troduction to Business Economics, Features and Business application

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BUSINESS ECONOMICS AND FINANCIAL ANALYSIS (21CS701HSM)

TOPIC-1

INTRODUCTION TO BUSINESS ECONOMICS

WHAT IS BUSINESS:

- Any human activity which aims at making profit is called business. Social services are not business activities because they are not profit oriented activities.

TWO TYPES OF ACTIVITIES

- i) Economic activities ii) Non economic activities
- Different authors defined the term "Business" in different ways.

According to L.H Honey, " Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods and services."

Nature/Features of Business

1. Existence of two parties: Buyer & Seller

2. Exchange of goods and services: for mutual benefits

3. Deals in numerous transactions:

4. Risk and uncertainities: Internal & external factors

5. Profit motive: To earn profits for sustainance ,expansion & diversification

6. Business skill for success: Dynamisim.

Functions/Activities of Business

- **Production:-** suitable methods , controlling inputs and outputs managing quality of the products etc.
- **Marketing:-** New product development, pricing, demand forecasting, finding new markets, advertising, distribution, meeting competition etc.
- **Finance:-**Raising finance, allocating and monitoring, and reporting financial performance.
- **HR function:-**Recruitment, selection, training, placement, appraisals, wage and salary administration, welfare facilities, framing rules and monitoring working conditions etc.

What is Economics:

- Economics means "study of wealth." How people raise finance, how they will use it to satisfy their needs comes under economics.
- It is also a science of making decisions in the presence of scarce resources.

There are two types of Economics.

(1) **Micro Economics**: In Micro Economics the area of study is small and limited. It considers the behaviour of decision takers in allocating resources within the the economy such as individuals ,households and firms.

i)Theory of firm, ii) Demand analysis iii) Pricing iv) individual market structures.

(2**) Macro Economics**.

In Macro Economics is the branch of economics that studies the behaviour and performance of an economy as a whole. It focuses on aggregatechanges in the economy such as:

i) Unemployment ii) Economic growth rate iii) National income iv) GDP v) Inflation

vi) Balance of payments vii) Foreign exchange rates viii) Interests rates

What is Business Economics

It refers to the application of principles of economics to solve the managerial problems such as minimising the cost and maximising the profit. It helps the management in planning and decision making.

Definitions:1. According to Spencer and Siegelman:- "It is the integration of economic theory with business practices for the purpose of facilitating decision making and forward planning by management."

2. According to Brigham:- " It is the application of economic theory and methodology to business administration practice."

Features of Business Economics:-

1.Close to Micro Economics: Focus in on individual firm.

2.Considers Macro Economics also: BE takes the help of macro economics to understand and adjust to the business environment.

3.Prescriptive actions : goal oriented & facilitates future/forward planning.

4.Offers models: (transportation , assignment, linear programming models**)**

5. Offers scope to evaluate various alternatives

6. Interdisciplinary : it has linkage with other disciplines such as economics, mathematics, statistics, operations research, accountancy, psychology etc.

7. Not Universal: Same decisions /solutions are not suitable or applicable for a given problem in the other scenarios

Applications of Business Economics: The main areas of applications are-

1. Demand decisions

2. Input-output decisions

3. Pricing decisions

4. Profit related decisions

5. Investment decisions

6. Economic forecasting and planning

Theory of firm.,

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TOPIC-2

Theory of firm

Theory of firm (Objectives of firm):-

- It helps to study how firms behave and what goals they pursue.
- No single theory is applicable to all firms because different firms will have different objectives.
- Major theories are as follows.

Optimizing Theories

1.Profit maximization theory

Traditionally the efficiency of the firm is measured in terms of profits, on which the market value & the long term survival of the firm depends upon.

