BUSINESS ECONOMICS AND FINANCIAL ANALYSIS

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Business Economics and Financial Analysis

1. Introduction to Business

1 Business is defined as any organized efforts and activities to produce and sell the goods and services for profit.

These activities can be

- Any occupation,
- Manufacturing or Production and/or
- Purchase and sale of Goods or Services.

Business functions

Business functions are the activities carried out by an enterprise; they can be divided into core functions and support functions.

Core Functions

- Production of final goods or services.
- Marketing of Produced goods or services.

Supporting Functions

- Finance and Accounting
- Logistics and Warehousing
- Human Resources
- R&D
- IT

Business can be undertaken by any individual and organization with specific objectives. In an economy various business firms involve in the business from various sectors and industries. Firm is an individual business entity in the given industry. Industry refers to the group of firms which engaged in similar kind of products.

1.1 Theory of Firm

The Theory of the firm is a microeconomic concept that states that a firm exists and makes decisions to maximize profits. The theory of the firm consists of a number of economic theories that explain and predict the nature of the firm, company, or corporation, including its existence, behaviour, structure, and relationship to the market.

Theory of the firm influences decision-making of a firm in a variety of areas, including resource allocation, production techniques, pricing adjustments, and the volume of production.

2 Business Structures

Business Structures refers to how a business is organized according to its legal structure.

Types of Business Structure

Selection of Type of Business Structure.

The following points are taken into consideration while selecting

1. Easy in Formation

2. Easy in Raising Finance

3.Liability of Owners

4. Flexibility of Operation

5. Stability and Continuity

6. Secrecy

7. Government Regulations

8. Tax Liability

9. Decision-Making Opportunities.

Types of Registration

I.Sole Proprietorship

II. Partnership

III. Limited Liability Partnership

IV. Private Limited Company

V.Public Limited Company

3. I Sole proprietorship

A sole proprietorship is a business Structure that is owned and managed by a single person.

Features of Sole Trading Concern are

1.Minimum Government Regulations (Doesn't require any registration).

2. Liability of the owner is unlimited.

3. Freedom in the selection of business. Hardly any restriction on type of a business that a sole trader can do.

4.Highest Secrecy- Sole trader doesn't have to share his financial or any other business secrets to anyone.

5.Single Ownership and Management.

6.Direct Contacts with the customers and employees.

7.Suitable for small businesses.

8.No sharing of profits and risks.

Merits of Sole Proprietor

1.Easy Formation (Doesn't require registration)

2.The benefit of Secrecy. No sharing of business secrets with any outsider and no legal compulsion to publish accounts

3.Direct Motivation (More efforts means More profits). No sharing of profits with anyone

4.Quick Decisions can be made as sole trader doesn't have to consult anyone before taking any

decision

5.Flexibility In Operations. Sole trader can keep on changing his plans quickly as per business environment

6.Limited Government Control. No specific law to govern operation of sole trading concern

Limitations of Sole Proprietor

1.Limited Managerial Ability :Only One Owner can't manage a very big business

2.Limited Amount of Capital: Owner is the only one who invests in the business and so cannot invest beyond a certain point

3.Unlimited Liability of the owner: Owner has to take responsibility for all the Liabilities of Business

4.Not Suitable for large scale operations, which require a lot of capital and more managerial abilities

5.No Perpetual Existence :Sole Proprietorship may come to an end in case of death or insolvency of the owner

3.1 II.Partnership

The Indian Partnership Act, 1932, Section 4, defined partnership as "the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all".

partnership is an association of two or more persons who have agreed to share the profits of a business which they run together

Features of Partnership Firm

1. More Persons:

As against proprietorship, there should be at least two persons subject to a maximum 100 members

2. Profit and Loss Sharing:

There is an agreement among the partners to share the profits earned and losses incurred in partnership business.

3. Contractual Relationship: Partnership is formed by a written agreement among the partners.

4. Existence of Lawful Business: Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry some charitable works, for example, it is not regarded as partnership.

5.Utmost Good Faith and Honesty: A partnership business solely rests on utmost good faith and trust among the partners.

6.Unlimited Liability: Like proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm's obligations, the partners' private assets will also be used for the purpose. 46

7.Restrictions on Transfer of Share: No partner can transfer his share to any outside person without seeking the consent of all other partners.

8. Principal-Agent Relationship: The partnership firm may be carried on by all partners or any of them acting for all. While dealing with firm's transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm and of the other partners.

Advantages of Partnership firm

1. Easy Formation

2. More Capital Available

3. Combined Talent, Judgment and Skill

4. Risk sharing

5. Flexibility

6. Tax Advantage

Disadvantages of Partnership Firm

1. Unlimited Liability

2. Divided Authority

3. Lack of Continuity

4. Risk of Implied Authority

5. Limited Capital

4.III .Limited Liability Partnership(LLP)

A Limited Liability Partnership (LLP) is a partnership in which all partners have limited liability.

