UNIT-I

* Bussiness Economics :-

"Bussiness Economics deals with the basic concept of management which are applied to the economics of environment".

"Bussiness Economics is the application of economic concepts and tools in order to take the optimum decisions for profit maximization."

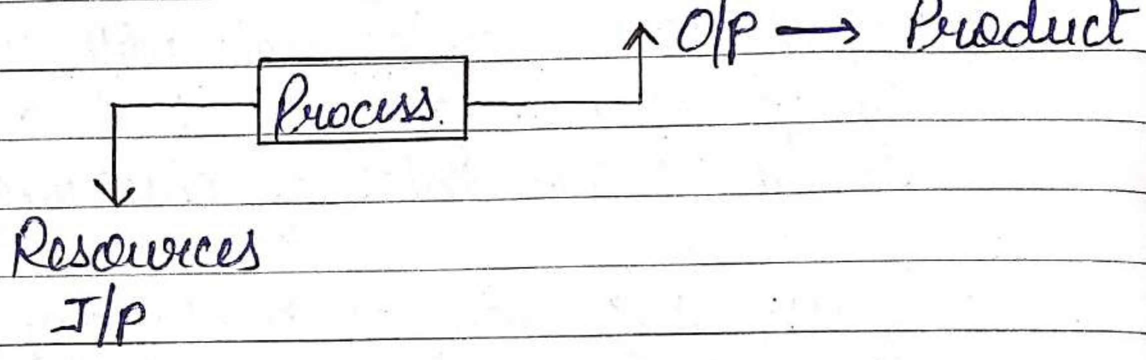
" BE is the decision making science which develops the relation between the variables".

* Three basic problems of Economics :-

1). What to produce - We many use the resources alternatively so to satisfy the maximum need of society.
Production possibility curve defines the alternate use of resources to satisfy the need of society.

2) How to produce - Every resource requires certain and specific process for getting converted into the desired output.
So, the process which is responsible for converting the resources into final

Output shall be known as the conversion process.



★ **Labour Intensive Technique :-**

In this Technique the resources are consumed, or converted by the way of man power. So, the human resource is the major factor during the application of labour intensive technique.

NOTE :- Every conversion or production product requires some energy to drive the production wheel. As per the economic process this energy can be achieved by labour or by capital.

★ **Capital Intensive technique :-**

It is generally used in large scale companies where the bulk production is required. In further the capital is invested in purchasing heavy duty machinery and technology.

Here the energy is achieved through the machanise process.

3)- Whom to produce :-
Resources has the trapspoibiltyand alternative views. So, the nation has to decide that what quantity of resources shall be consumed country and how much of resources would be spared for future consumption.

A. Scope of Economics :- (or Importance, Nature)
Economics now a days is increasing in day to day decision making because of following scop -

1- The theory of demand.
2- The theory of supply.
3- The theory of production.

Production :-
Production is a creative human activity which converts the input into output with the help of limited resources and for satisfying the unlimited wants of consumers.

4)- The theory of cost :- cost is the expense incurred over the production.

5- The theory of price :-
Price is the combination of cost and this suplies over the cost.

6- The theory of market :-
Definition of Market :-
Market is a geographical ~~plo~~ phace where the buyers and salers come into such interaction for deciding the different quantities of product at various prices.

★ Component of Market :-
There are five Market Component.
1- buyer - who demands
2- Seller - who suplies
3- The Commodity - The bundle of utility.
4- Price - value of commodity.
5- Negotiation - Terms and conditions for the maturity of interaction.

★ Some new age markets :-
1- Cyber Market.
2- Space Market
3- Online Market
4- E Market

★ The theory of profit:-
Profit is the ~~exce~~ Surplus over the cost. Profit is an essential item for a firm because without the profit no firm may survive in long run because every commercial activity requires certain financial investment and this statement comes through the profit.

★. Macro economics:-
1- It deals with the economic condition of Country.
2- It studies the domestic and abroad trade. The Imports shall be known as leakage and the exports will be known as Injections.
3- It deals with the Industrial policies. population, employment and living Condition.
4- Leagle framework of country.
5- ~~Polic~~ Political Stability, population and literacy rate-
The ~~process~~ progress and development of any nation depends upon the per Capita Income of that nation. The population besides the resources distribution between among the citizen. More no. of people will require

greater resources and it will reduce the per capita income of such country. So, the population is a major point for deciding the economic growth of any country. Political stability gives the enough time and resources for implemented the planning in respected of available resources. A political opportunity for the long run plan so, under the governance of a political stable structure the country has more chances to grow economically.

★ The four basic concepts of economics:-

1- Opportunity cost :- Opportunity cost is the cost of secrifies the options available in order to select the one best possible alternate.

✓ OC is the amount of subjective value in choosing one alternative over the next best alternate.

★ Incremental Concept :-

This concept belongs to the change in total cost resulting from a particular decision ~~so~~ shall be refered to will be reminder cost or incremental

$P = f(C)$

Discounting priciple – If a decision affects cost and revenues at future dates, It is necessary to discount those cost and ~~ren~~ revenues to present values before a valid comparision of alternative possibilities.

$V = \frac{A}{1+I}$ $V \rightarrow$ Present value
$A \rightarrow$ Actual amount
$I \rightarrow$ Current Interest rate

Equimargin principles :- This principle deals with the allocation of the available resources. An Input should be so allocated that the value added by the last unit is the same in all cases. Shift of resources from low marginal value activities to higher value activities will change the marginal product.

Time respective Concept :- As per the economic logics and concepts the decision horizon can be divided into two broad areas-

1- Long run decisions – Any time beyond the 5-6 years spend will be considered long run. Here the decisions will be taken in light - vender relation, Investment plans, employee training, employees apraised and development, mergers, acquisitions, joint benched etc.

2- Short run decisions- Any planning horizon which requires upto 5 year period will refer to the short run decision. Here we take the decisions like - order fullfillment, yearly bonus, overtime payments, renting of resources, licence for the commercial activities, annual budjet. On the basis of decision making we can divide the firms into 3 categories -

Small scale firm - 0 to 50 lakhs investment.
Middle scale firm - 25 lakhs - 1 crore
large scale firm - beyond 1 crore

★. Demand :- " Demand refers to that amount of commodity which is required by people a different - different prices during a specific time period.

" Demand is the desire for a product backed by the willingness and ability to pay."

DEMAND
→ Desire
→ Willingness
→ Pay

"Demand refers to the quantity of product which will be bought by the buyer at certain prices in different - different markets".

Types of Demand :-

1- Demand for consumer goods - These are the goods which are purchased for Immediate consumption or final consumption.

2- Demand for producers goods - The goods which shall be purchased for commercial or manufacturing purpose.

3- Demand for parishable goods.

4- Demand for durable goods.

5- Demand for company goods.

6- Demand for Industrial goods.

7- The autonomous demand - When the demand for a product is Independent.

8- Induced demand - These are the demands for the product which are dependent on other products

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★ Function of demand -

$$dQ = f(P)$$

<u>Determinants of demand (7P theory)-</u>

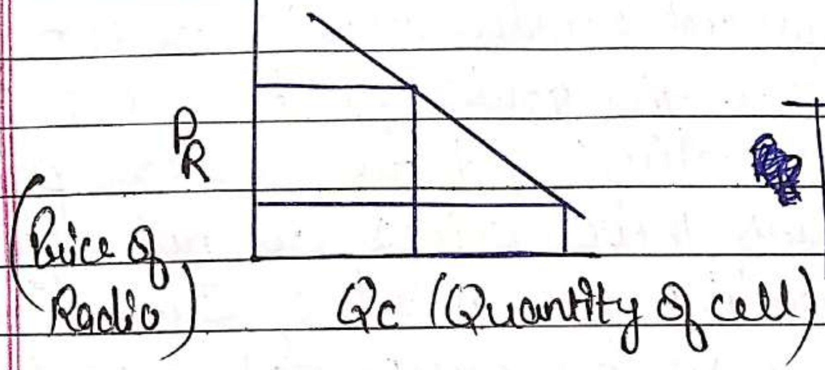
1- The perfrence and Taste :- It works based upon the ordinal utility theory which means that every consumer behaves in a orderly manner. And the taste suggesteds the loyalty of consumer towards a specific product or brand.

