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BBA-4

Economics for Business Decision

Q-1) Explain the concept of Price and Non-Price competition in detail.

* Price Competition :-

Price competition is Related with the price of the product. We know ~~that~~ that each and every Producer wants to command the Market by ~~selling~~ sellings his Production at a high level. For that purpose, he does Price competition. He knows the law of demand. If the price will be lower, the Selling will be greater. In case of Monopolistic Competition, where the firms are unlimited, and high volume of production is done, the price competition becomes a very complicated issues for the producer. On one hand, he wants maximum profit and on the other hand, he wants to increase his sales.

2) NON-Price Competition :-

NON Price Competition is more beneficial to the producer because he does not have to face his directly. Secondly, producer can introduce his product with some new changes or improvement. New schemes can be adopted and by that way without touching the price, the producer can promote his product. The firms compete with ~~~~ rivals not only through price reduction but also through NON-Price competition ~~~~ to expand their ~~~~. sale.

In NON-price competition, instead of lowering the prices, the producers provide different facilities to the consumer such as:

1) To provide free home delivery facility

2) Replacement of the sold goods.

3) Free Services.

4) provide warranty or guarantee for the sold goods.

5) To adopt different schemes to satisfy the consumers.

6) Some free gifts with the selling of goods.

~~7) Payment for the goods, durable or consumers. They pack the commodity in an attractive packing.~~

~~8) payments for the go~~

7) Some better quality of goods.

8) Payment for the goods, durable or nondurable by the way of install ments, monthly etc.

In this way, the producers attract the consumers. They pack the commodity in an attractive packing.

In short, the purpose of both the competitors is to promote selling and to expand the markets. Through advertisement and other different media they way to sustain and to increase sales.

(Q.1) What is break even point? Explain with the help of chart & clarify its uses.

Ans:-

* **Break even point :-**

Break even analysis includes the study of revenues and cost of a firm in relation to its volume of sales and specially the determination of that volume at which the firms costs and ~~ster~~ revenues will be equal. Upendra Mehta "Rational Basis for determining reasonable price and profit" The economic Times July 29, ~~1972~~ 1972. P.7 - The Break even point (BEP) means that level of sales at which total Revenues equal total costs and the pure income are equal to zero BEP is also called No profit No loss ~~Ret~~ point The important function of break - even analysis is not only to find out BEP but to guide an understanding of the interrelationship between the costs price and volume within any company's range of operations according to guardeel F.V. Break even chart is an excellent instrument panel for your guidance in controlling your business.

Now see. How break-even point is determined.

$$BEP = \frac{\text{Fixed costs}}{\text{Contribution margin per Unit}}$$

Suppose, Fixed costs of a factory are RS. 20,000 per years, the variable costs are RS. 3.00 per unit and selling Price is RS. 8.00 per unit what be BEP

$$BEP = 20000/(8-3) = 4000 \text{ units}$$

BEP may be determined either in terms of physical units or in money term (i.e. sales value in Rupees)

* Break even chart:

According to Robert N. Anthony, "This device is also called a break-even chart but such a label has the unfortunate implication that the object of the business is merely to break even." Management Accounting [Read BEP] 1954. P. 485. However the term break-even chart is widely known and well accepted.