Being the separate legislation (i.e. LLP Act, 2008), the provisions of Indian Partnership Act, 1932 are not applicable to an LLP and it is regulated by the contractual agreement between the partners.

Features of LLP

1.An LLP is a body corporate and legal entity separate from its partners. It has perpetual succession.

2Minimum 2 Partners are required to form a LLP, However There is no limit on Maximum Number of Partners.

3 No requirement of Minimum Capital Contribution.

4Under the LLP Act 2008 any type of Enterprise can be registered.

Benefits of Forming LLP

1. The Liability of each partner is limited to his share as written in the Agreement filed at the time of creation of LLP as compared to Partnership Firms which have unlimited liability.
2. It has a Low Cost of Formation and is Easy to Form.
3. The Partners are not liable for the acts of each other and can be held liable only for their own acts as compared to Partnerships wherein they can be held liable for the acts of their partners as well.
4. Less Restrictions and Compliance are enforced on a LLP by the Govt as compared to the restrictions enforced on a Company.
5. As a Juristic Legal Person, a LLP can sue in its name and be sued by others. The partners are not liable to be sued for dues against the LLP.

Disadvantages of Forming a LLP

The only disadvantage of forming a LLP is that it cannot come out with its IPO and Raise Money from the Public which a Company form of organisation can easily do.

Difference between Partnership and Limited Liability Partnership

The basic difference between LLP and Partnership is with regard to the Liability of the Partners.

In a Partnership Firm, every partner is liable, jointly with all the other partners and also severally for all acts of the firm done while he is a Partner.

However, under the LLP structure, liability of the partner is limited only to his agreed contribution. Further, no partner is liable on account of the independent or unauthorized acts of other partners, thus allowing individual partners to be shielded from joint liability created by another partner's wrongful acts or misconduct.

5.IV & V Company Formation

A Private Limited or Public Limited Company can be incorporated under Companies Act 1956.

The following are the prerequisites to register the business as pvt. Limited or Limited company

1.Procure Digital Signature of members (First subscribers/promoters)

2.Directors Identification Number(DIN)

3.Reservation of Name

4.Documents (Memorandum of Association and Article of Association)

5.Incorporation Certificate

Other documents

1. Utility Bill and NOC from owner of the Registered Office

2. Rental Agreement

3. Consent of Directors

4. Affidavit and Declaration by first subscriber

5. Id Proofs of the first subscriber and Directors.

Key Documents for the formation a Company

I. Memorandum of Association

A Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders.

It is the document that governs the relationship between the company and the outside.

Memorandum of Association serves as the constitution of the company that defines all the rules and regulations that must be complied by every company

Clauses of MOA

1. Name Clause: The name of the company that must end with the term "limited". Also, it must be ensured that the name selected for the company should not resemble with the name of any existing company.

2. Registered Office Clause: This clause requires to mention the registered office address of the company.

3. Objective Clause: The objective clause requires to mention clearly the objective behind the incorporation of the company, i.e. the purpose for which the company is being established.

4. Liability Clause: This clause requires to mention the extent to which the shareholders are liable to pay off the debt obligations in the event of the dissolution of the company.

5. Capital Clause: Company's authorized capital along with the nominal value of all kinds of shares need to be disclosed here. Also, the company is required to state the list of its assets over here.

6. Association Clause: As per this clause, the willingness of shareholders is required with respect to their association with the company. For a public limited company minimum, seven members are required to sign the memorandum, whereas in a case of a private limited company minimum two members are required to do the same.

II The Article of Association

The Articles of Association or AOA are the legal document that along with the memorandum of association serves as the constitution of the company.

It is comprised of rules and regulations that govern the company's internal affairs.

The articles of association is comprised of following provisions:

1. Share capital, call of share, forfeiture of share, conversion of share into stock, transfer of shares, share warrant, surrender of shares, etc.

2. Directors, their qualifications, appointment, remuneration, powers, and proceedings of the board of directors meetings.