2- Price of Product :- It is evidently proved that the lower prices attractes more people and heigher price repulse the consumers.

3- Publicity :- Permotional activities and advertisement increase the exposure about the commodity to the buyer. So, the advertisement may increased the demand and it effects the demand in positive manner.

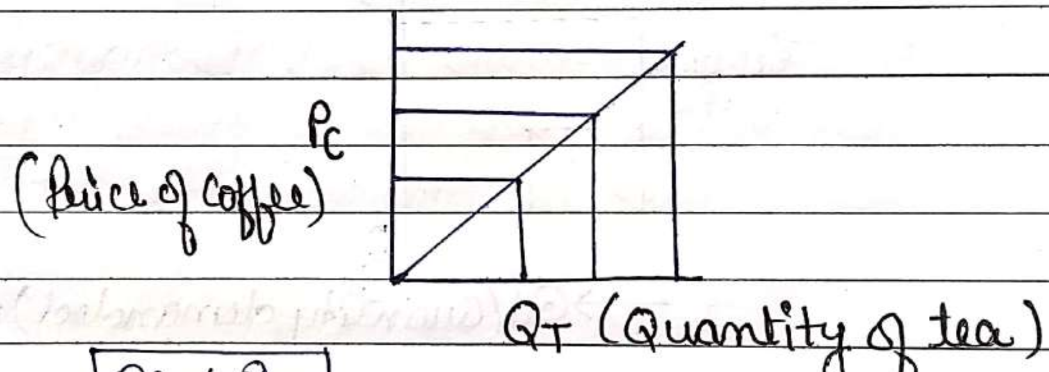
4- Prime Population.

5- <u>Types of related goods :-</u>
(i) <u>Complementry goods</u> - Complimentry goods are those goods which are demanded the influence of ~~order~~ demand of other product.



$$\boxed{P_R \propto \frac{1}{Q_C}}$$

ii) Substitute goods :- These are the goods which give same and equal level satisfaction in case of absence of previous product.



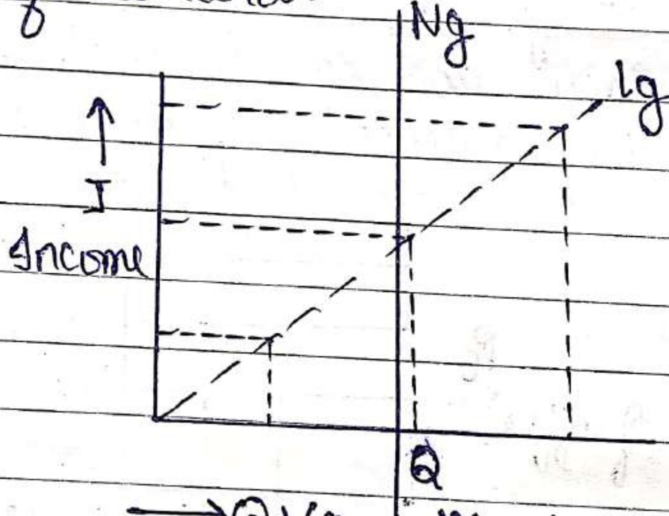
$$\boxed{P_C \propto Q_T}$$

6- Purchasing power of consumer (Income) :- Based upon the Income the commodity can be ~~defined~~ devided into three categories.

i) Inferior goods-
This goods are less demanded in higher Income group.

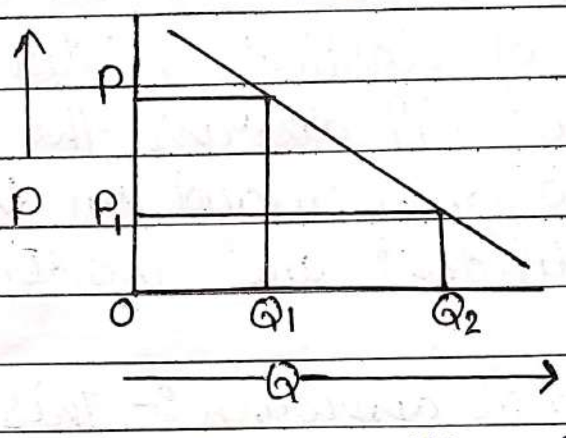
ii) Normal goods or necessary goods-
These are the goods which are irresponsive to the price or Income.

(iii) High priced or luxurious goods -
These are the goods which are demanded In respective of their related price. It means their prices do not affect the quantity demanded of such products. It is also an exceptional case for the law of demand.



7- other-
(i) Fashion
(ii) During the emergency situations like- war, flood, situation of law and order or legal condition of the country.

★ The law of demand :- The law of demand expresses the functional relationship between price of a commodity and its quantity demanded, price and quantity demanded are inversely related to each other. According to law of demand, the quantity demanded varies inversely with the price.



At O price the quantity will be infinite in demand and the quantity demanded is O then the price shall follow the same pattern.
Demand will never be negative. It means whether the demand is, or demand is not.

★ Demand ~~the~~ schedule :- It is the tabulated form of demand curve which explains the inverse relation between commodity demanded and price.

P	Q
0	∞
10	2
8	4
6	6
4	8

The law of demand only explains the relation between quantity and price. But nobody can ~~ac~~ assess the magnitude of change, which will be explain in term of elasticity, later on. But very first we will discuss the explanation of law of demand on the basis of traditional and modern approaches-

- Traditional approach :- This is given by Sir Alfered Marshal. According to this approach the demand of a commodity is related with its utility and price.

a)- The law of marginal deminishing utility - According to this law as a consumer has more of commodity, the utility derived from the successive unit those on decreases. A consumer will continue consuming a commodity until the Mu becomes equal to its price.

$Mu_x = P_x$.

b)- Change in number of consumer - Low prices always attracts the consumers. So, at a higher prices consumer keep themselves away from the purchase of higher quantity. If the price of a commodity increases then as a matter of adjustment and satisfaction the people leaves the earlier product and join the next suitable lower price product.

c) Diverse use of commodity:-

a) The substitution effect:-
Price rise of a commodity allows the next possible substitute for creating increased demand substitutes are the product which gives the same satisfaction which was expected from the previous one.
When the prices of a commodity rises the relative price of its substitute automaticaly decreases.

b)- Income effect - any change in the price of a commodity affects the purchasing. power or real income of a household. The increase in general market prices. brings a decrease in real income, whether low prices in market give an increment to the real income.

★ Limitations / Exceptions of law of demand -

1- Wind fall gains.
2- Individual logic.
3- Price siptulation.
4- Product related to prestige
5- High price products.
6- Other
7- Inferior goods.
8- Fashion and dynamic needs of consumer.

★ Elasticity of demand :-

Elasticity of demand is the degree of responsiveness of the quantity demanded to a given change in its any of determinents.

1- Elasticity of demand helps to the forms in the course of forecasting about the demand of commodity.
2- Elasticity of demand quantifize the effect of various determinents over the demand.

★ Types of ~~deman~~ elasticity :-

1- The price elasticity :-
The degree of responsiveness of quantity demanded to a change in its price (otherwise things will remain constant)

will be known as the price elasticity.