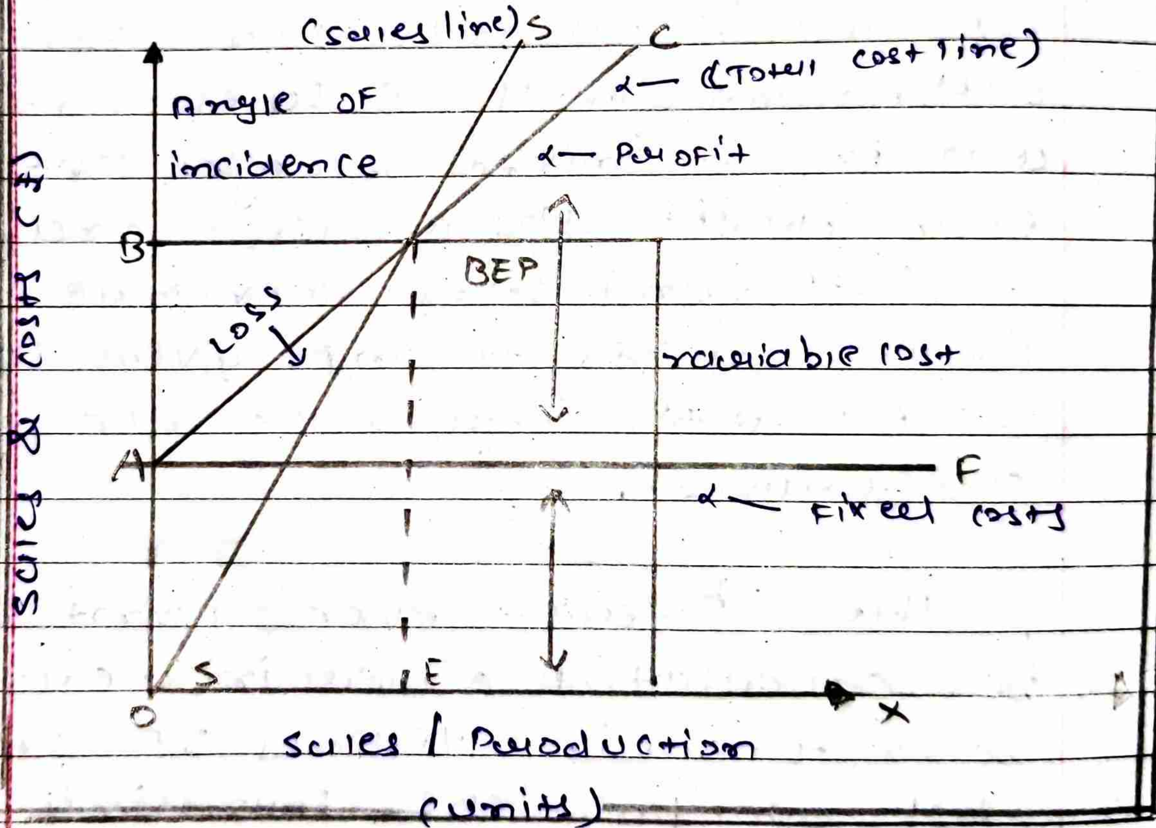
Break-even chart indicates approximate profit or loss at different levels of sales volume within a limited range. The break even charts show fixed and variable costs and sales revenue so that profit or loss at any given level of production or sales can be ascertained.

The break-even point can be calculated either in terms of units or in terms of sales by applying the following formula:

$$\text{Break-even Sales (RS)} = \frac{\text{Fixed Cost}}{\text{P.V. Ratio}}$$

$$\text{Break-even Sales (quantity)} = \frac{\text{Fixed costs}}{\text{contribution per unit}}$$

Break even chart can be drawn and graph as prepare as shows.



Break-even chart.

below:

* **Explanation of the Chart:**

1) On X-axis (OX) sales / production in terms of quantity is shown.

2) On Y-axis (OY). Sales and costs in terms of rupees.

3) AF is the fixed cost line which is parallel to X-axis, as it remains constant at every level of sales.

4) A is the total cost line which starts from the origin of the fixed cost line. The gap between AC and AF increase with increase in sales. That gap shows the variable costs (TC - FC)

5) OS is the sales revenue line, which starts from 'O'. At earlier stage OS is below Ac, the gap between them shows the loss (i.e. sales < total cost)

Gradually the gap between OS and AC decrease with increase in sales and ultimately OS and AC intersects each other at BEP (i.e. Sales = total costs) Thereafter OS is above AC. The gap between them is profit (i.e. sales > total cost) The angle between OS and AC here is known as "Angle of Incidence" (i.e. Angle of profit)

