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NMIMS GLOBAL ACCESS SCHOOL FOR CONTINUING EDUCATION

Business Economics Foundation Lecture

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Overall Syllabus

Chapter No .	Chapter Name
1	Introduction to Business Economics
2	Demand Analysis
3	Supply Analysis
4	Consumer Demand Analysis
5	Elasticity of Demand Supply
6	Demand Forecasting
7	Production Theory
8	Cost and Revenue Analysis
9	Market Structure
10	Market Failure

Foundation Session Content

- What is Economics
- Scarcity and Economics
- Fundamental Problems
- Different Economic Systems
- Circular flow of Economy
- Macro Economic Factors
- Business Economics

LEARNING OBJECTIVES

Define the meaning of economics

Discuss the concept of business economics

Identify the differences between economics and business economics

Describe microeconomics and macroeconomics

Explain the laws of economics

Discuss economic static and dynamics

Describe the role of economics in decision making

Define the concept of social accounting

Estimate GDP

Describe business cycles

Explain inflation

Course Introduction

- In simple terms, **Economics** can be defined as a discipline that studies the behaviour patterns of human beings. The main aim of Economics is to analyze how individuals, households, organisations, and nations use their scarce resources to achieve maximum profit/wealth/well being-ness
- Business Economics or Managerial Economics is a specialized discipline of Economics that undertakes a study of various economic theories, logics, and tools used in Business decision making.
- Business Economics applies various economic concepts, such as demand and supply, Competition, Allocation of resources, and Economic trade-offs, to help Managers' in making better decisions.

Evolution of Subject Economics

<u>Economics as a Subject Journey</u> **- Oikos (Home / Family) & Nemein (Manage)**

- To find how such a complex set of <u>**Transactions**</u> is Organized
- Which coordinates production, employment and consumption decisions
- Which supports all Jobs & Entrepreneurship
- How goods and services are delivered wherever people want
- As and when complexity of economies started, the evolution of economics started. Barter system- exchange of goods, few goods were produced and exchanged .
- People wants and desires increased complexity evolved, money was invented.

Meaning of Economics

- In simple terms, economics can be defined as the study of how individuals, households, organizations, and nations make optimum utilization of scarce resources to satisfy their wants and needs. to simplify the concept, economics is defined by taking four viewpoints, which are listed in Figure

Wealth Viewpoint

Welfare Viewpoint

Scarcity Viewpoint

Growth Viewpoint

Economics Application

Scope of Economics

The scope of economics has been broadened to many areas, which are shown in Figure:

- International Arena
- Public Finance
- Welfare
- Health
- Environmental Studies
- Urban and Rural Development

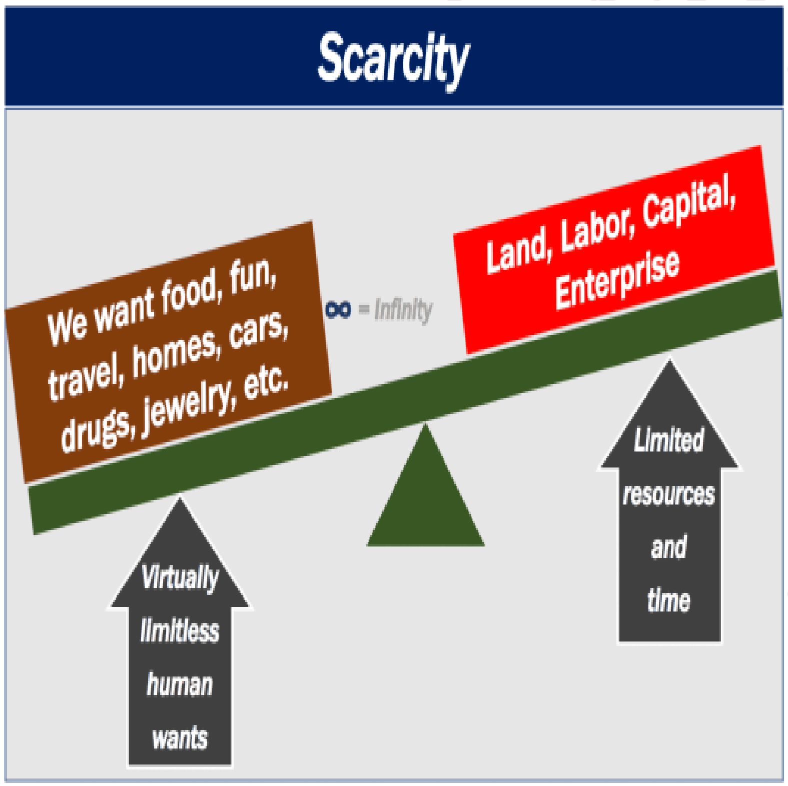
Scarcity and Economics

Economics is a Subject which studies Human Behaviour as a Relationship in between Unlimited Wants & Limited ends which have alternative Uses."

Prof Lionel Robins

- Government agencies work with limited budgets and must carefully choose which goals to pursue
- Economists study these decisions to
  - Explain how our economic resources are Utilized
  - Forecast the future of our economy & systems
  - Optimization of Resources & Further Growth

Lets Discuss…



Needs vs Wants

NEEDS: are the basic necessities that a person must have in order to survive

- E.g. food, water, warmth, shelter and clothing

WANTS: are the desire that people have

•e.g. things that people would like to have, such as bigger homes, iphones,

Luxury Cars, High Frequency Trips / Tours etc.

Fundamental Problems In Economy:

What to produce?

Quantity and range of goods to produce

Resources are limited, we must choose between different alternative collection of goods and services that may be produced

How to produce?

Techniques of production e.g. labor intensive, capital intensive

For whom to produce?