Profit =Total Revenue(TR) – Total Cost (TC)

2. Managerial theory: **(a) Baumol's theory (** sales revenue Maximization)

- Is the better indicator of firm's position in the market
- In large Organizations management is separate from ownership.
- Their interests /objectives are different

(b) Marri's theory (Balanced growth) G=Gd=Gc

- where , G=Growth rate , Gd=Demand growth rate , Gc=Capital growth rate
- Has 2 constraints i) Managerial constraint ii) Financial constraint

(c) Williamsons's theory (Combination of both a&b)

Um =f(S, M , ID)

S-Salary , M-Managerial emoluments ID-Power of discretionary investments .

Non-Optimising Theories

(Behavioural Theories)

1. **Simons' Model :** Fix only aspirational goals because lack of information and Business uncertainities are major challenges for firms.

2. Cyest and March Model : Objective must be to satisfy stakeholders like customers, shareholders , employees , Govt. etc. Rather than one single goal, aim at multidimensional goals.

Business cycle.,

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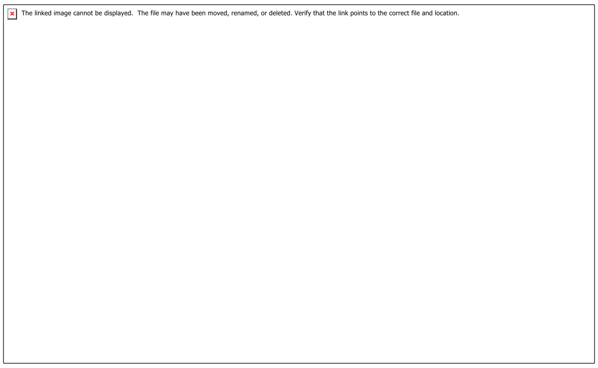
TOPIC-3

Business Cycle

Introduction to Business Cycle

- The alternate expansion and contraction of business activities In an economy is called business or trade cycle.
- It is the periodic up and down movements in economic activities.
- Economic activities measured in terms of production, employment,
- incomes move in a cyclical manner over a period of time.

Business cycle is said to have following stages. (Phases of Business Cycle)



1. Trough/Depression:- This stage is characterized by pessimism and despair every where. Its' main characteristic features are –

- Large-scale unemployment
- Low wages
- High rate of business failures
- Contraction of credit etc.
- To come out of this situation people start thinking about new innovations. A ray of hope appears on the business horizon. Economy starts recovering slowly.

2. Recovery Stage :- At this stage there will be –

- slight improvement in production activities
- Employment opportunities will increase slowly

- Prices will be rising
- Investors come forward to invest
- Pessimism will be replaced by Optimism.

3. Expansion stage:- This stage is characterized by

- Increase in production activities.
- Increase in employment opportunities
- Expansion of bank credit
- Prices will start raising.
- Large number of businesses will start coming up.
- Full employment opportunities will be created.

This stage paves way for Boom/Peak.

4. Boom/Peak stage:- This stage is characterised by

- Rapid expansion of business activities
- Prices rise very high , Profits reach peak stage
- Constant and heavy flow of investments will be seen
- full employment leads to spurt of inflation
- Increased production puts lot of pressure on natural resources
- Due to severe competition some firms will be thrown out of the market, leading to recession.

5. Recession:- At this stage

- Business firms will be facing scarcity of natural resources
- Bank will start recovering loans and hesitate to lend fresh loans
- Investments will be reduced leading to reduction in employment
- It leads to less income, less demand for goods and services
- May firms windup or collapse
- It paves the way for depression again.

Importance of Business Cycle:- The business cycle plays an important role in shaping the economic landscape and is acrucial element of economic analysis.to economic fluctuations.

- Understanding it can help policy makers,business & individuals to prepare for and respond effectively .
- This helps them to take up various investment decisions , risk management strategies and financial planning activities.