The price elasticity of demand is generaly define as the responsenoss of demand for a commodity to the changes in its price.

$$ep = \frac{\%\text{ change in q. demanded.}}{\%\text{ change in price.}}$$

$P_1 \quad Q_1 - \Delta Q$

$P_2 \quad Q_2 - \Delta P.$

$$\frac{Q_1 - Q_2}{Q_1} \times 100, \quad \frac{P_1 - P_2}{P_1} \times 100$$

$\Delta Q = Q_1 - Q_2$

$\Delta P = P_1 - P_2$

$$\boxed{ep = \frac{\Delta Q \cdot P}{\Delta P \cdot Q}}$$

A. The cross elasticity :-

The responsiveness of demand to change in the price of relative commodity is called cross elasticity of demand.

$$P_c = \frac{\Delta Q_x \cdot P_y}{\Delta P_y \cdot Q_x}$$

☆ The Income elasticity :-

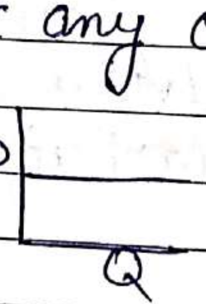
The degree of responsiveness of demand for a commodity to a change in the income will be refered as the income elasticity.

$$e_I = \frac{\Delta Q \times Y}{\Delta Y \cdot Q}$$

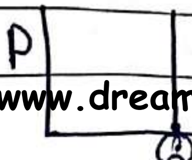
☆. Different kinds of elasticity :-

1- Unitary elasticity :- When the demand of the commodity changes with the same proportion as the unitary elasticity.
When the % change in the quantity demanded becomes equal to the % change in the price.

2- Perfect elasticity :- There is an infinite change in the quantity demanded without any change in price.



3- Perfect inelastic :- When the demand of a good thus not change with its price.



4- Relative elasticity :- When the change in quantity is more than its price.

5- Relative inelastic :- When demand change in less than the change in price.

★ Demand forecasting :-
Demand forecasting is the analysis of demand for a particular product after a careful study of various variables and patterns. Demand forecasting refers to prediction about the future sale of a commodity for which the plans are pending.

★ Forecasting further can be divided into two broad categories :-
1)- Qualitative
2)- Quantitative

★ Process of forecasting :-
1- Nature of Product :-
The forecasting depends upon the nature of product because the utility of product may be seasonal, periodic and intermediate. So, the product may have different-different forecasting horizons.

Again the physical status of product, appearance of product like Solid, gas and liquid. Shall also deciding the forecasting of product.

2- Objective of forecasting :-
The clear cut vision of forecasting should be there in terms of various forecasting heads. like forecasting in respect of sales quality, frequency of advertisement, future assesment of man power and machine etc.

3- Selection of forecasting technique.
4- Accuracy of forecasting.

★ Techniques of forecasting :-
1- Brain storming technique :- This is the oldest and cheap technique of forecasting where suitably 10-12 expert interact with each other for finding out the solution to a given problem. The averagly agreed solution shall be applied for the forecasting.

Limitations :-
There must be a mediator or anchor to keep the discussion on track as well as for recording the summary.

2- Delphi Technique:-
It is the rectified mode of Brain Storming where the experts share their views without the interferance or impression of another experts.
Here we can present the problem in terms of email, questinair, telephonic information, web pages, forms etc and the experts are suppose to react over the issues in a limited manner. This technique increases the validity and authentisity of forecasting.

Complete enumeration:- (covering up)
Complete enumeration refers to a technique which analys the all elements available in universe. And the forecasting will take place after the collection of 100% data or response from total elements.

Sales force opinion:-
Sales force opinion registers the views and suggestions from the sales personnel who represent their respective areas. Every sales fallow is suppose to have the information from the area to whom he is associated. And after collecting the data we will send

select the Idea or opinion which comes with the majority of Support.

End use method :-
Consumer is the actual fallow for use of the commodity. So, the responses of the consumer are more valuable or workable. And uses survey we delibaiting we analyse opinion of Consumer.

Survey method :-
The Simplest form of survey is the sample survey where we draw a reasonable Sample Size in order to represent the entire population in further. And the responses recorded. from the sample shall be applied to the rest of population.

* Limitations of Sample Survey :-
1- Anchor or correspondent.
2- Sample Size.
3- Market experiment :-
It is the special kind of survey technique where we conduct the Survey in Controled market Situations. In this technique we stimulate the customers. experience in a virtual real condition

and the personal experience shall be recorded for the further developement forecasting.

★ Limitations of market experiment:-

1- Time duration.
2- Selection of market.

★ Economic Indicators :-

1- Leading Indicators:-
These are the Indicators which actually comments before the happening of activity.
For example:- Stop price rice due to antisipation of taxes.

2- Parallel Indecators or co-Incident Indicators :-
These are the Indicators which moves along with the general economic activity.
For ex:- The Bank rates falls down due to the low demand of lower in the economic.

3- Legging Indicator.

4- Econometric technique :-
It is the statical tool for analysing big data and finding out their mean values.

• Limitations of statistical technique :-

1- Application of thorough study of data.
2- Reliability of data.
3- Use of computer techniques for the bulky data.

★ Importance of forecasting :-

1- To forecast the future force of action.
2- To antisipate the potential customer.
3- To channelize the managerial efforts In a common goal oriented path.
4- Forecasting is usefull for demand assesment.
5- Demand forecasting is the root base for production plaines.
6- Forecasting is a managerial descision.

★ Cost :-

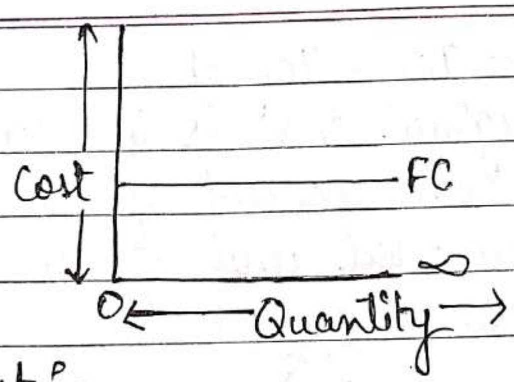
Cost are be expenses Incurred over the production we can classify the cost on the following basis :-

1- Accounting cost
2- Economic cost
3- Qualitative Cost
4- Quantitative Cost

★ Different types of cost :-

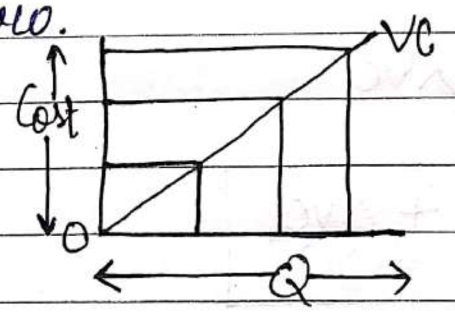
1- Fixed cost :-

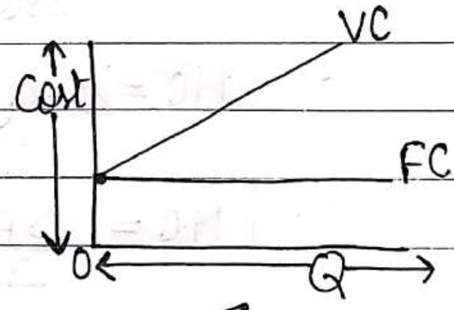
Fixed cost are those expenses which are mendatory to employee and remain unchanged with respect to quantity produce. So, these are the constant cost. say, for example :- If a plant producing nothing there after also the plant will absorb the cost amount to fixed cost.



2)- Variable cost :-

This cost behaves quantarily to the fixed cost. variable cost increases as the production volume grows up. It means variable cost is directly proportional to the quantity.
When there is no production in the firm in that case the variable cost will be Zero.





TC = FC+VC

3)- Total cost :-

Total cost is the combination of variable cost and fixed cost. It means after adding up the FC and VC we can get the TC.

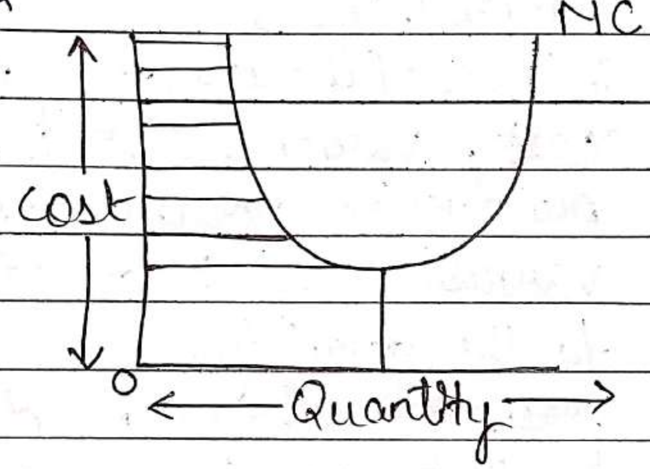
4)- Marginal Cost :-

This cost is different between the total cost of two successive units.