It means that how the national product is distributed i.e. who should get how much

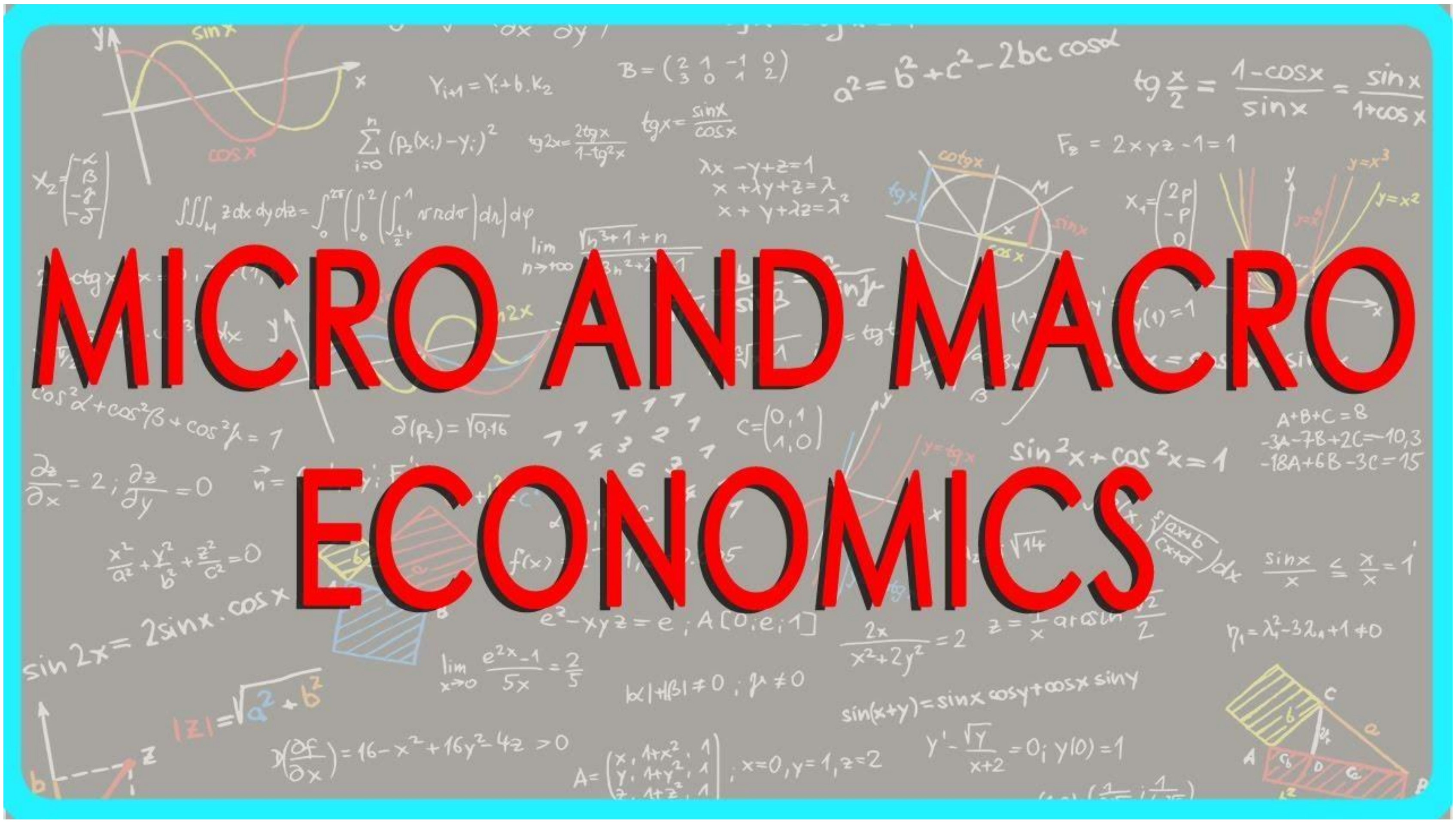
Are the resources economically used?

No wastage of resources since they are limited/Scarce

How much to produce ?

How many units to produce at what timelines ?

Micro and Macro Economics



Microeconomics

- Individual markets
- Effect on price of a good
- Individual labour market
- Individual consumer behaviour
- Supply of good

Macroeconomics

- Whole economy (GDP)
- Inflation (general price level)
- Employment/unemployment
- Aggregate demand (AD)
- Productive capacity of economy

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Microeconomics vs Macroeconomics

Microeconomics

The study of decision making undertaken by Individual(s) /or Household(s) and by firms

Like looking though a microscope to focus on the smaller parts of the economy

- Decision of a worker to work overtime or not
- An individual firm advertising
- Business /Firm's decision of Expansion

Microeconomics vs Macroeconomics

Macroeconomics

The study of the behavior of the economy as a whole

Deals with economy wide phenomena

- The national unemployment rate
- The rate of growth in the money supply

Macroeconomics deals with aggregates, or total—such as total output in an economy.

Modern economic theory blends micro and macro concepts.