3. Voting rights of shareholders, by poll or proxies and proceeding of shareholders general meetings.

4. Dividends and reserves, accounts and audits, borrowing powers and winding up.

Comparison Private Limited and Public Limited Companies

Features	Public limited company	Private limited company
Minimum members	7	2
Minimum directors	3	2
Maximum members	Unlimited	200
Invitation to public to subscribe for shares	Yes	No
Issue of prospectus	Yes	No
Quorum at Annual General Meeting(AGM)	5 Members	2 Members
Certificate for commencement of Business (Mandatory)	Yes	No
Term used at the end of name	Limited	Private Limited

Managerial remuneration	No restriction	Can not exceed more than 11% of Net Profits
AGM(Statutory meeting)	Yes	No

6.Comparison of Business Structures

Feature	Sole Proprietorship	Partnership	Limited Liability Partnership(LLP)	Private Limited (Pvt Ltd)	Public Limited Company(Ltd)
Registration	No	Partnership deed need to be registerd	LLPs shall be registered with the Registrar of Companies (ROC) (appointed under the Companies Act, 1956) after following the provisions specified in the LLP Act, 2008	Private Limited company shall be registered with the Registrar of Companies (ROC) (appointed under the Companies Act, 1956) after following the provisions specified in the Companies Act 2013	A Limited company shall be registered with the Registrar of Companies (ROC) (appointed under the Companies Act, 1956) after following the provisions specified in the Companies Act 2013
Members (Minimum and Maximum)	1	2-100	2-Unlimied	2-200	7-Unlimited
Name clause	Free to choose	Free to choose	Unique and Ends with LLP word	Unique ends with Pvt Limited word	Unique ends with Limited word
Liability of Owners	Unlimited	Unlimited	Limited	Limited	Limited
Continuity of Business	Limited Life	Limited life	Perpetual	Perpetual	Perpetual
Raising Finance	Own sources	Capital from members only	Capital from members and Other sources	Capital from members and Other sources	Large Capital from IPO and other securities issue
Flexibility of Operation	Highly flexible	Highly flexible	flexible	Subjected to change in Memorandom of Association	Subjected to change in Memorandom of Association

Decision Making	Quick	Partners Agreement	Partners Agreement	Meeting	Meetings and Quorum

7.Capital and Sources of Capital

Capital refers to the money raised by a company either through debt, equity or a mix of both, in order to fund its business operations and finance future growth. The aim of capital is to generate earnings and maintain growth. The capital that is required to run the day-to-day operations of a business is known as working capital. It comprises of cash or any liquid assets, such as accounts receivable.

Sources of Capital

Businesses can raise capital either through debt, equity, or a combination of both.

Debt

Debt is an amount of money borrowed from one party on the condition that the amount borrowed (principal) is repaid later. The providers of debt capital expect to be compensated through periodic or scheduled interest payments and the repayment of principal. Debt is considered a cheaper form of financing than equity.

Equity

Equity financing involves firms raising capital by selling shares or an ownership stake in their company. There are many sources of equity financing, such as the personal capital of the business founders, equity capital markets, institutional investors, corporate investors, angel investors, venture capital firms, crowdfunding platforms, etc.

The two advantages of raising capital through equity financing are: first, companies do not have an obligation to repay shareholders the money raised from investors, and second, there are no fixed costs from having raised equity, whereas there is the cost of interest expense related to debt.

Alternative sources of finance are those channels of finances that have emerged outside of the traditional finance systems like the regulated banks and capital markets. Alternative sources of finance come into the picture when an individual or a company is not able to borrow money from the bank.

Different Types of Alternative Sources of Finance

The different types of alternative sources of finance are listed as below:

1. Leasing
2. Franchising
3. Factoring
4. Peer-to-peer Platform
5. Crowdfunding

6. Angel Investors
7. Venture Capitalists

Leasing

1. A lease is defined as an agreement between the lessor (owner of the asset) and the lessee (user of the asset), wherein, the lessor purchases an asset for the lessee and allows him to use it in exchange of periodic payments called lease rentals or minimum lease payments (MLP).
2. The lessee is bound to pay the lease rental to the lessor for the use of the assets. After the end of the period of the contract, the asset is transferred back to the lessor.
3. It refers to the renting of an asset for a certain period of time.
4. Parties involved include lease broker, lessor, lessee, and the lease assets.

Franchising

1. Franchising is the model in which the Company that does not have enough capital to expand, gives its franchise rights to an individual or a company.
2. The company giving rights is called 'franchisor' while the company being given the franchise is called 'franchisee'.
3. It is an arrangement where one party grants or licenses some rights and authorities to another party.
4. Franchising is a well-known marketing strategy to expand the business.

Types of Franchise:

1. **Product franchise:** An agreement where manufacturers allow retailers to distribute their products and use names and trademarks.
2. **Business format franchise:** An agreement in which the franchisor provides the franchisee with an established business, including name and trademarks for the franchisee to run independently.
3. **Management franchise**: The franchisee provides the management expertise, format and/ or procedure for conducting the business.

Factoring

1. It is a form of financing of receivables arising out of international business. Wherein, a bank or financial institution undertakes the purchase of trade bills or promissory notes without recourse to the seller.
2. Purchases are made through discounting of the documents, hence covering the entire risk of payment failure at the time of collection.
3. All risks become the full responsibility of the purchase
4. Factors pays cash to the seller after the discounting of the said notes or bills.