Inflation, Types of inflation.,

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TOPIC-4

INFLATION

Introduction to Inflation

- Inflation is a situation where prices will be rising constantly.
- This situation arises due to excessive supply of money in the economy.
- In simple terms , the term inflation denotes "Too much money chasing too few goods" .
- It is a situation In which, money in consumers hands will be more than the goods and services available to them.
- Thus prices of goods rise and value of money falls.
- Money supply in the economy increases due to two reasons.
- (1) First and direct cause is, printing of additional currency on demand of the Government to meet its' needs and expenditures (called deficit financing).
- (2) Second cause is , the additional money supply due to foreign exchange inflows, foreign direct investment, tourism and other incomes from abroad.

These are the main reasons for excessive circulation of money in the economy

Types of inflation

1.Creeping inflation :- If the rate of inflation doesn't exceed the rate of production growth we call it as creeping inflation.

2. Galloping inflation :- If the rate of inflation exceeds the rate of production growth , we call it as galloping inflation. Money loses its value.

3. Hyper inflation :- If the inflation is out of control we call it as hyper inflation.

4. Suppressed inflation :- This is a state where inflationary conditions exists, but the Govt. makes such policies which temporarily keep prices under check . It is a short term measure. If these checks are removed, inflation burst out.

5. Hidden inflation :- To control inflation, Govt. Will force the producers to sell products at lower prices. Producers can not make profits. So they will reduce the quality of the products. As a result buying low quality products at a high price is called hidden inflation.

6. Deflation :- It is just opposite to inflation. It is a state where prices fall constantly. It arises due to less money supply in the economy.

Causes of inflation :

1. Demand pull inflation :- Demand pulls prices up. If demand increases the prices will increase. The main reasons for this demand pull inflation are -

- Increase in money supply
- Increase in disposable income
- Increase in aggregate spending
- Increase in population.

2. Cost-Push inflation :- If cost production increases i.e cost of fuel, electricity material costs etc. it leads in increase in prices of those goods . It leads to inflationary conditions because producers try to maintain profit margins by increasing prices. It leads inflation.

3.Built in inflation :- Inflation that is resulted from past inflation.It is called hangover inflation.

4.Low supply of goods and services :- Scarcity of resources, Natural calamities, outdated technology etc. affects supply of goods and services, inturn leads to inflation

Money supply in inflation.,

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TOPIC-5

Money supply in Inflation

- ✓ When inflation or deflation is prevailing in the economy, the central bank controls the money supply in the economy.
- ✓ It aims at price stability and high rate of economic growth.
- ✓ To control money supply the central bank uses the following instruments.

1.Bank Rate Policy :- It refers to the rate of interest that central bank charges while extending credit to the commercial banks.

Central bank increases interest rates → Commercial banks in turn increases interest rates → It makes loans less attractive → Money supply contracts in the economy.

2. Open market operations :- This includes the direct sale and purchase of securities by the central bank.

When Inflationary conditions are prevailing: Central bank sells securities to commercial banks → Money flows into the hands of the central bank → Money supply contracts inthe hands of commercial banks → In turn contracts in the economy to discourage investors.

When deflationary conditions are prevailing :- Central bank purchases securities from commercial banks and money will be released to commercial banks to encourage investors.

3.Cash Reserve Ratio (CRR) :- It means, commercial banks have to maintain certain percentage of cash reserves with the central bank. During inflation, it increases this ratio to reduce money supply in the hands of the commercial banks. And vice versa.

4. Statutory Liquidity Ratio (SLR) :- It is the percentage of liquid cash that commercial banks should maintain to meet their requirements. During inflation SLR will be increased to reduce cash supply in the economy and vice versa.

5.Credit Rationing :- Under this method RBI imposes control over the credit facilities to the selected sectors to discourage further investments

6. Moral Suasion :- RBI frequently request the banks not to lend credit and exercise strict control over the credit. It tries to persuade the banks to control credit.

7. Direct action :- RBI takes direct action against the banks, if they are not controlling the loans in spite of its directions.

8. Fixation of margins and ceilings :- Margin is the difference between the market value of the security and loan amount. RBI increases this margin to reduce lending capacity of banks.

9. Deficit financing :- It is the gap between public expenditure and public revenue. To bridge this gap ,less currency will be printed in case of inflation and vice versa.