Importance of Macro-economics

- It is helpful in understanding and functioning of a complicated Economic system as a whole.
- It gives bird's eye view of the Economic world
- It is useful in framing Economic policies for the nation
- Macro-analysis also occupy an important place in Economic theory in its pursuit of the solution of urgent economic problems
- These problem relate to aggregate output, employment and national income

Summary – Micro and Macro Economics

Microeconomics

Demand and supply between individuals

consumers, buyers, vendors, providers

Macroeconomics

Total economic environment

Studies related to local, national, regional and global economies

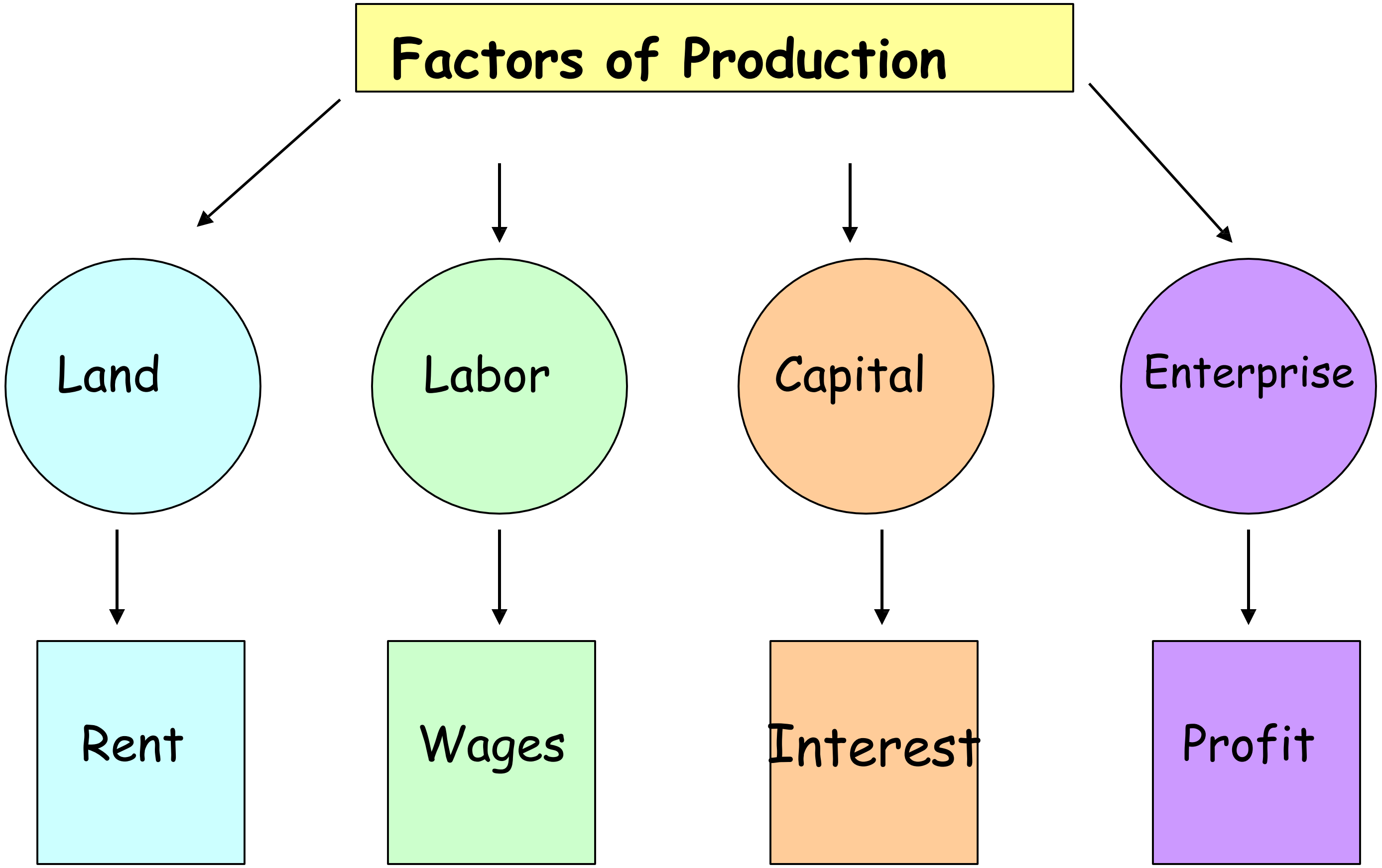
Identify Micro and Macro Economics

- What determines how households and individuals spend their budgets?
- What determines what prices a firm will charge?
- What determines a Biz Firm, how many workers it will hire?
- What determines how many jobs are available in an economy?
- What causes many Industries to hire more workers or to lay workers off? Finally, what causes the economy to grow over the long term?
- What causes the economy to speed up or slow down?

Answers

Identify Micro and Macro Economics

- What determines how households and individuals spend their budgets? -**Micro Economics**
- What determines what prices a firm will charge? - **Micro Economics**
- What determines a Biz Firm how many workers it will hire? – **Micro Economics**
- What determines how many jobs are available in an economy? - **Macro Economics**
- What causes many Industries to hire more workers or to lay workers off? Finally, what causes
  the economy to grow over the long term? - **Macro Economics**
- What causes the economy to speed up or slow down? -**Macro Economics**


Factors of Production
Land
Labor
Capital
Enterprise
Rent
Wages
Interest
Profit

Costs, Revenue and Profits

Costs

- Total cost
  - TFC
  - TVC
  - TC

Revenue

Revenue is the income that a firm receives from selling its products, goods and service over a certain period of time.