Peer-to-peer (P2P) Lending

1. Peer-to-peer lending is a form of direct lending of money to businesses or individuals without any official participation of any financial institution as an intermediary in the agreement
2. It is generally done through online platforms that relate lenders with potential borrowers
3. Peer-to-peer lending offers both secured and unsecured loans. However, most of the loans are unsecured personal loans. Secured loans are an exception and are usually backed by luxury goods.

Services provided by P2P Platforms:

1. Finding new lenders and borrowers
2. Verification of borrower identity, bank account, income, and employment history
3. Legal compliance and reporting
4. Performing borrower credit checks and sorting out the unqualified ones
5. Servicing loans, providing customer service to borrowers, and attempting to collect payments from borrowers who are in default

Crowdfunding

1. It is the practice of funding a project by raising money from a large group of people.
2. It is a way of raising capital using the social networking sites like Facebook or Twitter or by using some popular crowdfunding websites
3. Crowdfunding helps improve the presence of small businesses and startups across social media, it increases their investment base, and funding prospects.
4. Various types of crowdfunding include debt-based, equity-based, cause-based, rewards-based, software value token, litigation, etc.

Venture Capital

1. It refers to that capital and knowledge which are given for the formation and setting up of companies, especially to those who possess any new methodologies or technology.
2. It is not merely a way of acquiring funds into a new firm but also a parallel support of the skills required to set up the firm, devising its marketing strategy, organizing, and its management as well.

Angel Investors

1. They are an individual or a group of individuals who invest their own money
2. They invest in the early stages of the company and in return opt for a share in the company
3. Angel investors typically invest less money that the venture capitalists
4. They are not involved much in the functions and management of the company. However, they may advise and ask for reports and status.

8. Introduction Economics

Definition of Economics

Economics is the study of how humans make decisions in the face of scarcity. Economics is a social science concerned with the production, distribution and consumption of goods and services. It studies how individuals, businesses, governments and nations make choices on allocating resources to satisfy their wants and needs, and tries to determine how these groups should organize and coordinate efforts to achieve maximum output.

These can be individual decisions, family decisions, business decisions or societal decisions.

Definitions:
It was only during the eighteenth century that Adam Smith, the Father of Economics, defined economics as the study of nature and uses of national wealth'.

Dr. Alfred Marshall, one of the greatest economists of the nineteenth century, writes "Economics is a study of man's actions in the ordinary business of life.

Prof. Lionel Robbins defined Economics as "the science, which studies human behaviour as a relationship between ends and scarce means which have alternative uses". With this, the focus of economics shifted from 'wealth' to human behaviour'.

Economics – the study of how individuals and societies make decisions about ways to use scarce resources to fulfill wants and needs.
In the above definition

SCARCITY means: limited resources to but unlimited wants and needs of individuals.

Decisions refers to the choices about how we spend our money, time, and energy so we can fulfill our NEEDS and WANTS.

NEEDS – "stuff" we must have to survive, generally: food, shelter, clothing

WANTS – "stuff" we would really like to have (Fancy food, shelter, clothing, big screen TVs, jewelry, conveniences . . . Also known as LUXURIES

Individuals can't have it all, so they have to choose how to spend money, time, and energy. These decisions involve picking one thing over all the other possibilities. It is called as TRADE-OFF. A special kind of Trade-Off is an OPPORTUNITY COST. Opportunity cost defined as The Value of the Next Best Choice which we forgone. For example undertaking a business instead of job in organization, where you will lose monthly salary.

Economics provides various concepts and Princlpes, to understand the following the Questions

- WHAT to produce (make)
- HOW MUCH to produce (quantity)
- HOW to Produce it (manufacture)
- FOR WHOM to Produce (who gets what)
- WHO gets to make these decisions?

Importance of studying economics

1. Informed decisions

Economists provide information and forecasting to informed decisions within companies and governments. This knowledge of economics – or economic intelligence – is based on data and modelling.

2. Influences everything

Economic issues influence our daily lives. This includes issues such as tax and inflation, interest rates and wealth, inequality and emerging markets, and energy and the environment. A broad subject, economics provides answers to a range of health, social and political issues that impact households and wider communities.

3. Impacts industries

Firms of all sizes and industries have to rely on economics, whether that's for product research and development, pricing strategies or how to advertise. This wide influence means studying economics can open up a variety of career options across all sectors of the economy, from agriculture to manufacturing, to banking and consultancy.

4. Inspires business success

Understanding how consumers behave is vital for a business to succeed. Economists use theories and models to predict behaviour and inform business strategies. For example, how to analyse 'big data'.

5. International perspective

Economics affects the world we live in. Understanding domestic and international perspectives – historic and current – can provide a useful insight into how different cultures and societies interact. For international corporations, understanding the world economy is key to driving success.

