Business Economics

Topics

1) ## Global Trading

Def:- Global trading means exchange of goods and services between different countries by terms and conditions.

Types:- There are two types of global trading

1) Absolute advantage
2) Comperative advantage

Absolute advantage

Absolute advantage means which country Ⓐ or Ⓑ produce goods at low price and give benefit to other Ⓐ or Ⓑ Country.

Example:-

	Products	
country	wheat	cloth
US	6 L	10 L
UK	10 L	6 L

∴ L = Labour

US specialize in wheat and UK is specialize in Cloth. Thus US provides wheat to UK and UK provide Cloth to US to earn more profit

Comperative advantage

Comperative advantage means Ⓐ country producing commodity at low price and give absolute advantage to Ⓑ country and Ⓑ country has absolute disadvantage.

Example:-

Products

Country	rice	wheat
India	80L	90L
UK	120L	100L

∴ Producing 1 unit

India get more profit in producing rice and UK gets less loss by producing wheat. Hence India produce more rice and UK produce more wheat. Both country exchange wheat and rice according to their needs.

2) Business Strategy and Business growth

Business Strategies

Def:- The strategies that helps leaders to set Organizational goals and give companies a Competitive edge.

Types

1) Cost leadership strategy
2) Differentiation strategy
3) Focus strategy
4) Customer strategy.

1) Cost leadership

The strategy that is used to boost up productivity is (By producing at low Average cost) called cost leadership

2) Differentiation Strategy

In this strategy companies offers a unique and superior products. (example)

3) Focus Strategy

The strategy Involves focusing on a narrow customer segment of market (example)

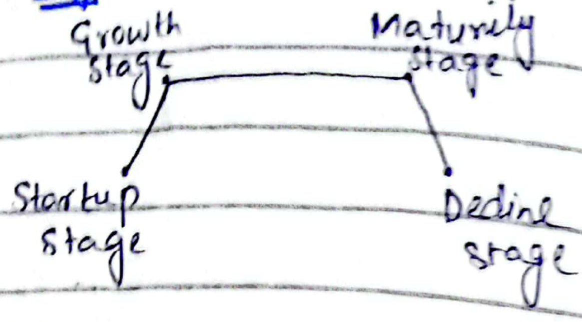
4) Customer Strategy

Close and long lasting relationship with customer are the core of this strategy.
(example)

Business Growth.

Def:- A stage when companies generates extra profit is called business growth.

Stages



Types

1) Organic business growth
2) Strategic business growth
3) Internal business growth
4) Partenership or merge.

1) Organic business growth

The type in which by producing goods or Introducing new products.

2) Strategic business growth

Strategic business growth provides a road map to achieve long term goals.

3) Internal business growth

The business growth in which profit maximize and cost minimize.

4) **Partnership or Merge**

The business growth in which two brands merge to gain extra profit.

3) Globalisation and MNC's

Def:- Globalisation is the process of Interaction and Integration among people companies and govt world wide via Internet.

MNC's (Multi National Companies)

Def:- The companies whose business is more than one country and earn at least 25% revenue from host country. i.e:- McDonald's, Coca Cola

Types

1) Decentralized 2) Centralized
3) International 4) Transnational

1) **Decentralized** Branches in other countries. You are your own i.e:- McDonalds.

2) **Centralized** companies which is operate by their head country, home country controlling by head quaters.

3) **International** No control by head quaters. Every host company control according to their strategies. i.e: Coca-Cola

4) **Transnational** partial control by head quater, Mixture of Centralize and decentralized.

Advantages & Disadvantages

Advantages
1) Product Introduce in other country
2) job opportunity
3) Country reaches to prosperity.
4) Economic growth.
5) Global exchange of idea and culture.

Disadvantages
1) Enviornmental Impact
2) Economic dependency.
3) Monopoly made by MNC's.
4) Source Exploitation

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4) National Macro Economics Policies

Def:- The policies which are used to increase Economic growth.

Types

1) Fiscal policy
2) Monetary policy
3) Commercial policy

1) Fiscal policy

The policy made by govt on the basis of govt expenditure and revenue is called fiscal policy.

Govt Revenue

Direct tax

The tax which is payed by person whose fine
i.eg Income tax

Indirect tax

The tax which is payed by other person
i.eg
Sales tax.

Govt expenditure

Developement

The expenditure incurred on health education.

Non-development

The expenditure incurred on cost of tax, printing notes

Govt Budget

→ Govt Income (GI) = Govt expenditure (GE)
(Balance Budget)

→ GI > GE (Surplus)

→ GI < GE (Deficit)

2) Monetary policy

The policy made by central bank of country (central bank) to control money supply.