National Income,

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TOPIC-6

National Income

Importance of National Income

- **Setting Economic Policy**

National Income indicates the status of the economy and can give a clear picture of the country's economic growth. National Income statistics can help economists in formulating economic policies for economic development.

- **Inflation and Deflationary Gaps**

For timely anti-inflationary and deflationary policies, we need aggregate data of national income. If expenditure increases from the total output, it shows inflammatory gaps and vice versa.

- **Budget Preparation**

The budget of the country is highly dependent on the net national income and its concepts. The Government formulates the yearly budget with the help of national income statistics in order to avoid any cynical policies.

- **Standard of Living**

National income data assists the government in comparing the standard of living amongst countries and people living in the same country at different times.

- **Defense and Development**

National income estimates help us to bifurcate the national product between defense and development purposes of the country.

From such figures, we can easily know, how much can be set aside for the defense budget.

Concepts underlying measurements of National Income

- Gross Domestic Product(GDP)
- Gross National Product(GNP)
- Net Domestic Product(NDP)
- Net National Product(NNP)
- Personal Income(PI)
- Disposable Personal Income
- Net National Product(NNP)

1 .Gross Domestic Product (GDP)

- The total value of goods and services produced within the domestic teritory of a country during a financial year/accounting year. It does not include earnings of people working abroad as well as foreigners working in the country.

GDP= C + I + G +(X- M) where C= Consumption of goods & services

I =Gross private domestic investment in capital goods. ;

G = Government expenditure ;

(X-M) = Exports & Imports / Net Exports

2. Gross National Product(GNP)

- GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country including net factor income from abroad.
- The GNP can be expressed as the following equation: GNP=GDP+NFIA (Net Factor Income from Abroad) or,

GNP=C+I+G+(X-M)+NFIA

- Hence, GNP includes the following: Consumer goods and services.
- Gross private domestic investment in capital goods.
- Government expenditure.
- Net exports (exports-imports).
- Net factor income from abroad.

3. Net National Product (NNP) :Net National Product is the market value of all final goods and services after allowing for depreciation.

- It is also called National Income at market price. When charges for depreciation are deducted from the gross national product, we get it. Thus,
- NNP=GNP-Depreciation or, NNP=C+I+G+(X-M)+NFIA-Depreciation
- NI=NNP+Subsidies-Interest Taxes or, GNP – Depreciation + Subsidies - Indirect Taxes or, NI=C+G+I+(X-)+ NFIA-Depreciation-Indirect Taxes Subsidies

4. Personal Income (PI) : Personal Income is the total money income received by individuals and households of a country from all possible sources before direct taxes. Therefore, personal income can be expressed as follows.

PI=NI-Corporate Income Taxes - Undistributed Corporate Profits - Social Security Contribution + Transfer Payments

5. Disposable Income (DI): The income left after the payment of direct taxes from personal income is called Disposable Income. Disposable income means actual income which can be spent on consumption by individuals and families. Thus, it can be expressed as:

DI=PI-Direct Taxes From consumption approach, DI=Consumption Expenditure + Savings.

6. Per Capita Income (PCI): Per Capita Income of a country is derived by dividing the national income of the country by the total population of a country. Thus,

PCI=Total National Income/Total National Population

Methods for measuring National Income

There are four methods of measuring national income. The type of method to be used depends on the

availability of data in a country and the purpose which is attempted for.

- **Income Method**

In this method, we add net income payments received by all citizens of a country in a particular year. Net incomes that result in all the factors of production like net rents, wages, interest, and profits are all added together, but income received in the form of transfer payments are omitted.

- **Product Method**

According to this method, the aggregate value of final goods and services produced in a country during a financial year is computed at market prices. To find out GNP, the data of all the productive activities-agricultural products, Minerals, Industrial products, the contributions to production made by transport, insurance, communication, lawyers, doctors, teachers. Etc are accumulated and assessed.