Branches of Economics

Microeconomics:

Focuses on the actions of individual agents within the economy, like households, workers, and businesses.

The study of an individual consumer or a firm is called microeconomics (also called the *Theory of Firm*). Microeconomics deals with behavior and problems of individual person or organization. Business economics has its roots in microeconomics and it deals with the micro or individual enterprises. It is concerned with the application of the concepts such as price theory, Law of Demand and theories of market structure and so on.

Features of Micro Economics:

- Study individual behaviour
- Analyse and allocate the resources available
- Focus on market behaviour
- Economic welfare
- Study on products pricing
- Determines factors pricing
- Partial equilibrium model
- Helps in government policies

Macroeconomics:

It looks at the economy as a whole. It focuses on broad issues such as growth of production, the number of unemployed people, the inflationary increase in prices, government deficits, and levels of exports and imports.

The study of 'aggregate' or total level of economic activity in a country is called *macroeconomics*. It studies the flow of economics resources or factors of production (such as land, labour, capital, organisation and technology) from the resource owner to the business firms and then from the business firms to the households. It deals with total aggregates, for instance, total national income total employment, output and total investment. It is concerned with the level of employment in the economy. It discusses aggregate consumption, aggregate investment, price level, and payment, theories of employment, and so on.

Though macroeconomics provides the necessary framework in term of government policies etc., for the firm to act upon dealing with analysis of business conditions, it has less direct relevance in the study of theory of firm.

Features of Macro Economics:

- Study aggregates
- Focus on hole market behaviour
- Income theory
- Employment theory
- General equilibrium model
- Helps in government policies
- Use to study the micro economic theory
- Overall study of economic status

- Study the inflation

Micro Economics	Macro Economics
1. It studies the individual unit.	1. It studies the whole economy or large groups.
2. Laws related to Marginal analysis are included in its scope.	2. Problems related to whole economy like employment, public finance, national income etc. are included in its scope
3. Micro Economics provides the information relating to the individual prices, individual consumption and production.	3. Macroeconomics provides the information relating to National Income, total output, total consumption and general price level
4. Micro economics analysis is simple	4. Macroeconomics is complex due to the study of large groups.
5. Micro economics particularly focus on price analysis.	5. Macro Economics particularly focus on income analysis
6. Micro economics studies individual problems and it is less important for comparative study	6. Macroeconomics studies the problems relating to the economy and its importance is growing.

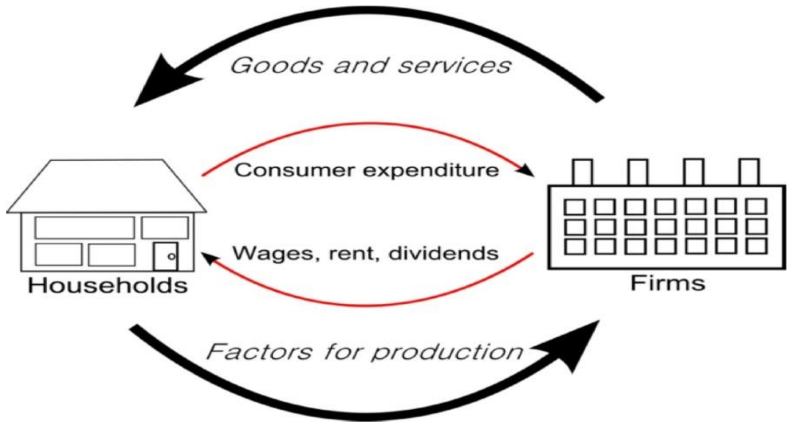
9. National Income

Definition of National Income: It is the total monetary value of all the final goods and services by a nation during a specific period of time.

Features of National income:

1] National income is a macro-economic concept: National income is an outstanding example of macroeconomic analysis. It deals with “aggregate” or the “economy as a whole”. National income presents the picture of the overall performance of the economy as a whole in the course of time ie a year.
2] National income is a flow concept: National income is a flow of goods and services which are actually produced. It is a flow concept in the process of production, income generation and expenditure.

3] National income is a realized flow: National income is a realized flow of goods and services i.e. final goods and services which are actually produced.