$MC = TC_n - TC_{n-1}$

marginal cost is the addition of the total cost on account of producing one additional unit of the product.

$$MC = \frac{\Delta TC}{\Delta Q}$$



$$MC = \frac{\Delta TC}{\Delta Q}$$

$$MC = \frac{\Delta FC + \Delta VC}{\Delta Q}$$

$$\boxed{MC = \frac{\Delta FC}{\Delta Q} + \frac{\Delta VC}{\Delta Q}}$$

5:- Average cost :-

Average cost is the division of total cost by the quantity produced. It is also a kind of rate which indicates the costness over individual product.

$$\boxed{AC = \frac{TC}{Q}}$$

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5- Opportunity cost:-
"Opportunity cost is the subjective value forgone in order to selectly the best course of action or alternative from among the available."
"Opportunity cost denotes to the sacrifices cost. Opportunity cost is the amount of subjective value forgone in choosing one alternative over the next best alternatives."

6- The Real cost:- (Actual cost)
It is the book cost which is subject to record like cash payments and hard expenditure.

7- Out of pocket cost:-
The item of expenditure which involves cash payment, transfers are known as the out of pocket cost.

8- Book cost:-
All the recordable costs are the book cost. These are the tangible cost which are taking into account or final balance sheet making and making of profit or loss account.

9- Short run costs:-
There are the combination of cost where certain costs are fixed and some are variable.

10- Long run cost :-
These are the costs which are reasonably variable in nature.

11- Sunk cost :-
These are the cost which cannot be increased or decreased by varying the rate of output.

12- Private and social cost :-
Private costs are those which are actualy incurred or provided for by an individual firm on the purchase of goods and services from the market.
Social cost refers to the total cost born by the society due to production of commodity.

13- Goodwill cost :-
It is the intangible type of cost where a company makes the expenses for their brand image.

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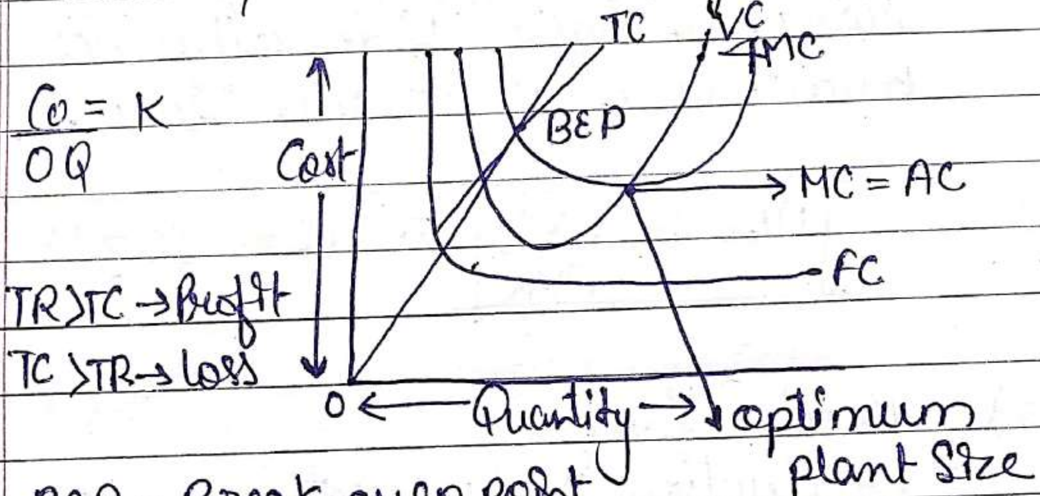
★ Cost behaviour under the short run and long run :-

1- Cost output relation during short run :-



BEP = Break even point

2- Cost output relation in Long run :-

Multiple product of cost :-
Cost is the one of the next important analysis for the business decision making.

$$\boxed{\text{Pv ratio} = \frac{S-V}{S} \times 100}$$

Marginal ~~costs~~ Safety :-
Marginal Safety is the difference between Break even point and sales.

$$\boxed{ms = \frac{P \times S}{PVR}} \text{ or } \boxed{ms = \frac{Sa - Sb}{Sa} \times 100}$$

☆ Production :-
Production is the creative human activity which satisfies the unlimited human wants with the help of limited resources.

☆ Components of production :-

1- Creativity :-
Creativity refers to the creation of product and services by converting resources or Input into final products.

2- Satisfiction :-
The product produce should be compitent enough for satisfying the human wants. Otherwise the production will only makes the resources ~~wan~~ waste.

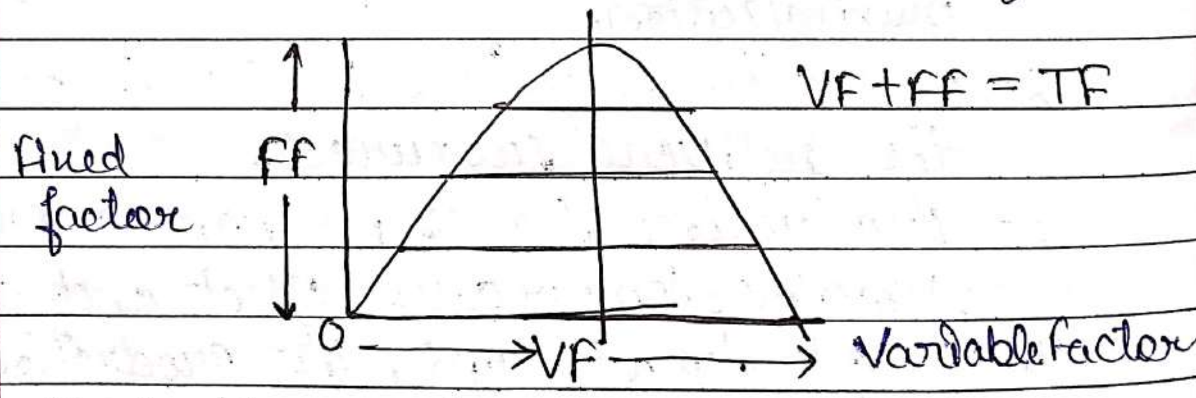
3- Limited resources :- As we know that any production activity consumes the resources so every attempt to production makes the resources decrease.

4- Human Interferance :- Without the human Interferance or involvement the resources can't be converted into final products. The ~~marginal~~ managerial descision are also the types of human involvement. After considery the costumer need, purchasing habbit, demand and supply.

★ Features of Economic Production :-
1- Production is a compitant tool of profit maximization.
2- Production requires the cost to purchase the relevent resources.
3- Production leaves permanent or sometimes temparary effect and change.
4- Profit depends upon the production cost production uses known renewable and non-renewable resources.
6- Production is a ~~f~~ function of Input Quantity.
7- The production factors can be divided into fixed and variable factors.

★. Fixed factors :- All the inputs whose quantity remains the same irrespective to the level of output will be known as fixed factors. In other words we can say that for a shorter period those factors which are not subjected to ammend with the change of output.

☆ Variable factor :-
These are the production factors which are subject to change with the volume of output between the production volume and a direct relation exist. And increase in level of output will bring the relation increase in all variable factors



☆ Production under short run :-
During this tenure some factors will remain fixed and other will remain variable. The level of production can be increased by increasing variable factors.

☆ Production under long run :-
During this period no factors remain fixed and all factors will be treated as variable.

NOTES:- Level of Production V/s Scale of Production :-
In the short run if we change the production by adjusting fixed and variable factors So, it means that we are planning for level of production. This only is possible during the short run of business.
The scale of production refers to a situation where no factors is fixed and the level of production can be raise upto any limit by multiplying the no. of factors.