- **Expenditure Method**

The total expenditure by the society in a financial year is summed up together and includes personal consumption expenditure, net domestic investment, government expenditure on goods and services, and net foreign investment. This concept

Difficulties in measuring National income

- **Lack of reliable data:** Collecting data on the income of citizens is difficult due to a lack of reliable data, illegal income, and multiple occupations.
- **Statistical problems**: Statistical figures may not be accurate because they are based on sample surveys
- **Welfare is not measured**: GDP only measures market activity and does not take welfare into account.

- **Different methods**: Different countries have different methods for estimating national income, making it difficult to compare.
- **Exclusion of real transactions**: Real transactions may be excluded when calculating national income.
- **Valuation of inventories:** The valuation of inventories is not considered when calculating national income.
  Imputed income: Imputed income is not considered when calculating national income.
- Valuation of government service: The valuation of government service is not considered when calculating national income

Types of Business Entities, Sole trader partnership.,

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TOPIC-7

Types of Business Entities

Introduction to Business firm

- A Business firm refers to an Organization created for business purpose, i.e producing, buying and selling of goods and services for making profit.
- while starting a new business, the owner has to decide, what type of organizational structure is best suited for his business.
- There are different types of business structures/Entities, Like Sole trader, Partnership, Joint-Stock companies etc.
- Each structure has different tax rates , incomes and liabilities for the owner.
- The risk factor also varies from one structure to another structure.
- The main Forms/ Entities / Structures are as follows.

Forms of Business Organizations

Private Sector	Public Sector	Joint-Sector
1. Sole trader	**1. Departmental undertakings**	
2. Partnership		
3. Joint-Stock Companies	**2. Public Corporations**	
4. Cooperatives	**3. Government companies.**	

Introduction to Sole Trader

- It is the oldest form of business organization .
- It is also called single entrepreneurship.
- Entire business will be carried on by a single person.
- He makes all the investments , shares all risks, takes all profits.
- The business is generally on a small-scale basis.
- His powers are unlimited and his decisions are final.

Advantages of sole trader

- **1. Easy in formation** – No legal formalities are required to start the business.
- **2.Better Control** – Single person exercise full control over the business**.**
- **3.Flexibility in operations** – Because it is a small scale business , production operations can be changed easily according to the changing demand conditions.
- **4.Easy to raise finance** – Because of limited operations, sole trader can create goodwill and raise finance easily.
- **5.High motivation** – Sole trader takes entire profits for himself. It motivates him to work hard and earn more profits.

Disadvantages of sole trader

- **1. Unlimited liability :-** If there is any loss, sole trader private properties will be assigned to reimburse business losses. It is a major drawback for this business.
- **2. Discontinuity :-** The business will be discontinued due to death or mobility of the sole trader.
- **3. Limited managerial ability :-** One person may not be expert in each and every function of the business. That is another drawback of this business**.**
- **4. More risk :-** A sole trader takes all decisions himself. So there is a scope to take wrong decisions.
- **5. No large scale economies :-** A small scale business can not economise in purchases, production, marketing etc. and can not enjoy the benefits of large scale economies.

Introduction to Partnership

- Partnership is an association of two or more persons to carry on business and to share profits and losses as per the agreement.
- There must be minimum two persons and maximum 20 persons to start the partnership business. (In case of Banking business maximum number is 10.)
- The limitations of sole tradership led to this form of business organization.
- It is best suited for enterprises requiring moderate amount of capital and diversified managerial talent.
- **Features:** 1. Association of two or more persons 2. Contractual relationship 3. Profit motive 4.Implied authority 5. Unlimited Liability

6. No transfer of shares 7. Common management. 8.Continuity.

Advantages of partnership

1. **Easy to form :-** No legal formalities are required.

2. **Large resources :-** Resources of more than one person are available.

3. **Greater managerial talent :-** Duties may be assigned according to their talent

4. **Prompt decisions :-** Correct and prompt decisions can be taken.

5. **More credit standing :-** They can raise more finance collectively.