Tools

1) Quantitative
2) Qualitative

Quantitative

1) **Inflation**

Total Money ↑

2) **Deflation**

Total Money ↓

3) **OMO**

OMO stands for open market operation.

OMO means Buying and selling of Govt Security.

4) **Reserve Requirement**

Reserve Requirement ↑ (Inflation)

Reserve Requirement ↓ (Deflation)

5) Reserve Ratio

The minimum percentage of bank's deposit, which is required to keep with CB.

6) Marginal Requirement

The difference b/w current value of Security offered for loan.

7) Credit Ceiling

Credit ceiling means maximum loan number reaches.

Qualitative

1) Moral Suasion

State bank request commercial bank to Control loan policies.

2) Consumer credit control

consumer credit control means loan for what purpose i.e: Investement, consumption purpose.

3) Direct Action

state bank directs action to Commercial bank to control loan limits.

4) Publicity

state bank blacklist those banks who give more loan to consumers.

3) Commercial Policy

commercial policy is use in International level and International trade.

i.e.: Exports & Imports, custom duty, Quota.

Objectives of All policies

1) To achieve economic growth.
2) Price Stability
3) To correct consumption pattern.
4) To Remove Unemployement.
5) To Remove Deficit.

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5) Law of Demand

Demand:- Demand is the consumer's desire to purchase a particular good or service.

Law of demand

law of demand is a fundamental principle of economics that describes the relationship b/w the price of goods and the quantity demanded by consumer.

It is explained with the help of demand schedule and diagram.

Demand Schedule

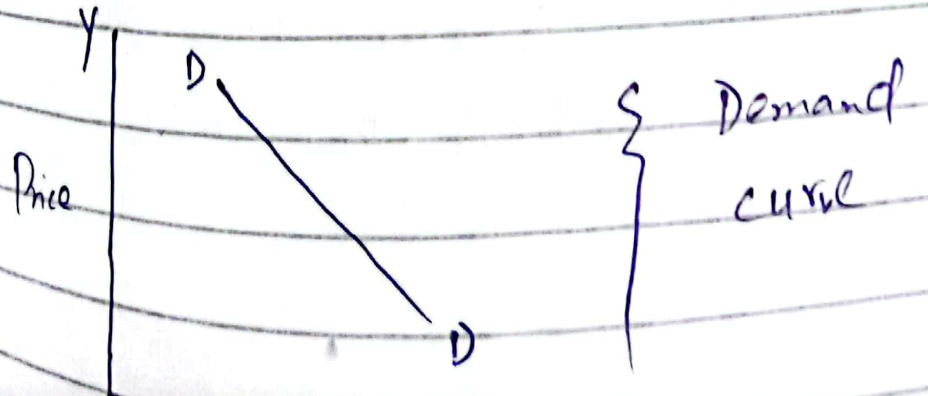
A demand schedule is a table that shows quantity of goods or services that consumers are willing and able to purchase at different prices. All other remaining factors will same.

Price	Quantity demanded
5	100
4	150
3	200
2	250
1	300

As the price of product decreases, the quantity demanded Increase.

Demand curve diagram

The graphical representation of demand schedule is called demand curve diagram.



As you see in demand curve, it's slopes downward from left to right. This means that when price of products decreases, the quantity demanded increase.

6) Elasticity of demand by total expenditure method

Elasticity of demand

The responsiveness of quantity demanded or supplied of a good to change in its price.

Meaursement of elasticity by using expenditure method

According to this method, there are three way to measure elasticity by total expenditure method

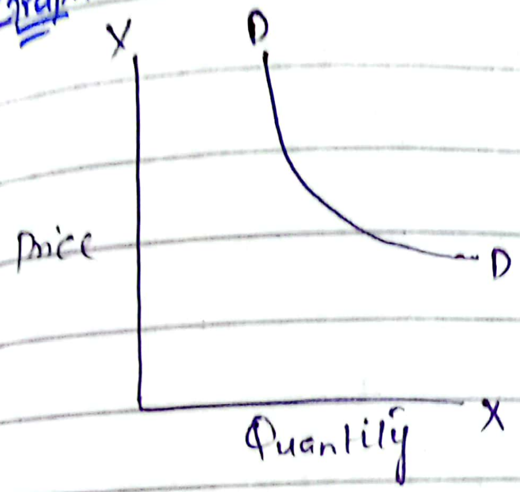
1) Equal to unity
2) Greater than unity.
3) Less than unity.