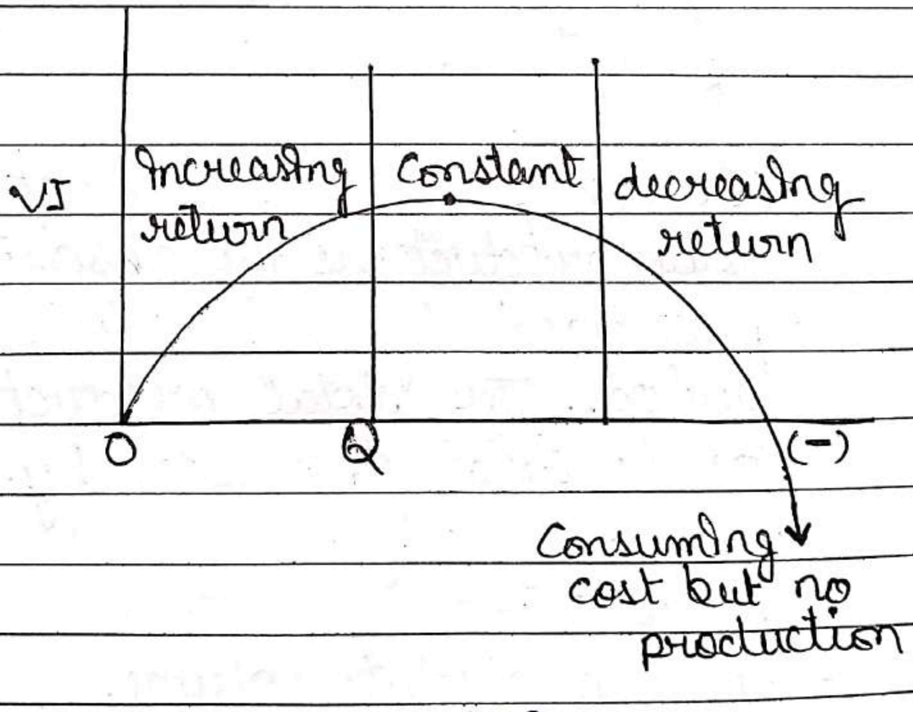
★ The concept of total product :-
Total product is the absolute volume produced by a firm in a specified time period. The total product is also known as the total produced by a firm.

Features :-
1- It is an absolute volume.
2- It is easy to convert in various physical units.
3- Total product can be raised by the means of increasing variable factor.
4- Total product can be calculated in different time horizon like short run and long run.

Average product -
It can be derived by dividing total product to variables inputs used.

$$AP = \frac{T.P}{V.I. \text{ or factors.}}$$

Marginal product -
The rate at which the total product increases is known as marginal product.



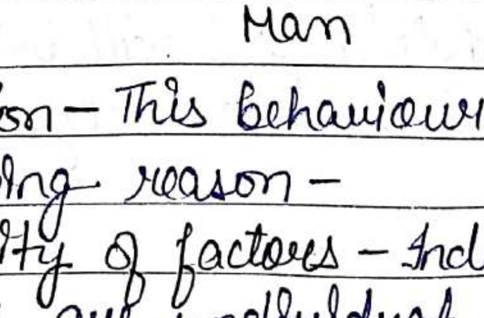
According to the production and its concept, the quantity produced is the function of factor.

$$Q = F(F_1 \text{------} F_n).$$

Production function can be explained by the two major principles -

1). The law of ~~various~~ variable proportion or the law of return - When a firm produces the goods in a shortrun manner then it is known as the law of variable proportion. This law is explained by Alfred Marshel. So it is also known as Marshelian approach.
Keeping the supply of fixed inputs as constants. If the supply of variable inputs is raised then the total product in the begining increases at increasing rate and finally at a deminishing rate.

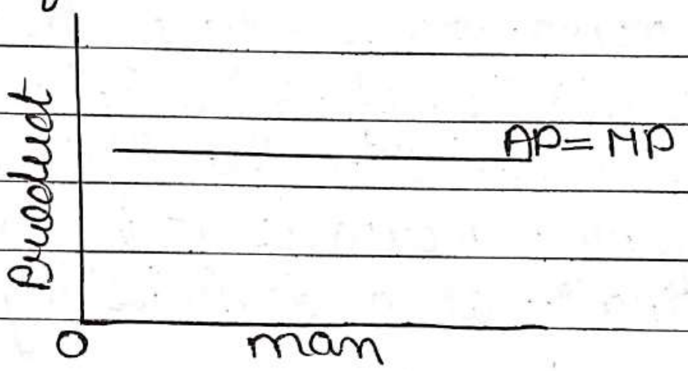
a) The law of increasing returns - When an increase in the quantity of the variable factors, average and marginal product show a tendency to rise.



Explaination - This behaviour is caused by the following reason -
1- Indivisibility of factors - Individual products or factors are ~~individual~~ indivisible and they only can be utilized by full employment.

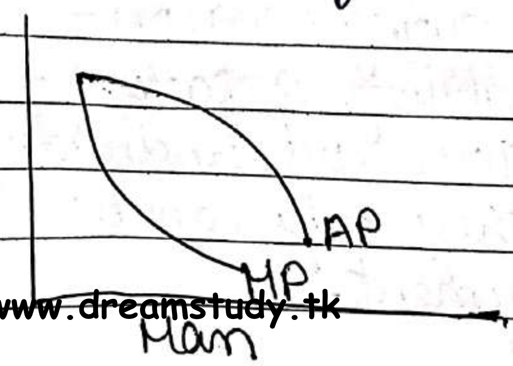
2- Specialisation - In the Initial face of production the people are less exposed to the working culture and technique but as soon as they grow older, they gain more efficiency.

(b) The law of constant variable or return-



Cause of constant return - Every resources come with certain and further utilization of resource of factor is not possible.

(C) The law of deminishing returns - In this face the factor input cannot increase the level of production because all the factors involved have been utilized in their full of capacity and the increase in the variable input will bring the decrease in total product only.



Causes of this behaviour -

1- The resources because become useless beyond the limit.

2- Lack of perfect substitutability between among the factors.

The return to scale - when a firm changes the quantity of both fixed and variable factors in the long run it changes its scale of production. The law of return to scale can be explained.

under the 3 steps -

1. Increasing return to scale.
2. Constant return to scale.
3. Deminishing return to scale.

★. Schedule of return to scale -

% I/P	% O/P	Case / Step
10%	20%	Increasing
10%	10%	Constant
10%	8%	Deminishing

★. Iso-quant curve :-

Iso means the equal product and quant means equal curves. It comes to means that the curve derived the equal products.

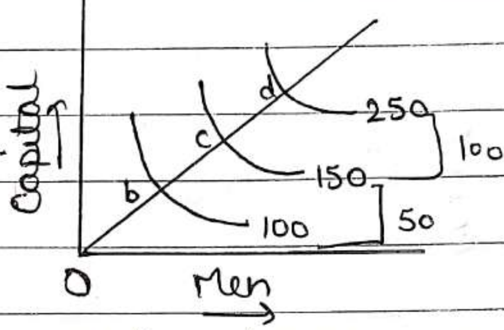
Iso-quant curves are useful to explain the returns to scale concept. And Iso-quant curve joins all those combination of factors inputs which ~~join~~ yield the same level of outputs.
In other words all the combinations of two inputs providing the same level of output on same iso-quant curve.

Suppose a firm starts from an initial level of inputs and output and ~~individual~~ increases all the inputs proportionaly there are three technical possibilities.

1- If output increases more than proportionally, we have increasing return to scale.
2- If output increases same as the proportionaly, we have constant return to scale.
3- If output increases less than the proportionaly we have deminishing return to scale.

Iso-quant curves shows the expential path which combines the different inter-mediate sections.

1- Increasing returns to scale-



Expension path shows a continous growth of total product over a longer period which is further dividable into different-2 sections or lines.

It occurs when the increase in input brings the increase rate in output. In other words, we can say that a longer proportion of output increases than the proportion involved of input.