6. **Sharing of risk :-** Business risks can be shared by all partners.

7. **Close supervision :-** Work can be closely supervised by all of them.

8. **Secrecy :-** Accounts need not be published and disclosed to any one.

9. **Easy dissolution :-** No legal formalities are required for its dissolution

Disadvantages of partnership

1. **Unlimited Liability :-** If there is any loss partners personal properties will be at risk.

2. **Instability :-** It will be dissolved if any partner dies , becomes insolvent or lunatic .

3. **No Transfer of shares :-** Partners shares can not be transferred to third party.

4. **Problem of implied authority :-** Any partner can take any decision in the interest of the business. Other partners will be held liable if he commits any mistake.

5. **Mutual distrust :-**It is difficult to maintain harmony among the partners always.

6. **Quick decisions are not possible:-** It is difficult to convince all the partners before taking any decision.

Joint - stock companies, cooperatives Govt: companies. ,

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TOPIC-8

Joint-Stock Company, Cooperatives

Joint-Stock Company

- The disadvantages of sole trader and partnership form of business organizations gave birth to Joint-Stock form of organizations.
- A Joint-Stock company is an association of many persons who contribute capital and share profits and losses accordingly.
- The system of joint-stock company has been useful for large undertakings which require huge capital.
- Here the total capital divided into shares and each share value kept low so that even a common man can invest easily.
- The radical changes in the field of production, distribution of goods and
- Services necessitated large amount of capital and managerial skills. A company form of organization filled this gap perfectly.
- If it is private Limited company, there must be minimum 2 and maximum 50 members.
- If it is Public limited company, there must be minimum 7 and maximum unlimited members.

Definitions:-

1. **According to James Stephenson:-** "A joint-stock is an association of many persons who contribute money and money's worth to a common stock and employ it in some business and who share the profits and losses arising therefrom".
2. **According to L.H.Honey:-** "A joint-stock company is a voluntary association of individuals for profit having a capital divided into transferable shares, the ownership of which is the condition of membership".

Features :

1. Voluntary association of persons

2. It has separate legal entity- It is an artificial person created by law.

3. Limited liability- Liability of shareholders restricted to their share value only.

4. Common seal- Being an artificial person it can’t sign. So the law requires a separate seal to affix on important documents.

5. Trasferability of shares- Shareholders can transfer, sell or can gift their shares to any one whom they like.

6. Perpetual existence- The company has permanent existence.

7. Publication of accounts- The joint stock companies required to publish their annual accounts at the end of the financial year.

Advantages:

1. Large resources can be accumulated.

2. Continuity of business will be there.

3. Efficient managers can be appointed because they will have large resources.

4. Economies of large scale production will be there.

5. Diversification of risk is possible.

6. Democratic set up will be there because shareholders will be given voting rights.

Disadvantages:

1. Formation of joint-stock company is difficult because it requires so many legal formalities.
2. Evils of factory system like air pollution , water pollution, congestion, insanitation etc. will be there.
3. Lack of secrecy will be there because all important matters will be discussed in the Board of directors meeting.
4. Concentration of economic power will be in few hands.

5. Delay in decision making
6. Excessive state regulations will be there

Cooperative Societies

- The industrial revolution created several imbalances between rich and poor.
- The rich exploited the have-nots in terms of long hours of work, low wages,bad working conditions etc.
- Weaker sections suffered so badly and compelled to form cooperatives to help each other and better their economic conditions.

Features:-

1. Voluntary association of persons
2. Separate legal entity
3. Registration compulsory
4. Membership open to all
5. Can sell shares and raise finance
6. One man one vote system
7. Service objective
8. Shares can not be transferred

Advantages:-

1. Equal distribution of profits.
2. Equal voting rights.
3. Limited liability
4. No speculation because shares will be offered at face value
5. Government support will be there.

6. Each for all and all for each is the main slogan
7. Less taxes, subsidies will be provided to cooperatives.

Disadvantages:-

1. Shortage of funds – because people from limited means join this society.

2.Failures will be more- Because of lack of trained managers.

