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Economics

The word Economics is derived from the two greek words "Oikos" "Nemein". which means study of "household" (or) management of "househod"

* In this olden days economics is called as "political science" but after the entry of Adam Smith, it is called as "social science"

(wealth Definition)
Definitions of Economics- prof Adam smith (1723-90)

(1) Adam Smith is considered as the father of "Economics"

(2) He wrote a book called "An Enquiry into the nature and causes of wealth of nations".

(3) According to him economics is the "study of wealth".

(4) He defined economics as the practical science of production and distribution of wealth.

(5) The main ideas of Adam Smith are, human beings "wants" to be satisfied.

(6) The main concern of Economics is satisfaction of human wants → Efforts - Satisfaction

Eg: primary requirement of human beings are food, water, clothes, shelter, Air.

(7) wealth satisfies human wants. Thus, the study of Economics shows how wealth is produced and spent

prof. Alfred Marshall - study of welfare of Human Beings (welfare Definition)

* According to Marshall Economics is the study of welfare of human beings

* He wrote a famous called "principles of Economics in 1890

* Marshall defined eccomomics as " study of man and his welfare"

* According to him, man is primary and wealth is secondary. Thus, he says that economics is not only a study of wealth but also welfare of human beings.

prof. Lionel Robbins - Scarcity Definition

* According to Robbins, economics is the science which studies human behaviour as relationship between ends and scarce means which have alternative uses.

*The main ideas of Robbins are "human wants are Unlimited"

* But the Resources are scarce (limited).

* So the resources will have no. of alternative uses.
* Select the one which is best suitable for us.

prof. Sameul son - Growth Definition

* He is the nobel prize winner of 1970.
* He introduced the time element in economics
* His Definition is growth oriented.
* According to him Economics is the study of men and society choose with or without the use of money to employ scarce resources. which have alternative uses to produce variety of commodities and distribute them for consumption in the society.

~~Managerial Economics.~~

Management:-

Management is art of getting things through others.

Managerial Ecomics:

Economics concepts, principles, tools and techniques applied in the business by the manager is called as Managerial Economics.

* It refers to the application of principles of Economics to solve the basic managerial problems such as minimization of costs, maximization of

production.

* Managerial Economics directs the utilization of scarce resources in a goal oriented manner. It seeks to understand and analyze the problem of business decision making. Decision making means choosing one best alternative from several Alternatives.

* Managerial Economics helps the manager to decide, what to produce?
* Where to produce?
* How to produce?
* For whom to produce?
* price to be fixed?

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Nature of Managerial Economics:-

① close to Micro Economics

② Normative Science → what ought to do
→ what ought not to do

③ pragmatic in nature (practical oriented in nature)

④ It is goal-oriented

⑤ Integrates theory into practice

Firm - individual business companies Ex:- Airtel, Idea
Industry - group of firms - Ex: Communication Industry

Scope of Managerial Economics :-

① Demand Analysis & Forecasting

Demand ⟶ Desire
⟶ willingness to purchase
⟶ Ability to pay

② cost & production Analysis ⟶ Minimization of costs
⟶ maximization of production

[price includes profit and Cost]

③ pricing decisions
we will consider manufacturing cost, competitors and demand Conditions to fix price of product.

④ profit Related Decisions.

⑤ Capital Management (పెట్టుబడి)

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Law of Deminshing marginal Utility :- in 1854

* Herman Heinrich Gossen's profounded this law.

* So it is considered as Grossen's first law

* Later, Alfred Marshall developed this law.

After [Satisfaction over something is getting upto some point only, after that it may lead to -ve effect]

1 Laddu satisfaction
2nd laddu s ↑
3rd laddu s ↑
4th laddu good and well
5th " s ↓
6th " Not able to consume

S.No Total

* According to this law, human wants are unlimited but any particular want is satiable. This law Analyzes consumer's behaviour in case of a single commodity.

Definition:- of Law :-

"The Additional befefit which a person derives from a given increase of his stock of a thing deminishes with every increase in the stock that he already has"

Apples	Total Utility		Marginal Utility	
1	20	increasing	20	Decreasing
2	35		15	
3	45		10	
4	50	constant	5	
5	50		0 - zero	
6	45	decreasing	-5	Negative
7	35		-10	

Utility:- The power of satisfaction of a commodity to the consumer is called Utility.