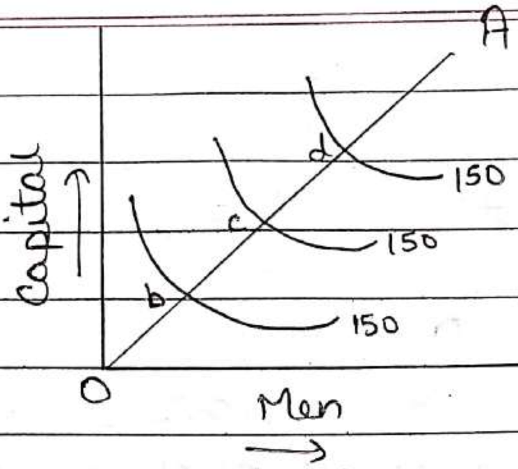
Cause of Increasing return -

1- Indivisibility of factors - The factors cannot be divided only can be optimized by using different combinations.

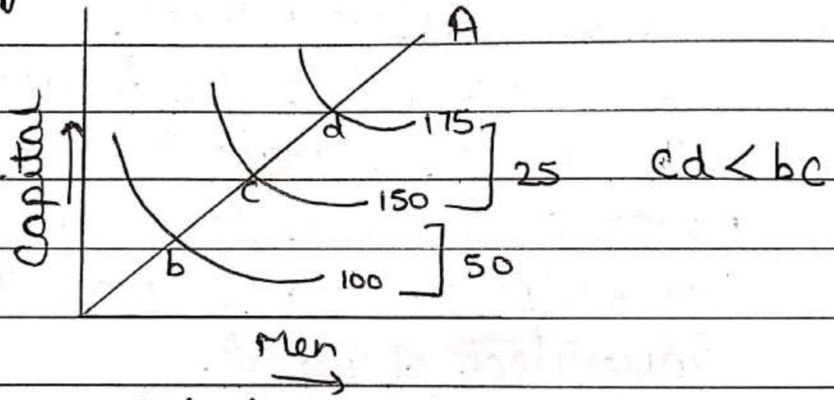
2- Mass production - It reduces the wastage which provides ultimate effect on high productivity.

3- Dimensional relations -

Constant returns to scale:-



Deminishing return to scale-



Causes of deminishing return -

1- Centralization v/s Decentralization -

2- Exhausting nature of resources - Every natural resources comes with its limitation and beyond that limit the resource becomes useless or exhaust.

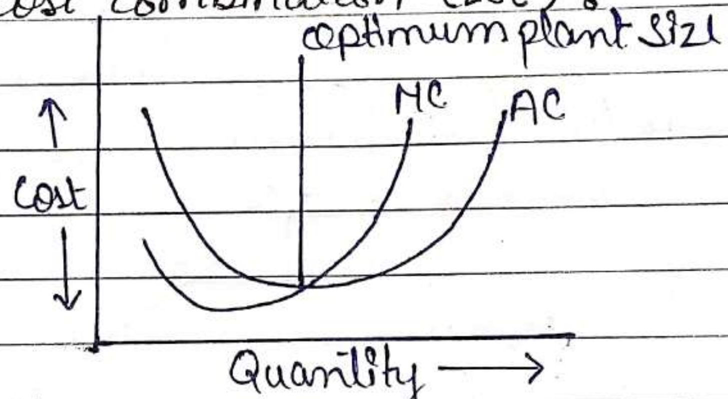
★ Break-even-point:-

It is a situation where total cost equates total revenue and the firm registers a condition of no profit and no loss. B.E.P. is useful in the input-output decision.

It may be define as that organisation

of business enterprise which in given circustances of technology and market for its product should produced at least cost combination.

Least cost combination (LCC) :-



5 Factor of Robinson :-

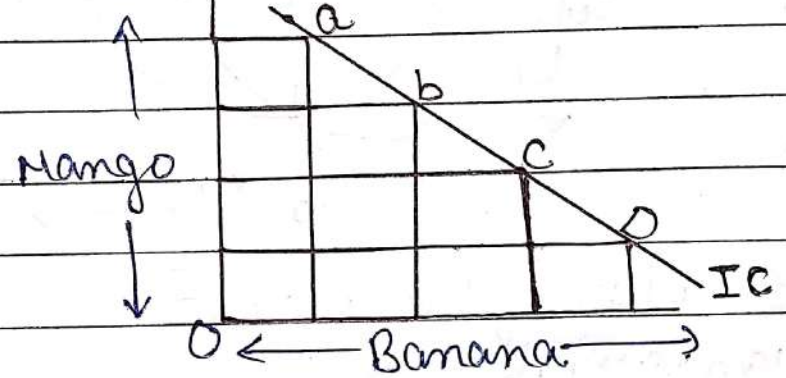
1- Managerial
2- Technology
3- Employee/ Manpower.
4- Product :- Product is the important factor for any firm because it deals with the value and satisfaction to the consumers. The ultimate result of the product is the mentenance of higher satisfaction level of consumer in market.

5- Competition.

★ Indifference curve –
Indifference curves are the representation of different combination of goods which gives

same satisfaction to the consumer.

Generaly consumer does not follow the law of demand exactly because every product or service come with close substitute. So, the consumer makes an indifference b/w the options for ~~product~~ mentaining his satisfaction level.



★ Properties of Indifference curve :-

- Indifference curve always slops down from left to right.
- Indifference curve are always convex to the origin.
- Higher Indifference curve represents higher level.
- Indifference curve does not intersect each other.

★ Limitations of Indifference curve approach:

1- There should be no change in taste and perference.

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2- Logical thinking :- One costumer must derive the maximum satisfaction from the goods.
3- Ordinal utility.
4- Transitivity.
5- Consistant choice.

UNIT-2

Price Setting and Market Machanism

The Market:- Market is a place which is geographicaly located for facilitating the interaction b/w buyers and sellers for deciding various quantities of commodities at different prices.

✯ Components of Market :-

1- Consumer
2- The marketer, producer or seller.
3- Commodity.
4- Price
5- Termes and Conditions.

✯ Price output decision:- During the Price war every competing firm is considered about the profit maximization. Where a larger profit may bring the more Competition ahead and the low profit

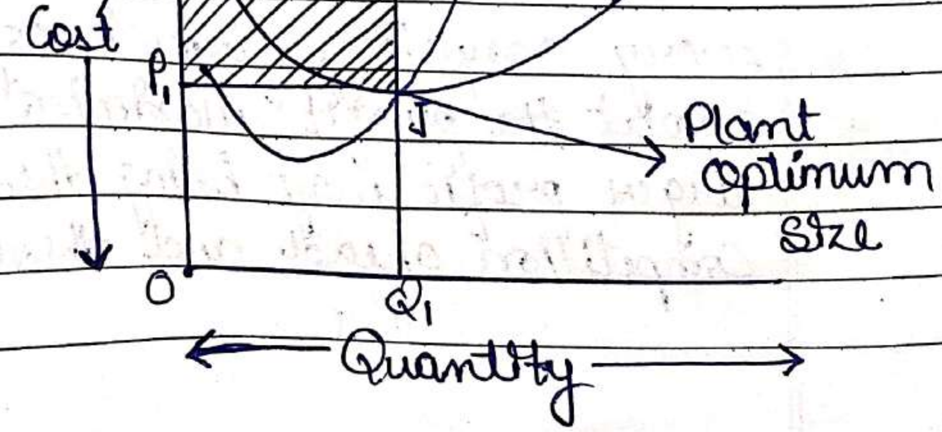
On the other hand side may create the panic for the firm's survival. So, the optimize price output decision which leads to a efficient and 0 wastage production process and on this point company will have the larger production at minimum cost.

★ Market Structure :-

1- Perfect Competition :- Perfect market is a situation where a large no. of sellers and buyers are present to ~~to~~ buy or enchange homogeneous products at uniform prices.

★ Features / characteristics :-

1- large no. of buyers and sellers.
2- Homogeneous sellers.
3- Uniform price.
4- Free entry and exit.
5- Industry is the price giver.
6- firm is the price taken.



In this market structure if the firm mentance its cost structure below then the market price than the firm earn a profit based upon the farness for the price line. More the difference b/w price and cost shall bring the larger profit. different-2 firm under the perfect competition can earn different-2 profit because of their productivity shall bring the lesser chances of profit.