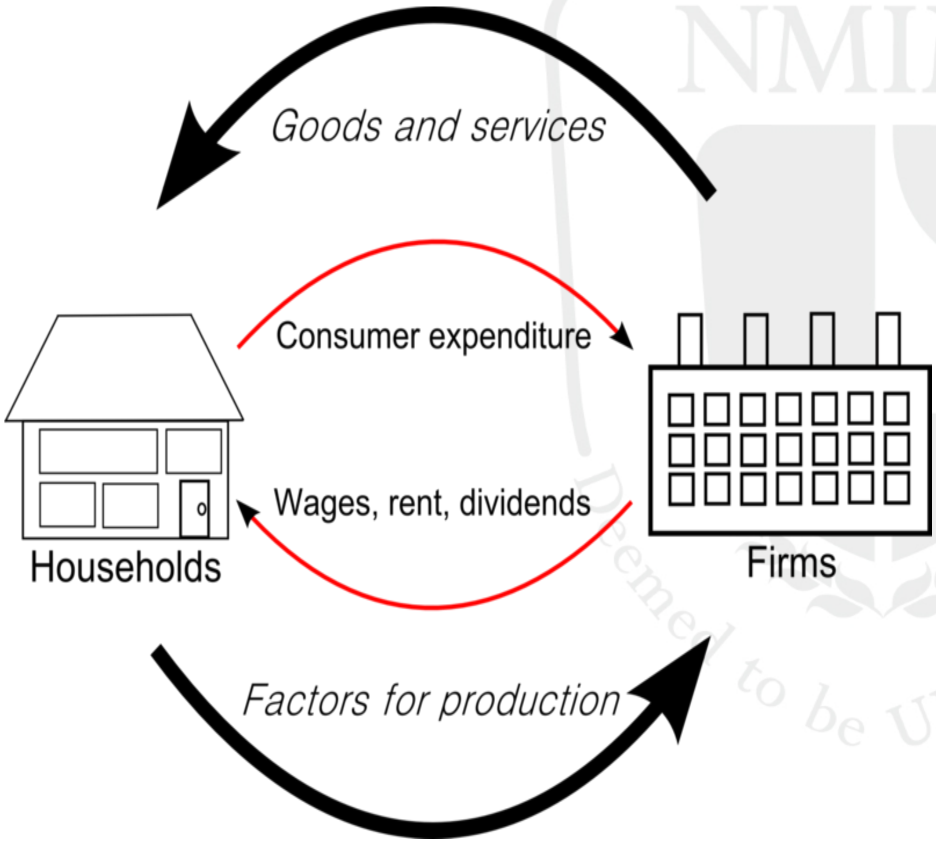
Whether to produce or not?

	Firm A	Firm B	Firm C
TR	**80 000**	**120 000**	**250 000**
TFC	100 000	100 000	100 000
TVC	100 000	40 000	80 000
TC (FC+VC)	**200 000**	**140 000**	**1,80 000**
Loss	**(-) 120 000**	**-20,000**	**70 000**

Circular flow of economy

A continuous flow of production, income and expenditure is known as circular flow of income. It is circular because it has neither any beginning nor an end. The circular flow of income involves two basic assumptions