1) Equal to unity

when the prices of commodity decreases the quantity demanded will increase but total expenditure remain constant.

Px	Qx	Total Revenue
RS 8	3kg	RS 24
RS 6	4kg	RS 24
RS 4	6kg	RS 24
RS 3	8kg	RS 24

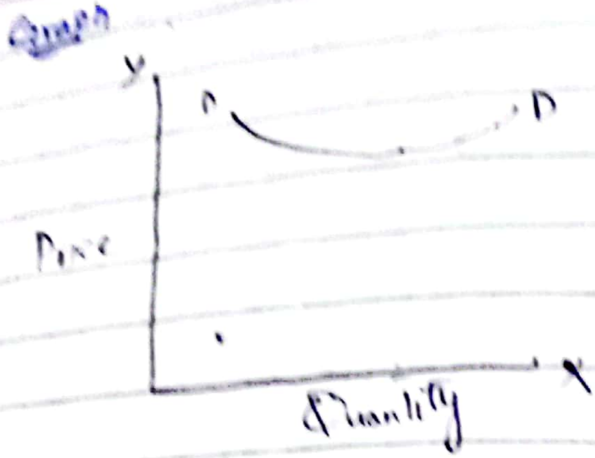
Graph



2) Greater than unity

when the price of commodity decreases and its quantity demanded increases but total expenditure change in opposite direction

Px	Qx	TR
RS 5	2 unit	RS 10
RS 4	4 unit	RS 16
RS 3	8 unit	RS 24

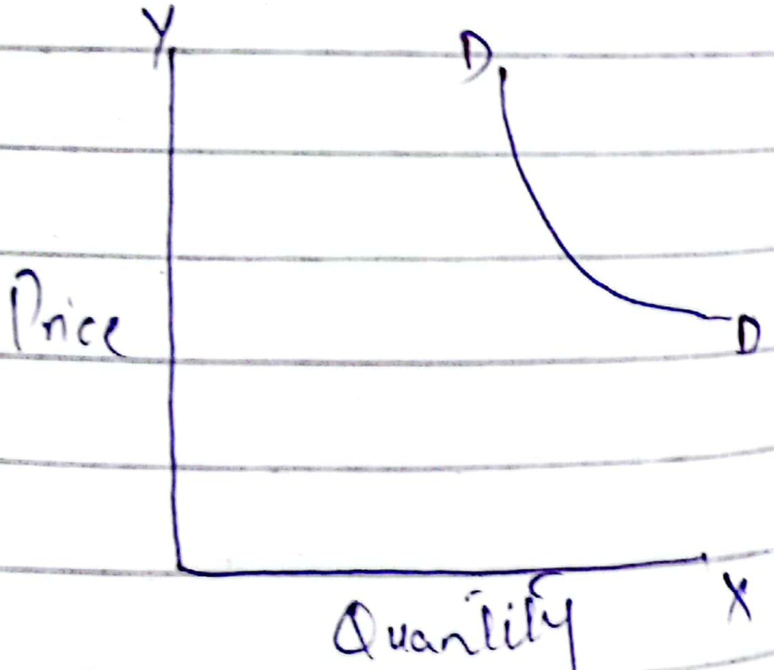


3) Less than unity

when the price of commodity decreases the quantity demanded will Increase but total expenditure will also decrease and vice versa.

Px	Qx	TR
Rs 7	6 unit	Rs 42
Rs 5	7 unit	Rs 35
Rs 3	8 unit	Rs 24

Graph



7) Firm equilibrium or producer equilibrium in Short run under Perfect Competition

In Short run under perfect competition, a firm reaches producer equilibrium when its maximize its profit a minimizes its losses. This occur at a point where firm (MC) equal to its (MR) and (MC) is rising. At this equilibrium.

1) Price

Price (P) = MC = The firm sels its price equal to its MC to maximize its profit.

2) Revenue

Total Revenue (TR) > Total variable cost (TVC)

3) Economic profit or loss

The firm may earn a profit (TR > TC (Total cost)) or incur a loss (TR < TC)

4) Shutdown point

If price falls below average variable cost (P < AVC), the firm should temporarily shut down to minimize losses.

The producer equilibrium in short run under perfect competition involves setting price equal to MC, covering variable costs, and making decisions based on weather the firm is earning a profit or loss.

8) Demand and Consumer

Consumer:-

There are two types of consumers approach

1) cardinal
2) ordinal

1) Ordinal

Ordinal means order or ranking. In ordinal there are two things IC (Indifference curve) and Budget line intersect to produce consumer equilibrium.