☆ Oligopoly :- It refers to a competition b/w few. oligopoly is a market situation where a few firms compete with each other under the indeterminent demand.

☆ Features of oligopoly :-

1- Interdependence :- One company or firm is dependence over the another firm for deciding its price.

2- Indeterminent demand curve (Kind curve) :- No firm is possible to predict its ~~current~~ correct demand.

3- Role of selling Cost

★ Conditions for Oligopoly:-

1- Group behaviour (Cartal formation):-
It is a very common approach that the people are suppose to associate to defeat their common interest. Hence, in the oligopoly two or more firms may come together to defeat the larger firm. This group behaviour is known as the cartal formation.

The conditions for making cartal:-

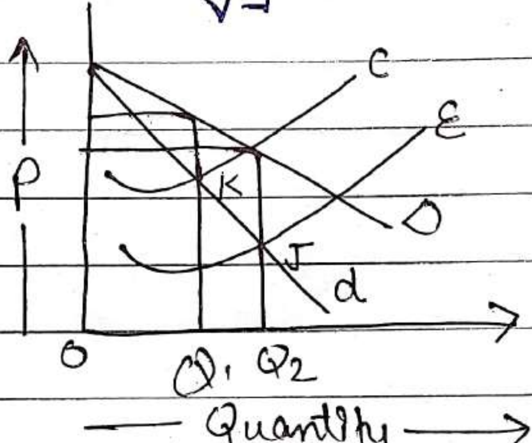
1- closely related products.
2- Common Market.
3- Common cost expenditure.
4- Same technology and skills.
5- Same Market strategy and Planning.

The group behaviour shall provide an opportunity for the member firms for lowering down their respected prices in the order to attract the costumers of the larger firm.

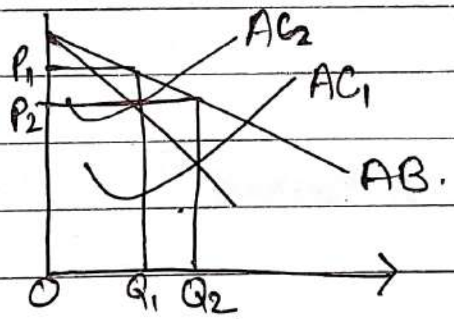
2- Leadership under oligopoly:-
Sometimes oligopoly executes the market structure as in the perfect combination because the leader firm decides a price and rest of the firms follow that prices.

- Conditions for leadership-

1- larger Market Share
2- The firms which has lowest cost.
3- The firm with the heavy Investment.
4- latest technology.



D = Is the Demand
d is demand of the firms
J is the price of the cartal.
K is Price of other firm.



★ Monopoly:- Monopoly refers to a market structure in which a firm controls the supply of the product in Market.

- Conditions of Monopoly:-

Following are the conditions of Monopoly-
1- Control over natural factors or raw material
2- Leagel factors.
3- Patent.
4- Cost factor.
5- Market factor and Small market size.

6- Heavy Investment.
7- Monopoly due to the government in the public interest and Welfare.

UNIT-3.

*. National Income - National Income is the sum total of value added in all the economic enterpuicer belonging to the country.

Precautions during the calculation of national Income -

1- Income from the second hand goods should be enclucled.

Illegal and windfall gains.

Tax should not be siperately included.

value of production for self consumption shall be added.

Private and government consumption shall be subtract.

Enclude the personal services.

Second hand goods purchased from abroad shall be added.

☆ GDP (Gross Domestic Product) :-
It is the estimated as the sum of net value added by the different producing unit in a year.
The territory factor is applied over the GDP because GDP belongs to the domestic territory.

All the political boundries.
Production in the ambassics.
Ships and aeroplane territories and area.

☆ GNP (Gross National Product) :-
GNP is defined as the sum total of the gross domestic product & Net factor Income from abroad.

$$GNP = GDP + NFIA$$

☆ Unemployement :- Unemployement is the unability of labour force and participant to find jobs.

Underemployment :- It is a condition where the job seekers get jobs under their ability and skills.

☆ Reasons of unemployment -
- Seasonal unemployment - Due to the seasonal changes and unemploy.

- Frictional unemployment - It is the unemployment period b/w the switch over jobs.
- Structural unemployment - It is the unemployment based upon the supply of jobs in a specific periods.

★ Inflation :- Inflation is an economic state where the money uses its value. In general the money has three features.

1- Exchange power.
2- Purchasing power.
3- Value
4- Currency.

In the inflation the general price rises and the money value falls.

Reasons for inflation -

1- Demand pull inflation -
When the aggregate demand exceeds the supply then it is known as demand pull inflation.

2- Cost pull inflation -
When the wages are increased in the market then it affects the production prices & cost which result into higher price into commodit to purchase the same quantity of commodity

3- Other-

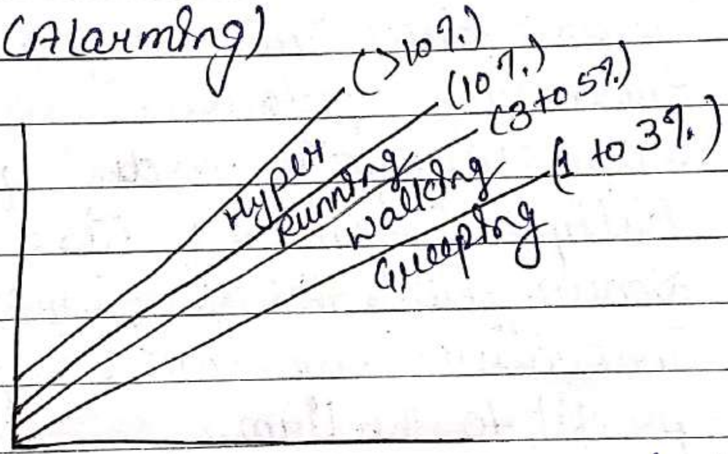
a) Any specific condition.

b) Government control.

c) Individual choice and fashion.

★ Types of Inflation-

- Creeping.
- Walking
- Running (Alarming)
- Hyper.



Open Inflation:- When the government does not apply majors to control the inflation then it is known as open inflation.

Suppressed Inflation:- When government put some major to control the inflation in the market then it is known as suppressed inflation.

★ Techniques to control Inflation -

1- Population growth control.

2- Rectification of black money.

3- Avoid overdependence over agriculture.

4- Bank rates (Interest)

★. Profit maximization – Profit is the surplus over the cost which is received by a firm after selling a unit of commodity.

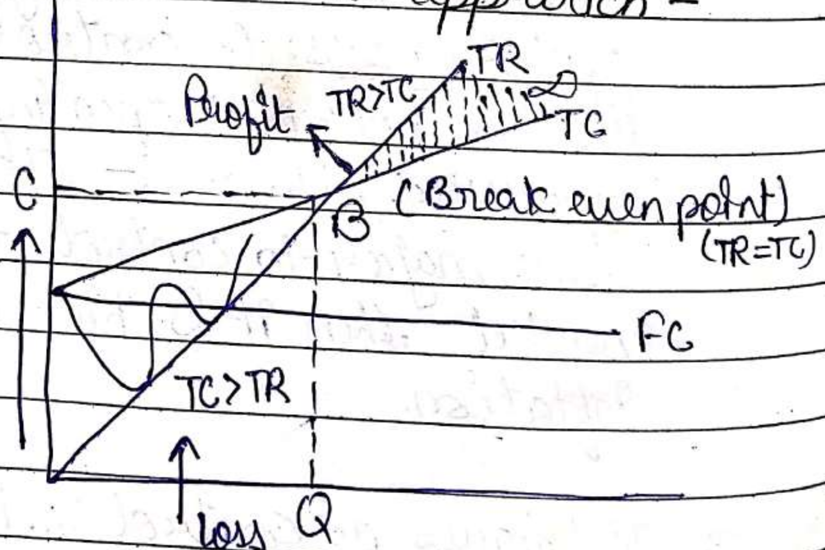
Various theories of profit :-

1- Walker's theory of profit – Profit is rent of ~~exp~~ exceptional ability of enter preneur.