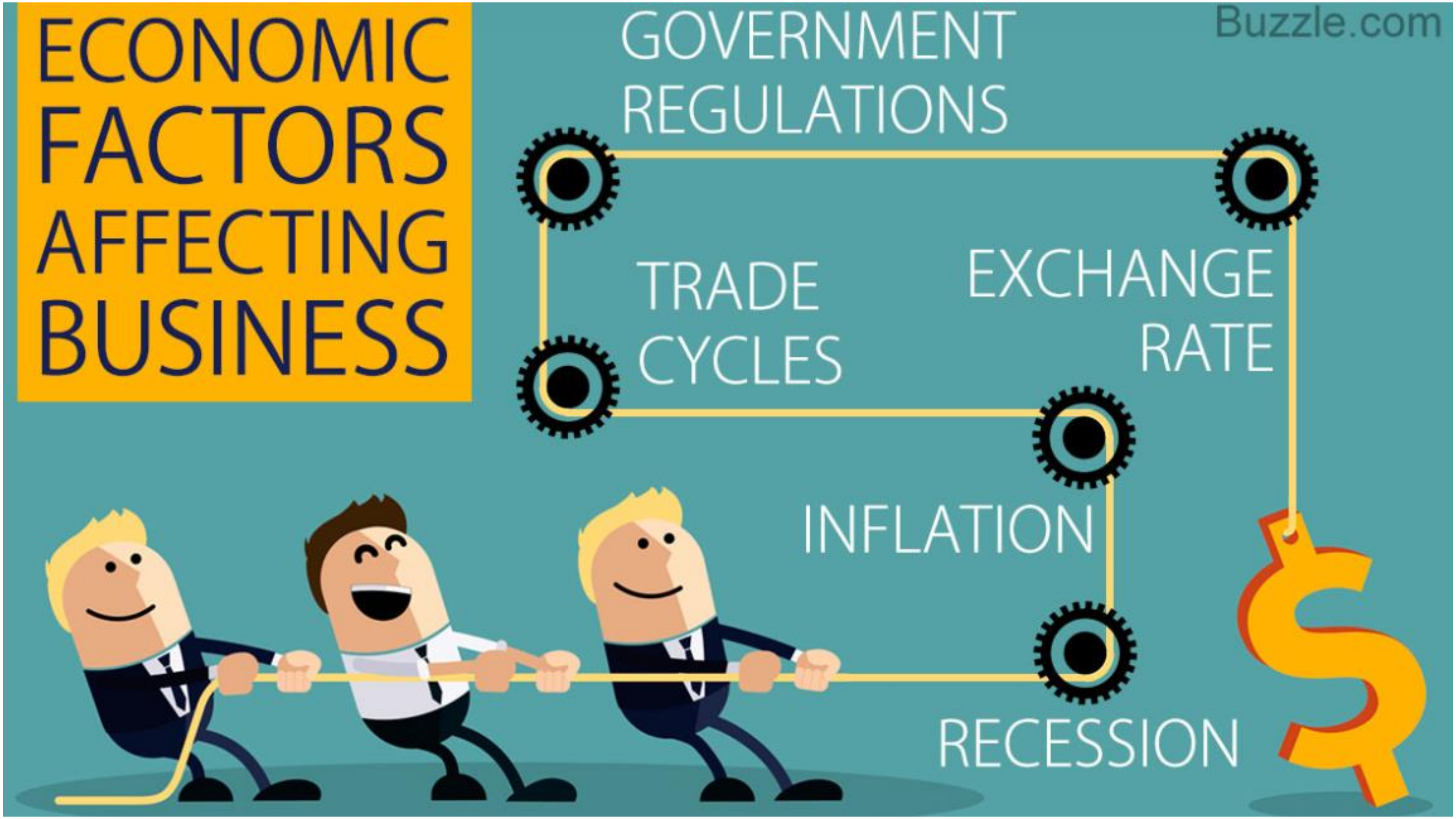
Two sector model



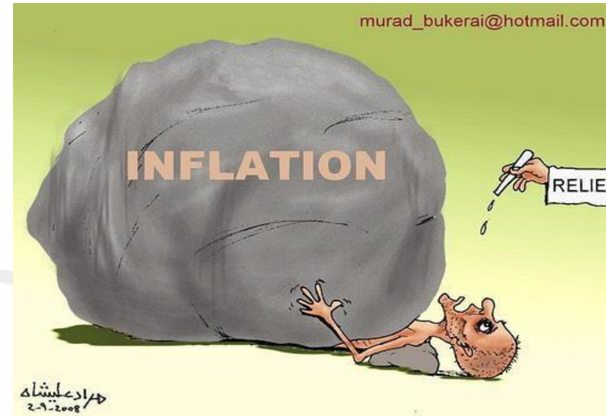
- ❑Refers to a simple economic model which describes the reciprocal circulation of income between producers and consumers.

- ❑In the circular flow model, the inter-dependent entities of producer and consumer are referred to as "firms" and "households" respectively and provide each other with factors in order to facilitate the flow of income.

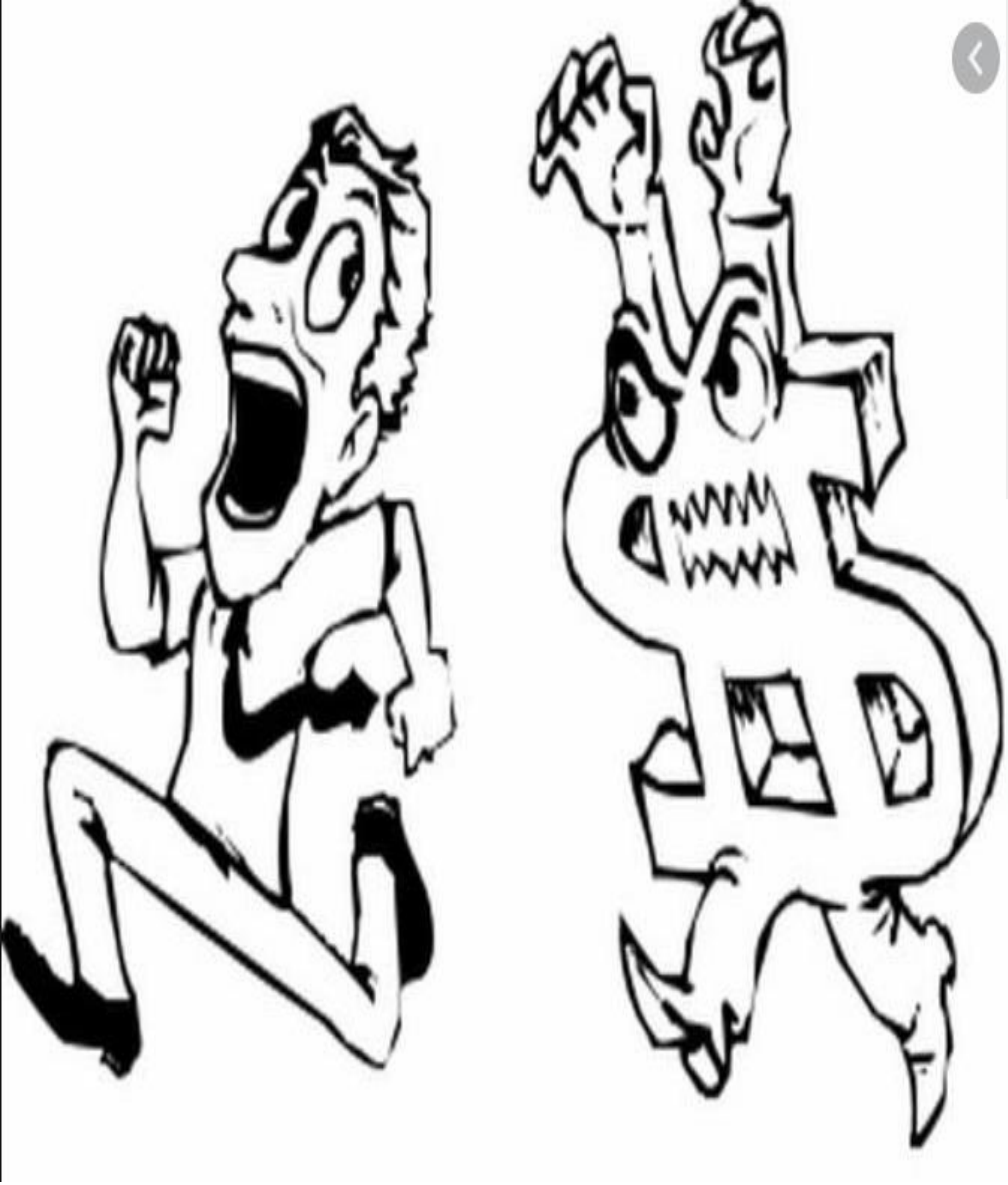
Macroeconomic Factors



Inflation



- Inflation is defined as a sustained increase in the price level or a fall in the value of money.
- When the level of currency of a country exceeds the level of production, inflation occurs.
- Value of money depreciates with the occurrence of inflation.