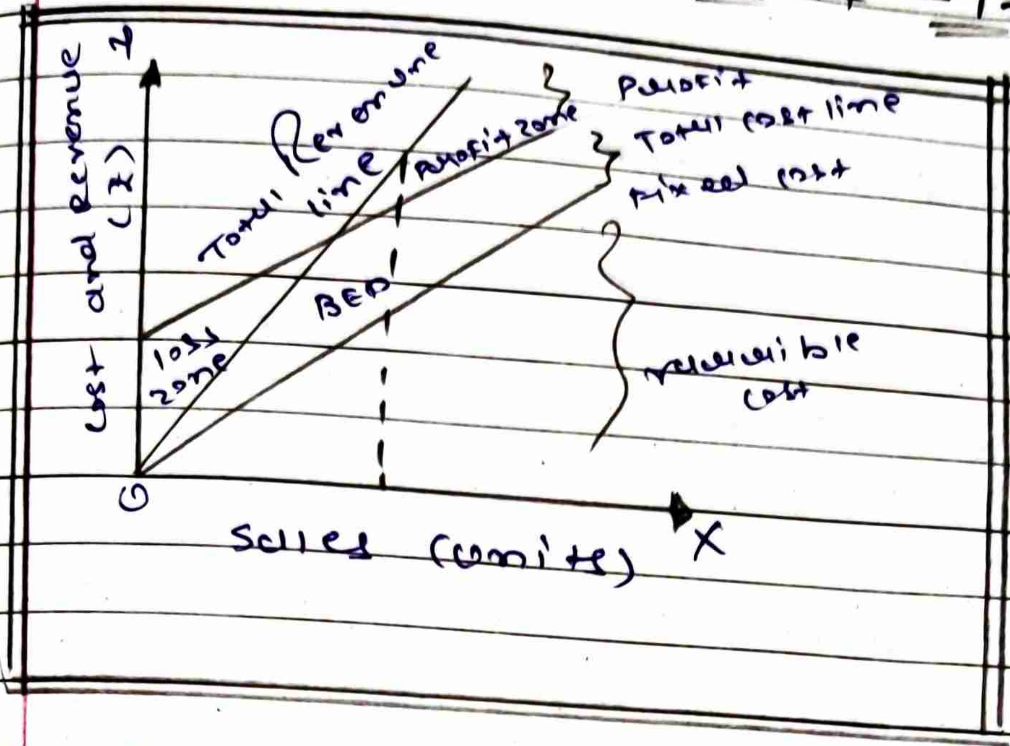
6) OE shows the Break-even sales quantity, while OB shows Break even sales value.

7) The sale quantity is greater than OE (or the sale value is greater than OB.) It is Margin of safety that is the profit. Making proportion of sales, while sales quantity between OE (or sales revenue between OB) is the sales loss than BEP = the loss making proportion of sales, as its contribution does not cover the full ~~[illegible]~~ amount of fixed costs (or simply sales revenue does not cover the total cost).