3.Misuse of funds are common.

Public Enterprise / Government companies

- ✓ Public enterprise means the enterprise that is controlled by Government.
- ✓ The main aim of these enterprises is to quicken the pace of economic development and strengthening basic industries like defence requirements ,Public utilities, infrastructure etc.
- ✓ These areas require very heavy capital investments and it is not possible for mobilize private investments.
- ✓ Public enterprises aim at creating employment opportunities, reduce disparities between haves and have nots.
- ✓ They also aim at balanced regional development and raising standard of living of the people.
- ✓ These companies will have the same features like Joint-Stock Companies, but more than 51% of the shares will be held by the government and Directors will be appointed by the Government.

Sources of Finance, Role of Business Economist.,

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TOPIC-9

Sources of Finance

- Finance is the life blood of every organization.
- It forms the basis to start the business.
- The total cash outlay needed to start the business is also called capital.
- Capital can be in the form money or money’s worth.(i.e it can be in the form of machinary , buildings or even creative ideas etc.)

Need for capital:-

1. To start and promote business
2. To conduct business operations smoothly
3. To pay salaries , taxes etc
4. To expand and diversification of business
5. To pay dividends and interests
6. To support welfare activities.

7. To replace assets and

8. To meet unforeseen contingencies

Sources of capital

Conventional sources

- 1.Debentures
- 2.Preference shares
- 3.Equity shares
- 4.Retained earnings
- 5.Bank loans

Non -Conventional sources

- 1.Hire purchase system
- 2.Leasing and renting
- 3.Venture capital
- 4.Commercial papers
- 5. Factoring services
- 6.Merchant bankers

Conventional Sources

- 1. Debentures- They are the creditors of the company.They will be paid irrespective of the profits. They will be paid before paying taxes to the Government.
- 2. Preference Shares- These share holders will have preferential rights regarding the dividends. These shares are not transferable. They do not have voting rights.
- 3. Equity Shares- They are ordinary shares. They do not have any preference regarding dividend payments. Only residual amount will be given to them as dividend if any. But they will be given voting rghts to elect efficient Board of Directors. Shares are transferable.
- 4. Retained earnings- Every year management will keep aside certain earnings to meet some unforeseen expenses. It is a significance source of finance to the company.
- 5. Bank loans- Banks also extend loans at fixed rate of interest. This is another source of capital.

Non Conventional Sources

- ❖ Hire-Purchase system:- It is a facility to buy fixed assets by making a down payment and balance amount will be paid in instalments as per the agreement. The buyer becomes the owner only after the last instalment is paid.

- Leasing and Renting:- Under leasing and renting , an asset will be transferred from one person to another person, without transfering its ownership for an agreed period. In leasing there will be an agreement between the parties which can not be broken down. But in renting it is only optional.
- Venture Capital:- This form of finance is available to high risky projects(Mostly for new projects). The rate of interest will be very high.
- Commercial paper:- It is a new money market instrument. Only reputed and leading companies can issue these papers. It will be in large denominations.
- Factoring services:- Factors are mediators between buyers and sellers. They provide loans on bills of exchange and charge commission from both sellers and buyers.
- Merchant Bankers:- They offer financial assistance and advice and may ask for equity shares in return. They also expect one or two director posts for them, to control companies to which they provide loan

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Role of business Economist

- Business Economist is a practitioner of the science of managerial economics.
- He guides the companies in making appropriate decisions.
- He helps in forward planning and bringing reasonable profits to the company.
- Study Internal and External factors affecting the business and alert the management.
- He keeps the management informed regarding market conditions.
- He will be monitoring Money market and Government policies to formulate suitable Financial policies for the company.

- He must be able to analyse various investment plans which are feasible for the company.
- He must be able to maintain public relations and create goodwill for the company.
- He has to study competition in the market and develop suitable strategies to meet the competition.