PRICES


INFLATION
ECONOMY
UNEMPLOYMENT


Daily use items such as food, clothing, housing,
recreation, transport, consumer staples, industrial goods

Money Value Derivation Example due to Inflation

GPL General Price Increase

Decrease in Currency Value

1955 = Old Re 1

2020 = Rs. 100

So today's Rs. 1 lakh will be worth Rs. 50,000 in 12 years

	1 lt. Cow Milk	1 lt. Petrol	1 Cinema Tkt.
1947	₹ 0.12	₹ 0.27	₹ 0.30
1975	₹ 2.50	₹ 1.70	₹ 3.00
2019	₹ 46.00	₹ 68.00	₹ 300.00

INFLATION

Increase in general price level of goods & services

DEFLATION

Decrease in general price level of goods & services

Causes of Inflation

- Increase in money supply.
- Increase in exports.
- Black money & Fake currency.
- Increase in public expenditure
- Decrease in the aggregate supply of goods and services. (Shortage)

Identify the below:

DEFLATION

Deflation

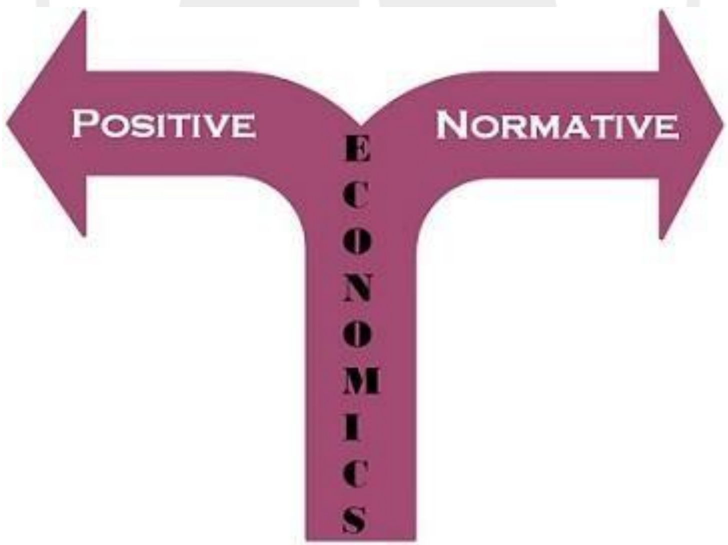
- It refers to continuous fall in price level. This happens in recession period. If it last for longer period, it harms the growth & development of the economy.
- Deflation is generally caused by reduced demand and consumption in the economy.
- Reduced expenditure by consumers, business people and government brings down demand and thus causes deflation.
- Lower demand means reduced takers for goods and services and in this way prices of commodities will come down to make them saleable.

Gross Domestic Product

GDP

- GDP is one of the primary indicators used to gauge the health of a country's economy
- **GDP is the sum of money value of all goods and services produced within the domestic territories of a country during an accounting year.**
- It includes income from exports and payment made on imports during the year.
- GDP = **C + I + G + (X – M)** or ,
- GDP = **Private consumption (HH) + Gross Investment + Government investment + Government spending + (exports – imports)**
- **When GDP rises**, economic activity is increasing. This is called economic growth. The level of activity fluctuates over time. Periods of high growth are followed by periods of slow growth. Sometimes the economy experiences negative growth when there is a fall in GDP. These fluctuations are known as the business cycle.

Positive and Normative Economics



Positive and Normative Economics

- **Positive** Economics is objective and fact based, while **Normative** Economics is subjective and value based.

- Positive economic statements must be able to be tested and proved or disproved. A fall in incomes will lead to a fall in demand for extra consumption of supermarket foods.

- **Normative economic statements are opinion based**, so they cannot be proved or disproved. “Government should provide basic healthcare to all citizens" is a normative economic statement. There is no way to prove whether government "should" provide healthcare; this statement is based on opinions about the role of government in individuals' lives, the importance of healthcare, and who should pay for it.

Difference between positive and normative Economics:

- Positive economics explains how the world works. It is concerned with what is, rather than with what ought to be.
- Normative economics is concerned with what ought to be rather than what is. It proposes solutions to society's economic problems.
- That there is unemployment in India is a problem of positive economics. What measures can be adopted to solve the problem is a problem of normative economics.

Identify the positive and Normative statement :

- A reduction in income tax will improve the incentives of the unemployed to find work
- The retirement age should be raised to 70 to combat the effects of our ageing population
- Resources should be best allocated by allowing the market mechanism to work freely

Answers

- A reduction in income tax will improve the incentives of the unemployed to find work – **P**
- The retirement age should be raised to 70 to combat the effects of our ageing population –**N**
- Resources should be best allocated by allowing the market mechanism to work freely-**N**

P = Positive

N = Normative

Firm & Industry

Then, What to Industry refers?