- Margin of Safety

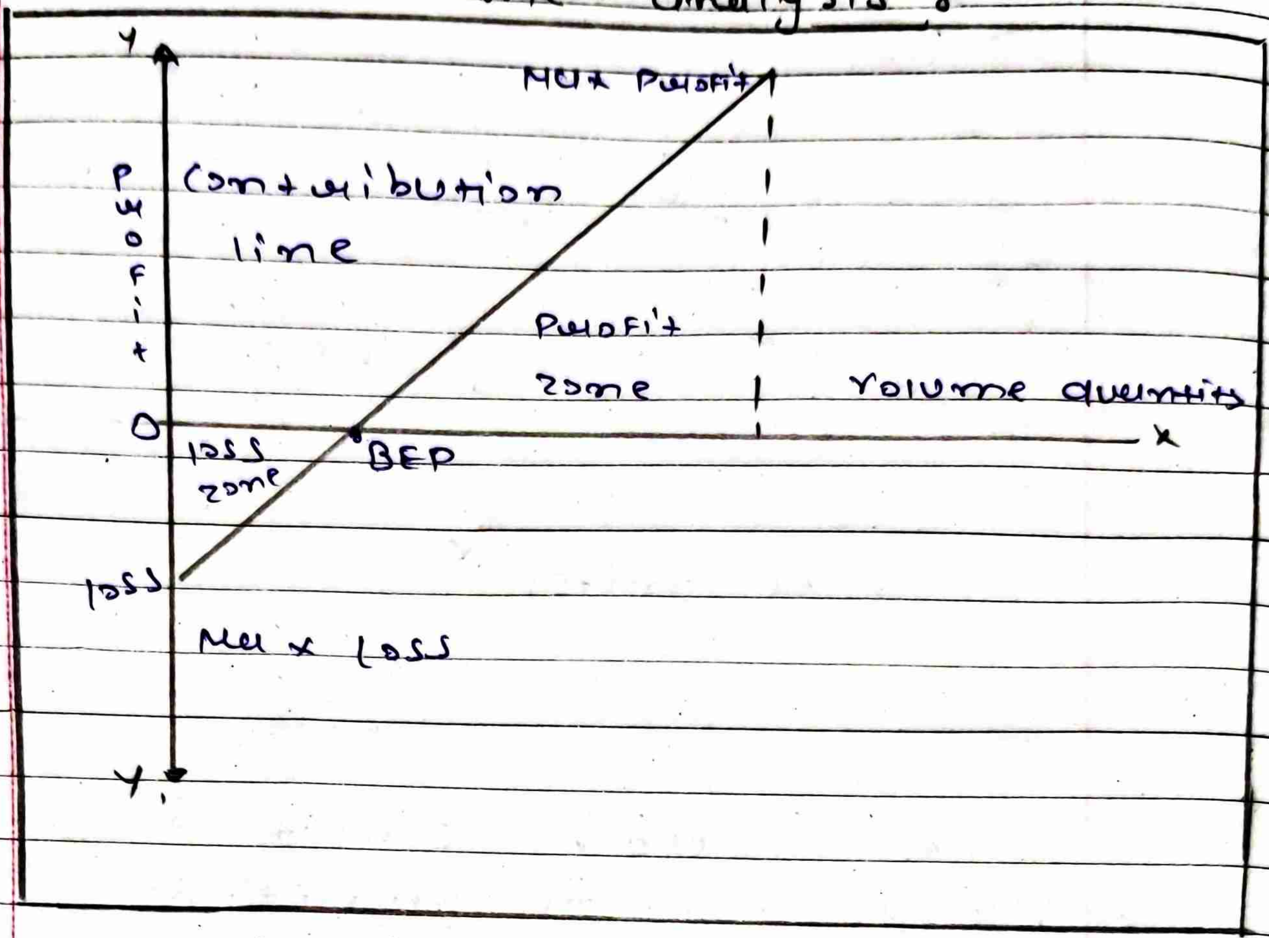
Actual sales - Break even = Margin of safety

A) Break-even Chart - A variation:



In the above chart, it is a variation of the traditional break-even chart. This chart is introduced with the variable cost line, ~~late~~ instead of fixed cost line. This line starts at the zero. It shows the total cost line which includes the fixed cost. It is parallel to the variable cost line. This chart is more useful instrument as the contribution to fixed cost and the profit is clearly presented.

B) Profit - volume analysis :



This chart is same to break even analysis. It shows the relationship between profits and sales volume. Total profit or loss is presented on the vertical axis. The profit above the x-axis and the loss below it. The volume is presented on the x-axis and it is drawn on the point zero profit. The volume is generally presented in terms of percentage of full capacity. The maximum loss which is shown at zero sales volume is equal to the fixed costs. It is shown on vertical axis below the x-axis.

when the firm works at full capacity, it earns the maximum profit. This point is indicated on the vertical axis above the x-axis The maximum profit and maximum profit are joined by a line which is called the contribution line. These point's line intersects the x-axis line showing the zero profit is the break-even point. The space between x-axis and the contribution line indicates the profit zone (to the right of BEP) and the loss zone (to the left of BEP.) This chart ~~she~~ shows the ~~error~~ working capacity and the gaining of profit and loss

Uses of Break-Even Analysis:

1) New Business -

For a new venture break-even analysis is essential. It guides the management with pricing strategy and be particular about the cost. This analysis also give an idea if the new business is productive.