Budget line

commodity

X	Y
→ Price X (P_x)	→ Price Y (P_y)
→ $X \cdot P_x$ Expenditure	→ $X \cdot P_y$ Expenditure

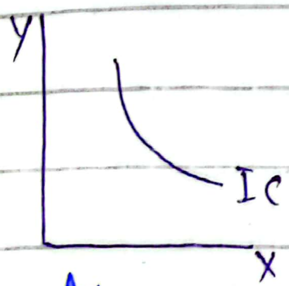
where x and y are no of commodity.
$I = Xp_x + Yp_y$ is called Budget line.

Slope of Budget line $= \frac{I/p_y}{I/p_x} = \frac{p_x}{p_y}$

Indifference Curve

It is an Imaginary line where level of satisfaction is equal on goods of X and Y.

Graph

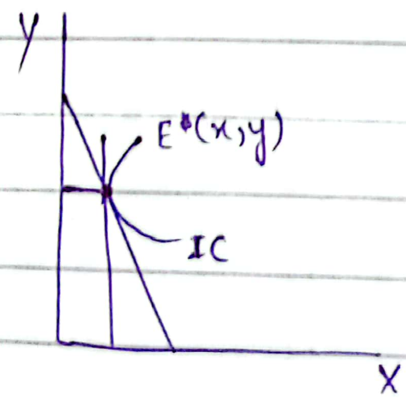


Slope of IC $= \Delta Y / \Delta X$

Consumer equilibrium

Slope of Budget line = Slope of IC

Graph



2) Cardinal

Law of diminishing Margin Utility

"The more we have any commodity the desire to get any more of it decrease".

Marginal utility = $\frac{\Delta \text{total}}{\Delta \text{ in one unit}}$

Marginal utility(MU)

change in total utility by consuming extra unit of commodity.

Assumptions

1) All the units of commodity in use must be similar.

2) Continiously assumption of any commodity.

3) The Income of consumer will not change.

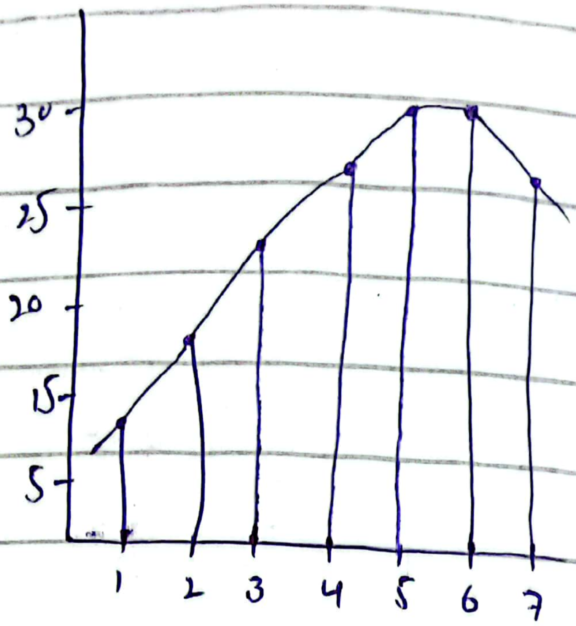
Table

Q	TU	MU
1	10	—
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	-2

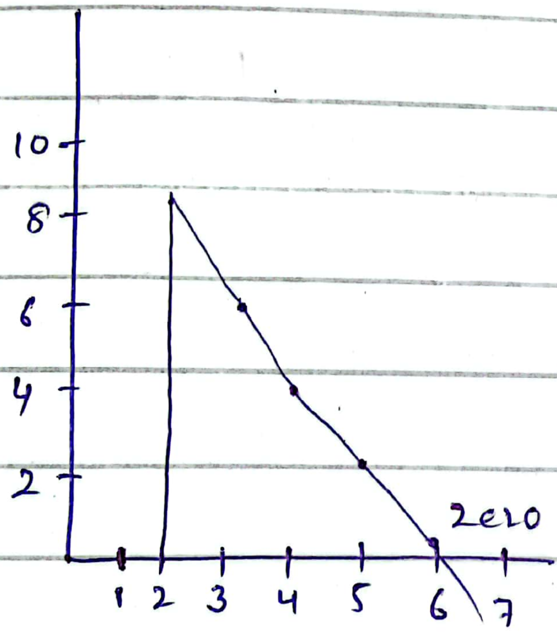
∴ Change in TU = MU

Graphs

TU



MU



Relation b/w TU & MU

1) TU ↑ MU ↓ (positive)
2) TU (max) MU = 0
3) TU ↓ MU ↑ (negative)