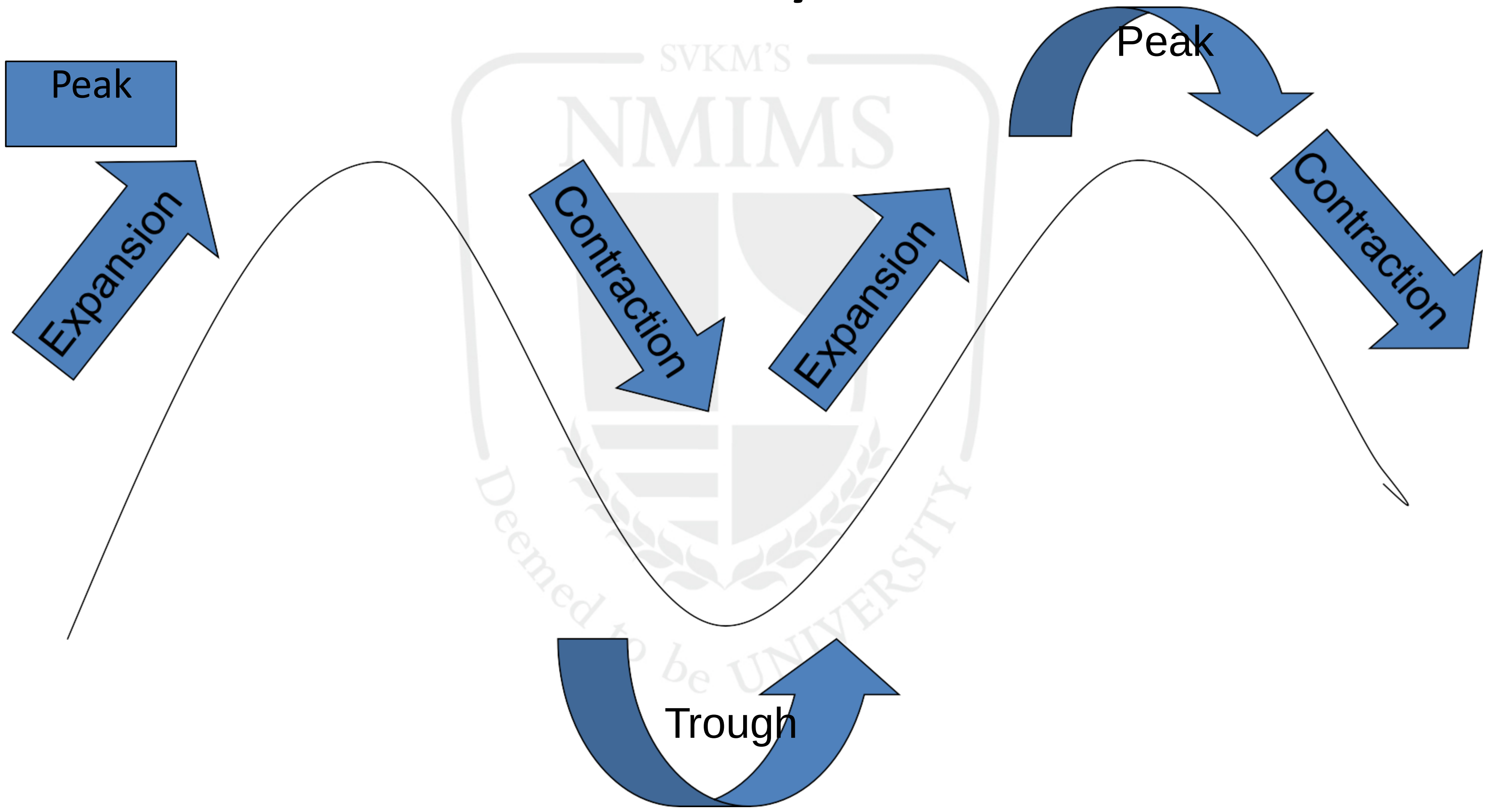
- The Firm and Industry are two different entities but co-related
- A group of Firms producing a homogeneous products is called Industry and conversely we can say a Firm is the company that operates within the Industry to create that product

- An Industry is the name given to a certain type of manufacturing or retailing environment For example, the retail industry is the industry that involves everything from clothes to computers
- You can presume KFC as one firm, but all the fast food restaurants and their suppliers would make up the fast food Industry

Firm and Industry Demand

Firm Demand	Industry Demand
Firm Demand represents the demand for products of a single company	Industry demand refers to the demand of an Industry (Consolidated)
Eg Demand for Honda Bike	Eg Demand for Bikes

Business Cycle



Phases of the Trade/Business Cycle

- Expansion (Growing)- increased consumer confidence, which translates into higher levels of business activity.
- Peak (Top)- The economy has reached its peak.
- Contraction (Shrinking)/Recession- It is a period of decrease in consumer confidence and Economic activity-Depression is extended version.
- Trough (Bottom)
- **Recovery**

Business Economics

- A close interrelationship between management and economics had led to the development of managerial

economics. Managerial economics is considered as economics applied to “**problems of choice**’’ or alternatives and allocation of scarce resources by the firms.

- The most important function in managerial economics is decision-making. It involves the complete course of selecting the most suitable action from two or more alternatives. The primary function is to make the most profitable use of resources which are limited such as labor, capital, land etc. A manager is very careful while taking decisions as the future is uncertain; he ensures that the best possible plans are made in the most effective manner to achieve the desired objective which is profit maximization.

According to **Mansfield**, “Managerial or Business Economics is concerned with the application of economic concepts to the problems of formulating rational decision making for Business Organization.