2) Manufacture New product:

IF an existing company is going to launch a new product, they still have to focus on break even analysis before starting, and see if the product adds necessary expenditure to the company.

3) Change in Business Model:

Break-even analysis works even if there is a change in any business model, like shifting from Retail business to wholesale business. This analysis will help the company to determine if the selling price of a product needs change.

Break-even Analysis Formula
Break-Even Point = Fixed cost / Price per cost - variable cost

Example of Break - Even Analysis

Company x sell a pen The company first determined that the fixed costs of company x are a lease, property tax, salaries. which make a sum of 10,00,000 The variable cost linked with manufacturing one pen is ₹2 per unit. so the pen is sold at a premium price of 10₹.

Therefore, to determine the break-even point of company x premium pen will be:

~~Break-even point = fixed Cost / price per cost / price per cost - variable cost~~

Break even point = Fixed Cost / Price per cost - variable cost.

= ₹. 100.000 / (₹12-₹2) = 10,000

Therefore, given the variable costs, fixed costs, and the selling price of the pen, company x would need to sell 10,000 units of pens to break even.

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Economics :

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Q-2) Discuss the objective and importance of the pricing Policy ?

Ans :- * introduction:

(Pricing. Price policy :)

In business, a systematic approach is required in pricing the commodities produced. Decision making in this respect is very important, as it leads to a permanent source of Revenue to the business and also survival in the venture. It is the Most important device for the firm to expand its market.

If the price is too high, a seller may have to go out of the market. If the price is too low, the firm may not cover its cost and face loss. Hence, setting prices is a complex problem. There is no cut and dried formula for fixing the prices. It depends upon various situations in the business.

* Importance of pricing policy:

A well-formed price policy has special importance if price rises in a continuous process in planned economy. It has not only influenced the living standard of people but due to increase in the expenditure of full planning, the prescribed aims and objectives of the planning are disturbed.

As a result, there is obstacle of economic development. But in under developed countries, with economic development, price rise is quite natural. Till the increase in monetary income of the public is more than price rise, there is no problem. But when there is more price than investment and national income there is a need to protect from the defects of monetary fluctuations. It requires price regulation. In short, in developing countries, the significance of price policy can be known from the following facts:

1) To maintain appropriate living standard. Price control is essential.

2) To maintain planning process in a fine manner. Price should be controlled at all costs.

3) Protect from monetary fluctuations. i.e. fluctuation defects are created. So to remove them appropriate price control is required.

4) Establishment of balance in demand and supply; if not hardship develops with consumer, producer and investor. So balance is needed in a proper way.

5) It is necessary to control the consumer price for well distribution mgmt.

6) The major objective of economic planning is multi faced development of national resources. Thus price policy should be quite independent as price ~~reg~~ regulation can adjust this motto.

* Objective of Pricing policy:

1) Maximisation of Profit :

Price should aim at Maximizing profit for the entire product line i.e. they should stimulate profitable combination sales.

2) To achieve target rate of return on investment :

This is the most important objective which every concern wants to achieve. The objective is to achieve a certain rate of return on investment and frame the pricing policy in order to achieve that rate. For example, the concern may have a target of 20% return on investment and 10% return on investments after taxes. ~~It~~ The target may be a short term (usually for a year) or a long term. It is advisable to have a long term target. Sometimes it is observed that the actual profit rates may be more than the target return. This is because the target already fixed are low and new opportunities and demand of the product exceeding the Return Rate already fixed.

3) Maintenance and increase in the Market Shares :

Market Shares refers to the Share of the Market in the total sales of the market. Some of the concerns when introducing their product in the competitive market are to acquire a specific Shares in the market in the initial stages. In the long run, the concern may be achieved by achieving a fair shares of the market The main objective of achieving big shares is the market. The other consideration of the market. It has been noticed ~~that~~ that the govt. the intervention and control Gen eral Motors, America, capturing about 50% of the automobile market, passed through this situation. Some companies like general electric and Johns-Mauville have preferred to have relatively small market say 20% rather than 50%.