2- Dynamic theory of clark :- The profit can be earned only in the dynamic conditions.
Increasing population.
Improvement in product quality and Techniques
Multiple Consumer's wants.

3- Schum Peter's theory of innovation :- Only the innovative commodities & practices bring profit to the firm.

4- Total revenue and total approach –



★. Functions of profit :-

1- A normal profit always prevent competition in the markets and it is stamps the barriers between the competitive firms.

2- Profit always project a favourable public

Image.
3- Profit is an Important factor In making of Costumer goodwill.
4- Profit is necessary for social welfare.
5- Profit is needed for the technological Improvement.

☆. Profit Policies :-
1- Least cost combination - The firm should put the efforts In order to using less Input for producing larger amount.
2- One product firm.
3- Normal profit - It is a kind of reasonable profit which give the Investment to the firm as well as discount to the customers.

Profit is necessary for firm, survival because the bussiness environment is full of ups and down and lots of things Involved are.

☆ Monitory policy :- Monetary policy is an Instrument which affect the credit flow In an economy.

Objective of monetary policy -
1- Stability In price level.
2- Economic development.
3- Arrangement of full employment.

4- Expansion of credit facility.
5- Economic equality and justice.
6- Stability in exchange rate.

Instruments of monetary policy-

1- Bank rate policy- Bank rates are the interest charged by the banks under the guidelines of RBI.
2- Open Market operation- It is a technique forward by the central bank of country. The central bank place the open interaction in the market by sale or purchase of assets, gold, government securities etc.
3- CRR (Cash Reserve Ratio)- Commercial bank has to keep a certain percentage of its deposit with central bank.
4- SLR (Statury liquidity Ratio)- Commercial banks are required to keep a fin percentage of its deposit liquid assets.

★. Fiscal policy:- Fiscal policy is related to taxation and public expenditure and it is also the measurement of tax structure in an economy.
In short fiscal policy contains the steps in order to fulfil the aims of economic policy.

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Objectives of fiscal policy -
To achieve the full employement in the economy.
To arrange the enough money to run the welfare program.
To guide the resource allocation.
To attain the economic growth in long run.

Techniques / Instruments -
1- Public expenditure - To maintain the infrastructure for the public utility. For the productive economy.
2- Public debt - When government expenditure is more than government revenue then it is known as public debt.
3- Taxation - Taxation is the source of revenue which helps out the gover to do their expenditures and it is generated by the general public.

★ Types of taxes :-
1- Direct tax - These are the taxes which a person pay to the government directly for himself and cannot enforce on another. Ex- Income-tax, house-tax, wealth-tax.

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2- Indirect tax - These are the taxes which are paid Indirectly and transferable.
Ex- Sales tax, excise tax etc.

★. Circular flow of economy :-

UNIT-4

☆ WTO (World Trade Organisation):- It is a global organisation dealing with rules of trade between nation establishment in 1st Jan 1995. It was resolved in uruguay round negotiation in the geneva Switzerland.

Functions of WTO -

1- Administration of WTO agreement and their operation.
2- It provides a platform of negotiation.
3- Responsibility to settle the disputes.
4- It provides the assistance and technical support to the developing nations.

☆ Organisational structure of WTO :-

1- Ministrial- It is the apex body of WTO where the representative minister are associated once in a two year.
2- General Council- It is also a sub-unit which consist government official as representative and the function is to form agreement, policies and rules.
3- Dispute Settlement body - (Jury).
4- Trade Policy review body.
5- Different concils.
6- Functional Committees and verificational body.

7- Membership - It is mendatory for members to follow the rules and facts of WTO in order to be WTO.

★. Principles of WTO :-

1- National treatment - WTO gives the due respect to the law of the member Countries and suggest them the necessary Changes for the global business.

2- Tarrification - (Transportation)
To maintain the sound tarrif ways and to protect the domestic factors.

★ DSU (Dispute Settlement Unit)

1- Consultation and mediation
2- Penal proceding.
3- Appellate body
4- Adoption of the result.

★. Globalisation :- Globalisation is the operation of trade activities across the Countries. Here, the firms which operates business into multiple nations known as MNC's. Every MNC has a parent country or origin and spreads its bussiness into other nations.

★ Features of MNC's:-
1. Integration of market.
2. Production of variety.
3. Cross-cultural organisation.
4. Production Integration
5. It is the cost effective trade practice.

★ Aspects of globalisation:-
1- Economic aspect - Globalisation provides cheap labour, free market economy.
2- Technological aspect - Nowadays our earth is setting on the technology boom due to the heavy development of IT is making the world as a small village.
3- Cultural aspects - During the process of globalisation the multinational firms are suppose to take care about the cultural Co
For ex:- The MC donalds provides the regional foods as staffing in the respective nations as in Arab as Arabian Kofta.
4- Military aspects - Every host country is bound to provide safety & security to the MNC. And in case of break the military actions can be initiated.
5- Political aspects - Global business always provides a chance for mutual political corporation b/w two nations because the interests are present for both the nations.

Out Sourcing :- It is a process where bussiness moves the produce of goods and services outsides from a country to pool the benefits of low cost, taxes, cheap labour and rich market.

Forms of outsourcing -

1. CRO (contract research organisation)
2. Customer service
3. Contract production
4. Outsourcing of ware houses.

☆ G-20 :- It is a group of 20 nations and was established in 1999 and the member countries are -

1- Argentina	11- Japan
2- Australia	12- Mexico
3- Brazil	13- Russia
4- Canada	14- Saudi Arabia
5- China	15- South Africa
6- France	16- South Korea
7- Germany	17- Turkey
8- India	18- UK
9- Indonesia	19- America
10- Italy	20- European union.

Last five chairs of G-20 :-

1- India (2015) (2002)
2- Germany (2017)

3- China (2016)
4- Turkey (2015)
5- Turkey (2014)

Objectives of G-20:-
1- Policy cordination b/w member countries in order to achieve economic stability.

2- Promotion of financial and mutual interest.
3- Modernisation in aspect of trade & Technology.

Features of G-20 -
1- 90% of GDP
2- 80% of International trade.
3- 2/3 population of world.
4- 84% fossil fuel pollution.

Exim Policy (2004, 2009) (Export-Import)
Exim policy is the set of foreign trade policies in form of various diagnise regulations & trade practices.

Objectives of the exim policy -
1- To accelerate the economic growth with max. profit.
2- To setup the stable economic growth with the help of domestic components.

3- To enable the Indian agriculture Industry infront of global.
4- To generate the global employment.

★ Main features of 2004- 2009-
1- Free export and Import.
2- To advise government on policy measures.
3. To review the export performance.
4 - To examine the existing infrastructure as compare to global facilities.
5. To set the review standards and norms.
6- To solve the disputes.
7- To advance the internal technical structure.

★ Trip: Trade Related Intellectual Property Tribe.

Intellectual property includes any inventions, literature or artistic works and also include property. By the means of Trips to the individuals, firms and nations to enjoy their own development.

Principles-
1- How ~~to~~ the intellectual property agreement should be applied.
2- To secure the adequate protection to the intellectual property rights by the means

of copyrights, patents and licence.

3- To call the nations for their seperate loss.

4- To settle the dispute of ditlement. Special transitional during the period when the new system being introduced.

★ Dumping :- The price a firm charges for a given good in the domestic market is sometimes different from the price it charges for the same good in an export market. The most common form of price discrimination is dumping.
A price stick practise in which a firm charges a lower price to foriegn costumers than to local costumers.

Condition : 2 major Conditions :-

1- The industry must be imperfectly competative.
2- Market must be segmented in the sense that domestic residance can't easily purchase goods.

Reasons for dumping -

1- The firms often have less figure of competition in dumping situation because the firm may select the market with the low.

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2- Dumping provides the surplus profit to the firm.

3- Dumping gives the chance to enhance the market share because at the same time the firm is interacting with multiple costumers.

4- It brings down the storage cost for the firm.