak :- The growth in the expansion phase eventually slows down and reaches to its peak. This phase is known as peak phase. In otherwords peak phase refers to the phase in which the increase in growth rate of business cycle achieves its maximum limit. The econom. factors are higher but does not increase further.

In this stage there will be a gradual decrease in the demand of various products due to increase in the price of ~~output~~ input.

The increase in the prices of inputs leads to increase in prices of final products, while income of individual remains constant. This also leads consumers to restructure their monthly budget. As a result, the demand for products such as jewellery, homes, automobiles, refrigerator & durables, starts falling.

Recessions :- At this stage all the economic factors such as production, prices, savings and investment, starts decreasing. Generally producers are unaware of decrease in the demand of products and continue to produce goods & services. In such a case the supply of product exceeds the demand.

Over the time, producers realize the surplus of supply when the cost of manufacturing of a product is more than profit generated. This conditio firstly experienced by few industries and slowly spread to all industries.

This situation is firstly ~~cond~~ considered as a small fluctuation in the market, but as the problem exists for a longer duration, producers starts noticing it. Consequently producers avoid any type of further investment in factor of production such as labour, machinery & furniture. This leads to the reduction in the prices of factor, decline of demand for inputs as well as output.

4. Trough :- During the trough phase, the economic activity of a country decline below the normal level. In this phase, the growth rate of the economy becomes negative. There is a rapid

decline in national Income and expenditure. In t phase, it becomes difficult for debtors to pay off their debts. As a result, the rate of interest decreases therefore, banks do not prefer to lend money. So, banks faces the situation of increase in their cash balances.

In trough phase, many weak organisations will leave the industry or rather dissolve. At this point, an economy reaches to the lowest level of shrinking.

5. Recovery:- One the economy touches the lowest level of Shrinking, it happens to be end of negativism and begining of positivism.

This leads to reversal of the process of business cycle. As a result, individuals and organisations start developing a positive attitude towards economic factors. This process of reversal starts from labour markets. Consequently, hiring starts but in limited number. bankers starts utilizing cash balances by declining lending rate.

BEFA—Unit 1

Short Answer Questions

1. What is business? Write its features.
2. What is economics?
3. Briefly explain micro & macro economics.
4. What is sole trader ship?
5. What is partnership?
6. What is a joint-stock company?
7. What is meant by inflation?
8. Briefly explain about business cycle.
9. Explain the role of business economist.
10. Write about partnership deed.

Long Answer Questions

1. Explain the nature and scope of business economics.
2. Explain major theories of a firm.
3. Discuss different types of business entities.
4. Explain different sources of capital of a company.
5. Explain the concept and importance of national income.
6. What do you mean by inflation? Explain different types of i9nflation.
7. What is the role of money under inflation?
8. Define business cycle. Explain its features and phases.

UNIT 1 -- MCQs

1. Any human activity aimed at making profit is called------

a) Partnership b) Social service c) organization d) **business**

2. Business is always associated with-----

a) Profit b) loss c) **risk** d) none

3. If the entire business is managed and controlled by a single person, it is called---

a) **Sole trader ship** b) partnership

c) Company d) cooperative society.

4. Windingup of partnership is referred to as----

a) **Dissolution** b) Resolution c) Solution d) Closing.

5. In Joint Stock Company maximum no. of shareholders is-----

a) 20 b) 50 c) 100 d) **Unlimited.**

6. Equity shares are also known as----

a) Preference shares b**) ordinary shares**

C) Deferred shares d) debentures.

7. --------is the father of economics.

a) Karl Marx b) Max Muller c) **Adams smith** d) None.

8. Indian economy is---------

a) **Mixed economy** b) Socialist economy

c) Free economy d) none

9. Business economics mainly deals with the---- behavior of the firm.

a**) Economic** b) Social c) Cost d) Profit

10. Production, Buying and selling is associated with----

a) Partnership b) Sole tradership c) Company d) **Business.**

11. ------is an artificial person created by law.

a) Firm b) **company** c) partnership d) cooperative society.

12. Excessive supply of money in the economy is called-----

a) Recession b) overflow c**) inflation** d) none.

14. In inflation the value of money -----

a) Increases b) **decreases** c) stable d) none

15. Demand pulls prices ------

a**) Up** b) down c) middle d)stable

16. If prices fall persistently we call it as------

a) **Deflation** b) inflation c) none d)

17. The lowest point of business cycle is called-----

a) Slump b) depression c) trough d) **all.**

18. The total value of goods &services produced in an economy in a year is --

a) **National income** b) state income c) domestic income d) none

19. GNP at market price – depreciation is called ------

a) **NNP at market price** b) NNP at factor cost

c) GDP d) none

20. Built in inflation is also called-------

A) Persistent inflation   b) hangover inflation

c) **both a&b**   d)none

21. Price Index =current year's price/Base year's price *100

22. CRR means --- cash reserve ratio

23. SLR means ---- statutory liquidity ratio.

24. Alternative waves of business expansion and contraction is called ---- Business cycle

25. A cooperative is a ----- organization (non profit)

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