4) Price Stability :

This is another important objective of an enterprise. Stability of prices over a period reflects the efficiency of a concern. But in practice, on account of changing costs from time to time, price stability cannot be achieved. In the market where there are few seller, every seller wants to maintain stability in prices. Price is set by one producer and other follow him. He acts as a leader in price fixation.

5) Good Return for product lines :-

Prevention of price competition
The modern industrial setup is confronted with cut throat competition. Pricing could be used be used as an effective means to fight against the competition and business rivalries. Lower prices are some of the companies that keep their competitors out of the market. But a firm cannot afford it.

6) Ethical Pricing Policy :

The view of the Modern industries has already changed for production activites. the basic Motive of an industry is ow not only to earn Profit by selling commodities in the market but also social Responsibility and accountability towards its consumers, suppliers etc. so apart from earning Profit it has some ethical views to satisfy them in the possible ways. The firm's adopt "Live and let live."

7) Liquidity :

The two words cost and Revenue are very important to sustain any firm. it Means the level of cost and level of Revenue must be in balance. If that balance breaks down the firm will have to face a great loss.

Beside the above. Mentioned objectives, philip Kotler has listed the following additional objectives :

1) Market penetration: Relatively low price may be set to stimulate market growth and capture a large share thereof.

2) Market Skimming: High initial price is charged to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product has high value to them.

3) Early cash Recovery: Some firms try to set a price which enable rapid cash recovery as they may be financially high tight or may regard future as too uncertain to justify patient cash recovery.

4) Rate of Return: Achieving a satisfactory rate of return, though another price may produce even large return.

In firms with professional mgmt, the motives of the executives may fall in any of the following categories:

A.) A desire not to be conspicuous which would lead him to go along the crowd.

B.) A desire to Recommend a safe course Rather ~~that~~ than one which Might be far More profitable but involves risks.

C.) A desire to do it the easy way Rather than the best way when the best way would Mean a lot of extra work.

d.) A desire to Stick to three past Methods and conclusions Rather than admit past error or imply that an associate was wrong.

e.) A desire to make a showing by taking an unorthodox stand and the like.

Q-3) What is meant by dual pricing Discuss the merits and demerits of dual pricing.

Answer:

* **Dual Pricing:**

The meaning of dual pricing is "Two types of prices for a single commodity." They are (a) administered prices. (B) Market prices. One part of the production is subjected to administered prices and rest of the production is allowed to be sold in the open market.

The government fixes administered prices on the basis of the cost and a stipulated market when the market is decided by forces of the free and ~~open~~ open market. They are demand of the product and supply of the product. It is found that market price is higher than administered price. On the other hand, market price suffers from many changes but administered price remains constant mainly without any influctuations. Market price is based on demand and supply factors.

The aim of administered prices is to provide essentinal commodities such as food grain, cloth, sugar etc. to the economically backward class of the society, whose income is very low and who cannot afford higher prices of free market.

* Merits of Dual Pricing :

1) This system has dual benefits. On one side, it removes the pressure on the govt to provide subsidies to the poor and impose taxes on the rich class of the community.

2) India has accepted dual pricing system because of mixed economy. Mixed ~~compa~~ economy is a blend of capitalism and socialism. Market prices are presents capitalism and administered pricing represents socialism under mixed economy. we have established public sector and private sector. Administered pricing is the feature of public sector. The prod

is that in India. Under private sector we have free market pricing and under public sector we have administered pricing.

* Demerits of Dual Pricing:

* There are some demerits of dual pricing system. They are as follow:

1) Out of total output the producers always sell only some small part to the govt as levy. It means, major part of output is sold in open market. So the lower income group society gets very little benefits of administered pricing.

b) Some distributors and traders purchase low price commodities from levy in the open market and get higher prices.

c) The government has to establish a vast management for public distribution. It becomes a heavy burden on the government.