The Importance of National Income

Measuring national income is crucial for various purposes:

1. The measurement of the size of the economy and level of country's economic performance

2. To trace the trend or the speed of the economic growth in relation to previous year(s) also in other countries
3. To know the composition and structure of the national income in terms of various sectors and the periodical variations in them
4. To make projections about the future development trend of the economy
5. To help government formulate suitable development plans and policies to increase growth rates
6. To fix various development targets for different sectors of the economy on the basis of the earlier performance
7. To help businesses to forecast future demand for their products
8. To make international comparison of people's living standards

Concepts of National Income:

Gross Domestic Product.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

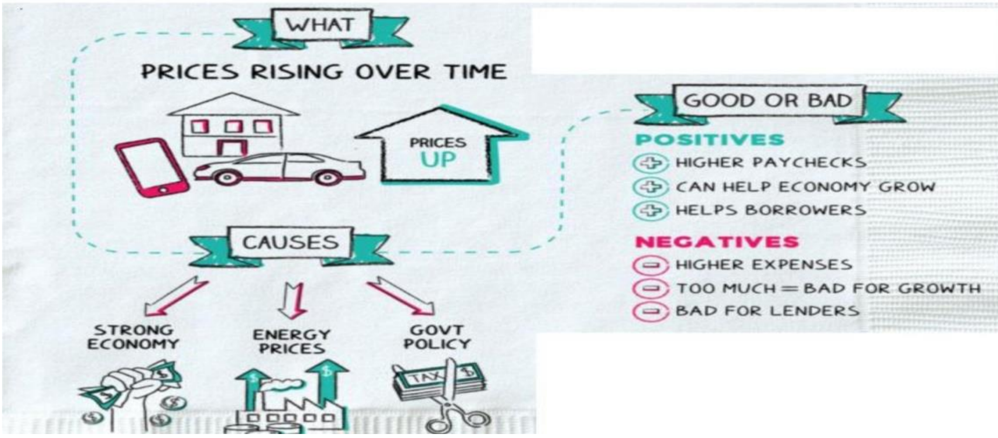
Gross national product (GNP) is a measurement of the overall production of people or corporations native to a country, including those based abroad. GNP excludes domestic production by foreigners.

10.INFLATION

The term "inflation" originally referred to a rise in the general price level caused by an imbalance between the quantity of money and trade needs.

Inflation is defined as a rise in the general price level. **Inflation** is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. Often expressed as a percentage.

II-Inflation



Types of Inflation

Economists distinguish between two types of inflation:

1. Demand-Pull Inflation
2. Cost-Push Inflation

Both types of inflation cause an increase in the overall price level within an economy.

Demand-pull inflation:

It occurs when aggregate demand for goods and services in an economy rises more rapidly than an economy's productive capacity. One potential shock to aggregate demand might come from a central bank that rapidly increases the supply of money.

The increase in money in the economy will increase demand for goods and services. In the short run, businesses cannot significantly increase production and supply remains constant.

Cost-push inflation:

It occurs when prices of production process inputs increase**.** Rapid wage increases or rising raw material prices are common causes of this type of inflation. Rising energy prices caused the cost of producing and transporting goods to rise. Higher production costs led to a decrease in aggregate supply and an increase in the overall price level because the equilibrium point.

Money Supply in Inflation

Money supply refers total stock of money circulating in an economy. Stock of money refers to currency and deposits with commercial banks.

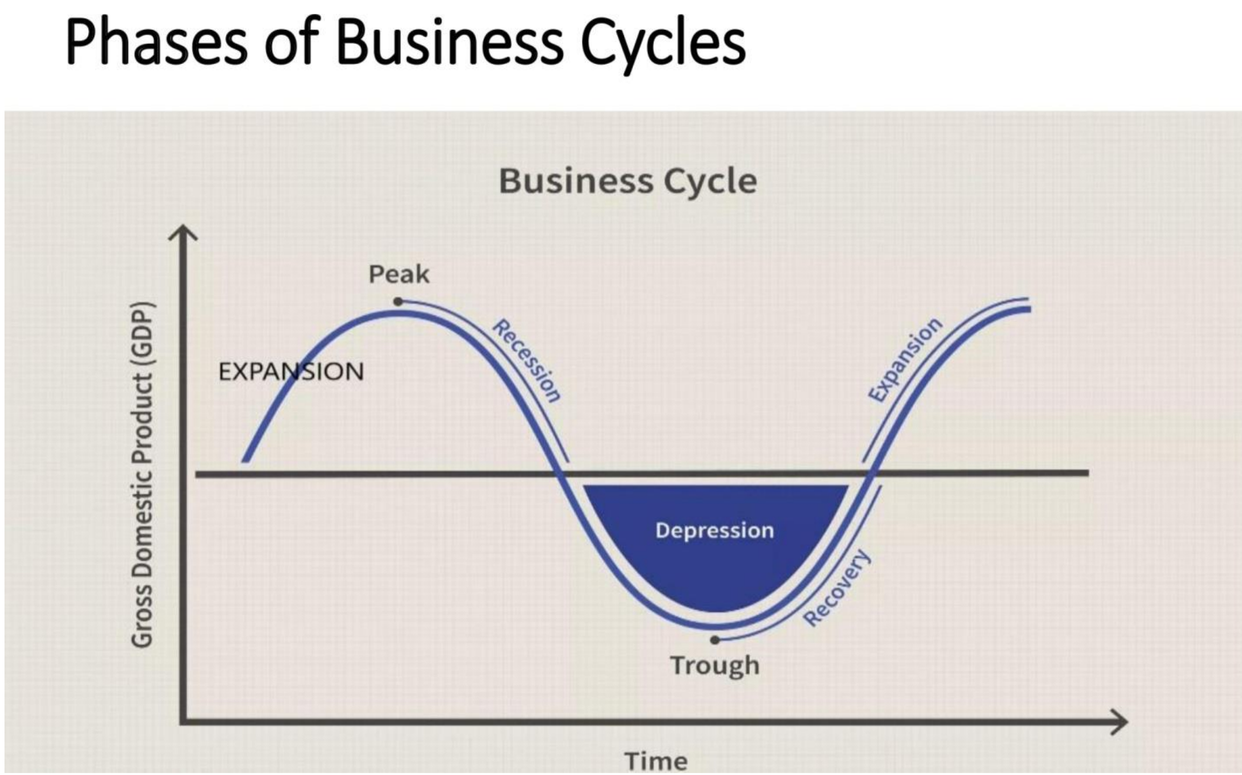
Inflation can happen if the money supply grows faster than the economic output under otherwise normal economic circumstances. Monetary policies may change the money supply, and changes to the money supply may cause inflation. RBI controls the money supply with monetary policy by changing rate of interest .