2. Defining Business Economics

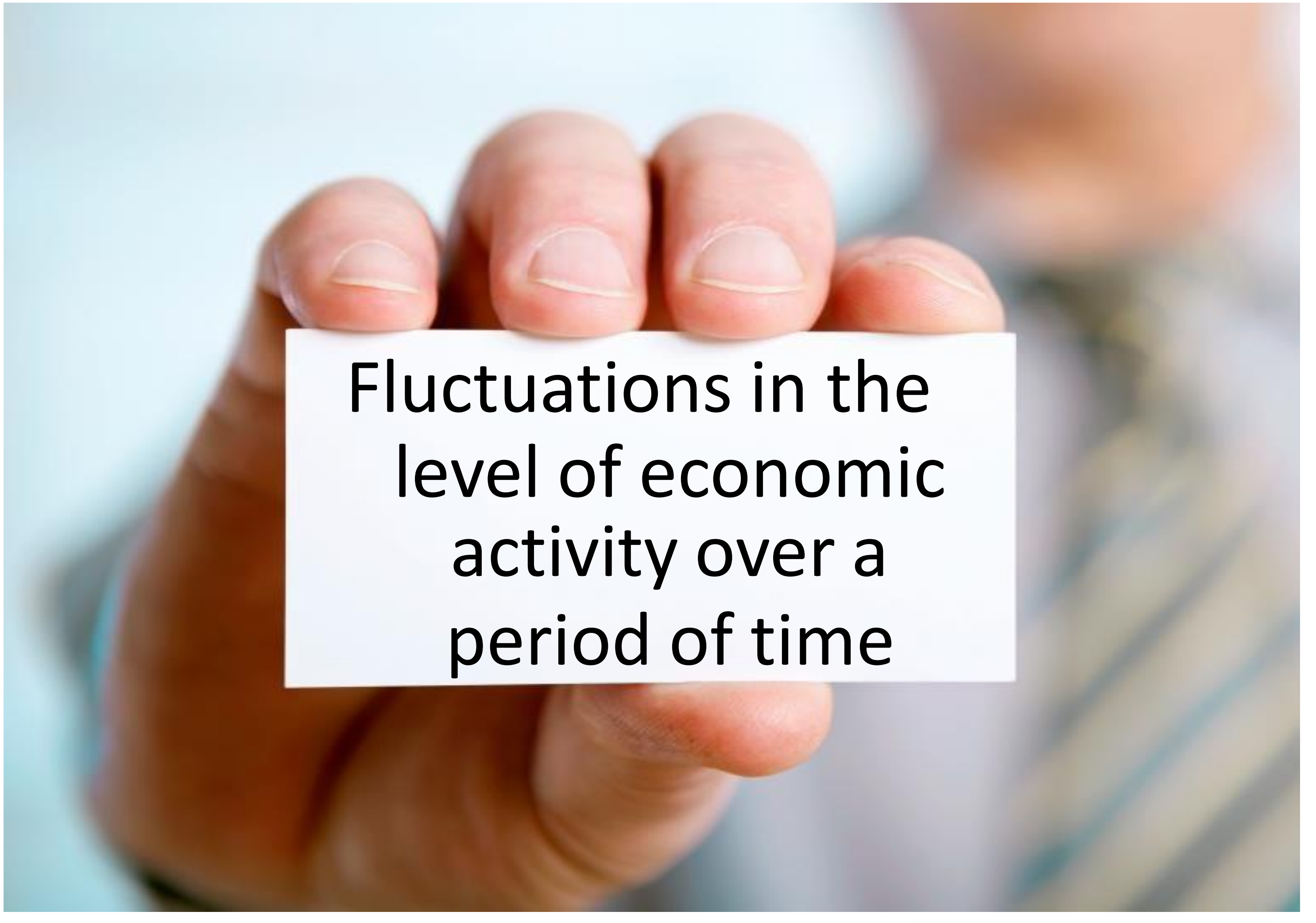
Scope of Business Economics

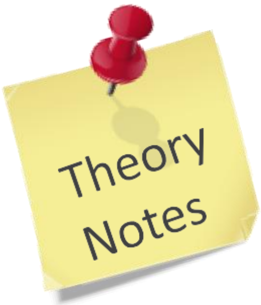
Business economics involves the application of various economic tools, theories, and methodologies for analysing and solving different business problems.

- Demand analysis and forecasting
- Cost and benefit analysis (CBA)
- Pricing decisions, policies, and practices
- Profit maximisation
- Capital management

Theory Notes

Business Cycle





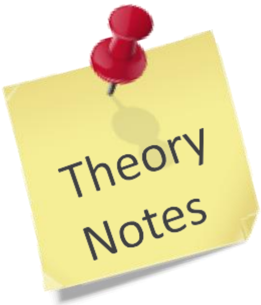
Business Cycle

Some years there is a strong increase in the level of economic activity.

This is called a period of "boom"

People are confident about job security, receive pay increases each year

Consumers are confident with decision to make large purchases e.g. Row Houses, Cars



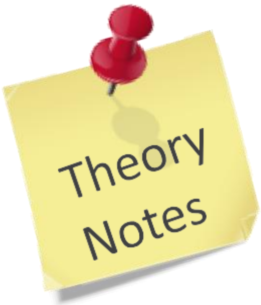
Business Cycle

Strong economic growth does not last forever. Sometimes economic growth begins to “slowdown”.

People are less confident about job security, could be made redundant

Consumers are less confident with decision to make large purchases / or big expansion decision

E.g. New House, even House Renovation etc.



Business Cycle

The “Slowdown” may be so bad that amount of goods produced in one period can be less than a previous period.

In this case the growth will be negative If growth is negative for 2 to 3 successive quarters, this is called **deep recession i.e. Depression**

Gross National Product-Concept and Components

GNP can be defined as the market value of all products and services that are produced in a particular year by a country. In other words, it is a measure of a country's economic performance. Components of GNP are

- Government expenditure
- Consumption expenditure
- Investment expenditure
- Exports
- Imports

Quiz

1. Study of what should be and used to make value judgments, identify problems, and prescribe solutions_________.
2. In________people feel confident about their jobs and incomes, they make decisions to spend more money
3. In________people feel less confident about their jobs, incomes and the future, then spending will reduce.
4. Fluctuations in the level of economic activity over a period of time is called_______.

Quiz

1. Study of what should be and used to make value judgments, identify problems, and prescribe solutions- **Normative.**
2. In **Boom economy** people feel confident about their jobs and incomes, they make decisions to spend more money
3. In **Recession** people feel less confident about their jobs, incomes and the future, then spending will reduce.
4. Fluctuations in the level of economic activity over a period of time is called **Business cycle.**

Thank you

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