D) When the private sector develops and produces large proportion of output, the pricing in open market falls down then administered pricing. At such times, the importance of dual pricing system has no value.

Q-4) Define capital budgeting. Explain demand for capital and supply of capital.

* Meaning of "capital budgeting":

capital budgeting is the process in which a business determines and evaluates potential expenses or investments that are large in nature. These expenditures and investment include projects such as building a new plant or investing in a long-term venture. Often times, a prospective project's lifetime cash inflows and outflows are assessed in order to determines whether the potential returns generated meet a sufficient target benchmark. also known as "investment ~~app~~ appraisal."

A) demand for capital :

The need of capital has become the demand for capital different Companies and industrial units require capital to establishes to run and to development the business out of four factors of production land labour, capital and entrepreneur, the capital has high importance capital is the soul of business activity activity.

In case of Small Scale units, the Requirement of capital will be Normal but large Scale unit requires Much more capital to use in the different Sectors of the unit. The capital becomes the individual asset for daily Management, capital is needed.

In the developing Country, for the development, large investment is required After industrial development. Good projects also result from research and competition in the equipments industries whose business is to

Promote their own Sales by creating obsolescence. The survey of capital requirement are mostly done for one year or maximum for two years. Sometimes it becomes difficult to estimate the capital requirement because of ever changing environment of the business and industries. Besides, market demand also changes rapidly with the technological changes so, to forecast investment of the project also become difficult when projects are for a stable, their prospective earnings are highly uncertain for they to depend upon unknown ~~techni~~ technical advances, market developments and changes in relative prices.

B) Supply of capital :

Each and every Business organization has to make plan to gain the enough supply of capital to establish, to run and to develop the business. capital is the soul of the any business let us ~~discu~~ discuss th main sources of capital. The Sources of capital can be classified into two categories as follows:

Sources of capital supply

Ownership capital	Borrowed capital
1) Equity share capital	1) Debentures
2) Preference share capital	2) public Deposits
3) Ploughing back	3) commercial Banks
4) Depreciation Fund	4) Financial Aid
	5) Foreign capital

A) Ownership capital :

capital brought in by the owners of individual ownership Firm or partners of a partnership Firm is just called ~~capital~~ 'capital', while capital brought in by the ~~sha~~ shareholders of a company in the form of shares is called 'share capital' such capital is ownership form of capital.

1) Equity Share capital :

Equity shares capital is the back bone of any company's financial structure. The word 'equity' means the ownership interest or the interest of shareholders as measured by capital and reserves. The term is also used to refer unlimited interest of ordinary share holders. Hence, ordinary shares are often called 'equities.'

2) Preference share capital :

'Preference' share as the name implies have a prior claim on any profits the company may earn, but they receive only a fixed rate of dividend after the interest has been paid to the preference share holders. Thus, they may suit the investor who wants a limited but steady return on his money. The preferential treatment is available on both the right - right to receive dividend and also right to receive back the capital in the event of dissolution or liquidation, if there may be any surplus.

3) Ploughing back of Profit :

Instead of distributing all its profit as dividend. a company may keep a part of its as reserve fund separate in business. when this undisguised profit is reinvested in business, it is called ploughing back of profit. Generally this is used for expansion or modernization of business. Use of ploughing back of profits as a sources of long-term capital, is possible only for those sound business units. which have maintained their capacity to earn profit continuously. This is the best ~~be~~ internal source of procuring capital.

4) Depreciation Fund :

Assets used in a business have a limited life. They suffer wear and tear and become after some years. They have to be Replaced at that time. problem of procuring finance to buy New assets aries, if a provision is Not made for this in advance. Enough finance for Replacement of assets can be obtained by providing for depreciation fund when any assets becomes useless after wear and tear. Money for its replacement can be obtained from such depreciation fund.

B) Borrowed capital :

It is a loan or borrowed capital of the company which can be raised at any time for financing the business of the company. It acts as an external source of finance. It represents senior securities in the capital structure of the company with prior right to the return of income and also the capital in relation to shares, the so-called junior securities.