11.Business cycle and its Phases

A business cycle is a cycle of fluctuations in the Grinterest.ic Product (GDP) around its long-term natural growth rate. It explains the expansion and contraction in economic activity that an economy experiences over time.

Stages of the Business Cycle

In the diagram above, the straight line in the middle is the steady growth line. The business cycle moves about the line. Below is a more detailed description of each stage in the business cycle:



1. Expansion

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services. Debtors are generally paying their debts on time, the velocity of the money supply is high, and investment is high. This process continues as long as economic conditions are favorable for expansion.

2. Peak

The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal point in the trend of economic growth. Consumers tend to restructure their budgets at this point.

3. Recession

The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages, etc., consequently start to fall.

4. Depression

There is a commensurate rise in unemployment. The growth in the economy continues to decline, and as this falls below the steady growth line, the stage is called a depression.

5. Trough

In the depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services, contract to reach their lowest point. The economy eventually reaches the trough. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

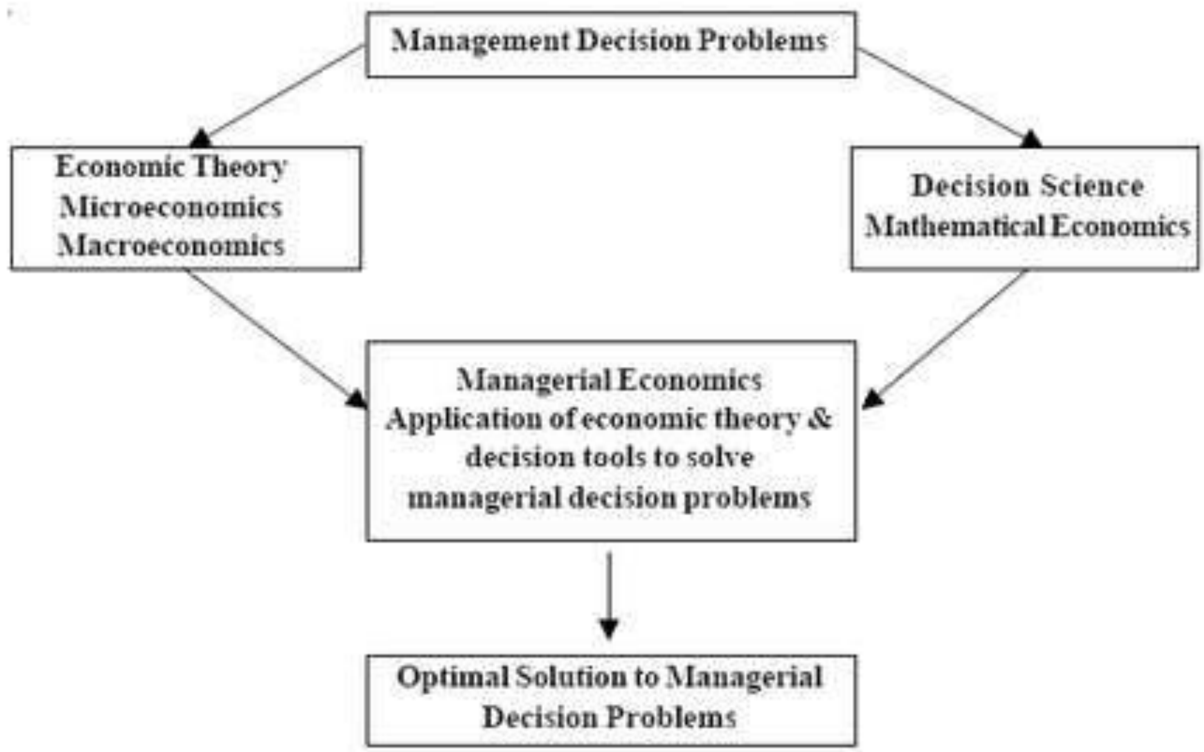
6. Recovery

After the trough, the economy moves to the stage of recovery. In this phase, there is a turnaround in the economy, and it begins to recover from the negative growth rate. Demand starts to pick up due to low prices and, consequently, supply begins to increase. The population develops a positive attitude towards investment and employment and production starts increasing.

12.Business Economics

Business Economics defined as application of Economic Theory, Tools and Techniques to provide optimal solutions to the problems a business organization.

The term Business Economics is used interchangeably with Business economics, Microeconomics, Economics of Enterprise, Applied Economics, Managerial Analysis and so on.



Nature of Business Economics

1. Microeconomics: it studies the problems of an individual business firm, not entire economy.

2. Normative economics: It gives directives or rules and corrective measures that a management undertakes under various circumstances.

3. Pragmatic: It is purely practical oriented.

4. Uses Theory of firm: Theory of firm states that a firm exists and makes decisions to maximize profits

5. Takes the help of macroeconomics: it provides intelligent understanding of the environment in which the business is operating.

6. Prescriptive rather than descriptive: to solve particular business problem by giving importance to firms aim and objectives.

Scope of Business Economics

The scope of Business Economics includes following areas:

1. Theory of demand

It includes Demand Analysis, Understanding customer preferences, analyzing market demand, and predicting future demand patterns.

2. Theory of Cost and Production

Identify the optimal production level and helps analyze costs, find efficient production methods, and make cost-saving decisions

3. Theory of exchange or price theory

Helps in understanding competition and Pricing strategies useful in various market structures.

4. Theory of profit

Maximizing profits is a fundamental goal of any businesses. Business economics helps managers make decisions that lead to higher profits. It helps in Profit distribution or Reinvestment decisions

5. Theory of capital and investment