Total Utility: The total Amount of Satisfaction which a person gets from the total Consumption of all units of a commodity.

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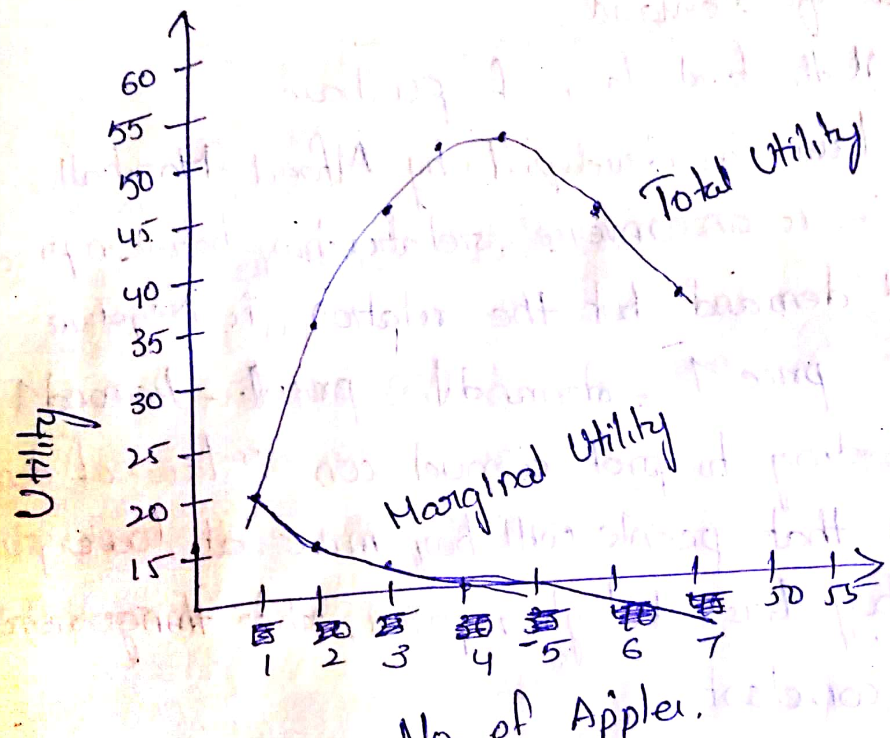
Marginal Utility: The Additional benefit which a person gets from the consumption of Additional units of a commodity is called Marginal Utility.



Assumption: Consumption of commodity must be in continuous manner. tastes, choice cost must be same.

* when the Total Utility increases - marginal Utility decreases
* when the total Utility is constant marginal Utility is zero
* when the total Utility is decreasing - marginal Utility becomes Negative.

24/7/19 Demand :-

Demand means
(1) Desire, (2) willingness to purchase (3) Ability to pay

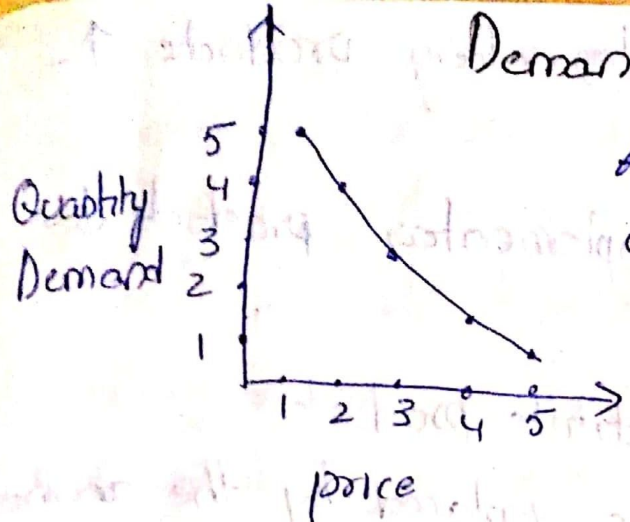
Law of Demand

* This is the first law of purchase
* This law was developed by Alfred Marshall
* There is an inverse relationship between price and demand but the relation is Negative
* as price ↑ - demand ↓, price ↓ - Demand ↑
* According to prof. samuel son " Law of demand states that people will buy more at lower prices, and buy less at higher prices, other things remaining constant
* In the words of Alfred marshall a rise in the price of commodity service is followed by a decrease in demand and a fall in the price of commodity service is followed by increase in demand, other things remaining constant

price	Quantity Demand
1	5
2	4
3	3
4	2
5	1

Quan
Den

Demand Curve



Always D.C slopes downwards from left to right as the relationship is inverse and -ve

Main Features of the law

* Inverse Relationship between price and demand.
* Demand is dependent Variable and price is an Independent Variable
* Other things remaining constant
* **Pattern of Changes**

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Determinance of Demand

(1) price of the product
when price increases - demand decreases
when price decreases - demand increases

(2) income of the consumer
when Income ↑ - demand ↑
when Income ↓ - demand ↓

[+ve Relation b/w income & demand]

(3) Complimentary products.
when ~~the~~ one product is dependent on another product then we call it as complimentary product.
Ex:- petrol and car, when petrol price ↑ - demand for cars ↓

when price of complementary products ↑ - demand ↓
when price of complementer products ↓ - demand ↑

(4) Ex:- price of substitute products:
when one product is replaced by the another product
Ex:- person having habbit of tea and coffee.
if price of tea ↑ - demand for coffeee ↑
if price of tea ↓ - demand for coffee ↓

(5) population
As the population ↑ - demand for product ↑
as the scarcity of products ↑.
when the population ↓ - demand for product ↓

(6) weather conditions:-
The seasonal products will effect the demand for product
Ex:- cool drinks in summer.
body lotion in winter

(7) Distribution of consumers over different regions
According region demand for product is increased or decreased. Hyderabad-biryani, Assam - tea

(8) Advertisement -
Advertisement on products will influence the demand for product

(9) prestigeous goods:-
demand for products is high when it gives honour and symbol of pride.
Ex: BMW car, gold, diamond,
(10) tastes and ~~p~~ preferences of customers.
If tastes and preferences of customers are constant ~~of~~ on some product then the demand for that particular product increases.
Ex: colgate, santoor

Exceptions to the Law of Demand.
(1) prestigeous goods (or) superior goods (or)
Veblen goods - provided by veblen theory
* Veblen ~~is~~ an American socialogist, economist
according to him, a commodity is sometimes brought not because of its worth but because of social status in the society.
Gold, diamonds, jewellary, famous paintings etc come under Veblen goods. These goods are mostly used by rich people to display their wealth. The expensive the commodity becomes, the greater ~~th~~ is the demand for them.

(2) Emergency situations

At the time of Tsunami, war, earth quakes, floods, famines. the Consumers behave in a different manner. if they expect shortage in goods they would buy more goods even at higher prices.

(3) Quality- price Relationship

Some people assume that the expensive goods are of a high quality rather than lower price goods. Therefore high quality products has demand even at higher prices.

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(4) Giffen goods (or) inferior goods - Introduced by Sir Robert Giffen

* These goods are called as inferior goods
* These are mostly used by poor people.
  Ex:- Rice, wheat, Jowar, bajrang, salt etc
* The Consumer spends a large parts of his income on these goods.
* The people will try to purchase these goods even at higher prices.
* When the prices of these goods increases, demand also increases
* when the price decreases for these goods, the demand also decreases

⑤ Expecting Regarding Future prices

* If the price of commodity is expected to raise in future, the demand for that commodity will increase.

Types of Demand

① <u>consumer goods</u> V/s <u>producer goods.</u>

* The products which directly satisfies the customer are called as consumer goods.

Ex:- Rice, apple . . . etc

* The products which indirectly satisfies the customer are called as producer goods.

Ex: Tractor,

<u>consumer goods</u>:-

* consumer Goods refers to such products and services which are capable of satisfying human need.

* These goods are available for ultimate consumption

* The goods are provide direct, immediate ~~and~~ satisfaction.

Examples are : bread, rice, tooth paste, soaps.