Business Economics assists in evaluating investment opportunities, assessing financial risks, and making decisions related to capital allocation and financing.

6. Environmental issues

Business Economics helps businesses adapt to these changes by providing a structured approach to decision-making in dynamic environments. Analysis of Economic conditions, market trends, and external factors constantly change.

13. Role of Business Economist

A Business economist is a professional who helps the business enterprise by utilising his analytical abilities. A Business economist holds great significance for any firm or business enterprise.

Study of the Business Environment:

Every firm has to take into consideration such external factors as the growth of national income, volume of trade and the general price trends, for its policy decision.

2. Business Plan and Forecasting:

The business economists can help the management in the formulation of their business plan by forecasting and economic environment.

3. Study of Business Operations:

The business economist can also help the management in decision making relating to the internal operations of a firm, i.e., in deciding about price, rate of operations, investment and growth of the firm for offering this advice: the economist has specific analytical and forecasting techniques which yield meaningful conclusions.

4. Economic Intelligence:

The business economist also provides general intelligence services by supplying the management with economic information of general interest so that they can talk intelligently in conferences and seminars.

5. Participation in Public Debates:

The business economists participate in public debates organized by different agencies. Both governments and society seek their advice. Their practical experience in business and industry gives value to their observation.

14. Multidisciplinary nature of Business Economics

Business economics has a close linkage with other disciplines and fields of study. The subject has gained by the interaction with economics, mathematics and statistics and has drawn upon management theory and accounting concepts. The Business economics integrates concepts and methods from these disciplines and bringing them to bear on managerial problems.

(i) Business economics and Economics:

Business economics has been described as economics applied to decision making. It may be studied as a special branch of economics, bridging the gap between pure economic theory and managerial practice. Economics has two main branches microeconomics and macroeconomics.

(ii) Business economics and Operations Research: Mathematicians, statisticians, engineers and others teamed up together and developed models and analytical tools which have since grown into a specialized subject, known as operation research. The basic purpose of the approach is to develop a scientific model of the system which may be utilized for policy making.

ii) Business Economics and Accounting:

Business economics is closely related to accounting. It is concerned with recording the financial operation of a business firm. The business transactions are varied and multifaceted. They are written in a set of books in a systematic manner so as to facilitate proper study of their results.

iii) Business Economics and Mathematics:

Mathematics is yet another important subject closely related to managerial economics. For the derivation and exposition of economic analysis, we require a set of mathematical tools.

iv) Business Economics and Psychology:

While planning for production and sales of a product psychology helps in understanding the consumer behavior like what products consumer need, at what price, what are the various factors that are going to influence their demand.