<u>Producer goods</u>:-

* producer goods are those goods which are used to ~~for~~ production of other goods to earn

income.

* Examples are: machinery (8) tractor
* These goods yield satisfaction indirectly.
* These are used to produce consumer goods.

But some goods can be used both as producer goods and consumer goods.

Eg:- grinder using in home - consumer good
grinder using in Restaurant - producer good

Eg: if a farmer produces 10 bags of paddy. he may use 5 bags for personal consumption and other 5 bags for as seeds for next crop.

② Autonomous demand V/s Derived Demand

Autonomous demand

* Autonomous demand refers to demand for products and services directly.

Eg* The demand for services provided by a superspeciality hospital comes under Autonomous demand.

Ex:- Apple Iphone.

Derived Demand

* When the demand for a good is associated with Another parent good, it is called derived demand

Eg:* The demand for medical shops, restaurants, stores located near to hospital.

③ Durable V/s perishable goods.

Durable goods:-

Durable goods are those goods which give services for a longer period.

Ex:- Car, Refrigerator, tv, table, chair

Perishable goods

* The goods which are used only for shorter period of time and which are spoiled within a short period are called perishable goods.

* These goods are consumed only once.

Ex:- vegetables, fruits, milk, drinks.

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④ firm Demand V/s Industry Demand

The demand for particular company is called as firm demand

Ex:- ~~one~~ demand for wipro company

The demand for particular sector is called as Industry demand

Ex:- demand for IT sector

* The firm is a single business unit where as Industry refers to group of firms carrying on similar activity.

* The Quantity of goods demanded by a single firm is called firm demand.
* The Quantity of goods demanded by industry as whole is called industry demand.

Eg:- A Construction Company may use 100 tons of cement during a given month, this is firm demand

Eg:- The Construction industry in a particular state may have used 10 million tons, this is industry demand.

⑤ Short-run V/s Long-run demand.

The demand with its immediate Reaction to price changes is called short-run demand. The demand for a particular product (or) service in a given region for a particular day can be viewed as short-run demand

Ex:- tomato price may vary for every day.

* Long-run demand is that demand which will ultimately exists as a result of changes in prices, promotion (advertisement) (or) product improvement is called long-run demand.

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⑥ New-demand V/s Replacement Demand

* New-demand refers to ~~new~~ demand for the new product.
* in Replacement demand, the item is purchased to asset in good condition.

Eg * The demand cars is new demand
Eg: * The demand for spare parts is Replacement demand.

* Replacement demand refers ~~results~~ to demand out of replacing the existing asset with the new ones.

Eg: Exchange scheme for TV, pressure cooker, grinder etc.

⑦ Total Market V/s Segment Market demand.

* The total demand for a product refers to total market demand

Eg:- demand for sugar in a particular region is the total market demand.

Eg: The demand for sugar in sweets makeing industry from this region is segment market demand.

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Scarcity

* This is one of the fundamental concepts of managerial economics that influences decisions of business firms to a large extent
* Scarcity is the root cause of all economic problems. It is a fact that the resources at the disposal of functional managers are limited

For example:

* production manager may face - scarcity of quality raw material
* The marketing manager may face scarcity of sales force.
* The finance manager may face scarcity of funds
* The manager has to make the maximum utilisation of the resources.
* When the demand exceeds the supply, it is called Scarcity.

Eg:- A firm has 50 workers who can manufacture 100 products. If the demand for the products is more, 200, in this situation the demand is exceeding the supply, which is scarcity

Marginal

* Marginal is defined as a change in the dependent variable as a result of one additional unit change in the independent Variable

Eg:- A firm Employed 10 units of raw material and produced 100 units of output. The same firm employed 11 units of raw material and produced 105 units of output. Therefore, marginal output is 5 units [105-100]

Incremental Concept

* The main objective of every business is maximization of profits.

* The marginal concept is not applicable in real world situations.

* The fact is that, no business unit increases the factors of production unit by unit.

Eg:- A firm employed 100 workers and produced 1000 units of output. In order to increase the profit, or sales, the firm increased the employment of workers to 200 and produced 1800 units of output. Therefore, incremental output is 800 [1800-1000]