1) Debentures :

The safest type of securities in a company is called debentures. These are the loans to the company by the debentureholders who receive a fixed ~~or~~ rate of interest e.g. 15% or the 15% debentures. They are the most secured form of investment. A debenture is an instrument of credit, a bond of indebtedness is an instrument of credit, a bond of indebtedness or a mere acknowledgement of debt issued by a company or legal entity under its common seal. It contains a contract for repayment of the borrowed amount e.g. after 7 to 10 years or at the choice of the company and for payment of interest, usually half-yearly at a fixed rate until the payment of the loan interest must be paid regularly whether there is sufficient profit or not. If the interest were unpaid debenture holders can sell up the property and repay themselves from the proceeds of the sale of assets. A debenture is generally a kind of mortgage fixed interest loans. secured on the assets of the company.

2) Public Deposits:

An effective way to fulfile long term and short-term capital requirements is public deposits. For the following reasons: Public deposits have been found very favourable

1) Rate of interest, Compared with that of banks is low

2) Interest Paid on the deposits is exempted from income-tax as it is considered Expenditure.

3) The deposits can be obtained without Securities and are not a burden on assets.

4) In Comparison, the deposits are better than other sources of procuring capital capital.

This Sources is simple, Convenient and economically affordable from the company's point of view while the investor ~~earns~~ earns high Rate of interest. Yet public deposit being for a limited time, their uses long-term capital is Risky.

Recently Public deposits procured from NRIs are new source of long term capital. Govt also encourages public deposite as such deposite also earn Foreign exchange.

3) Commercial banks:

In india mostly commercial banks fulfil the need of industries for working capital. Banks use deposits obtained from public for short term lending. Banks given loans in the following different ways

1) Loans:

The important function of banks is to lend credit and provide loans. The banks accept deposits from people in the form of fixed deposit, saving deposits and current deposits. They pay very low interest on such deposits but give loans at higher ~~rat~~ rates of interest. This way the banks earn profits.

The banks provide loans on the base of duration of time. This is given as follow:

1) On the spot finance
2) Very short-term loans
3) Short-term loans
4) Medium and long term loans

5) Medium and long term loans:

B) Cash credit :

This is one of the forms of credit created by commercial bank. The credit facility is provided to the customers, up to some amount, is called cash credit. Traders, industrialists and companies are given credit in a huge proportion in this facility. It is given against some securities or mortgage. Almost 70% of the bank credit is given through cash credit.

The amount determined for credit can be withdrawn within its limit. Certain facilities of credit are available to the customers in the type of credit as follows:

1) The borrower can withdraw the money in small amount as he liked instead of withdrawing the whole amount.

2) If the customers has extra amount, it can be deposited in his account and can reduce the amount of credit.

3) The interest is not charged on the amount of credit sanctioned but on the amounts withdrawn. Interest is also calculated on the amount withdrawn and for the period it remains withdrawn.

4) Mortgage or securities to bank can be changed for example if any material is mortgaged, it can be replaced with some other security.

c) Overdraft :

IF a customer is in need of credit for short-period, the bank provides overdraft facility against some security given by the customer. The amount overdrawn is more than the actual amount in the account. For that the limitations are also decided. This facility is given to current account holder only. The customer can issue cheque within the limit of the overdraft. In this way short time requirement of the customer can be satisfied. No interest is charged on total of overdraft but the amount withdrawn and for the actual period, remains withdrawn.

D) loans :

A loan is the total amount of credit given by the bank. It is given in total in a time. It should be paid up either at 9 times or in instalments. In this method the new account of loans are opened. The loan is deposited in the account. Bank never pay loan in cash. The bank earn interest on the total Amount of the loan.

1) Time loan
2) Joint loan
3) personal loan
4) self employment loan

4) Financial Aid :

There are many financial institutions working in India which provide financial aid to industries in one or another way. They provide short as well as long-term finance to the business. The well-known financial institutions are ICICI, IDBI, IFCI, GIC, LIC, SFCs, GSFCs, GIIC etc.

These institutions play an important role in industrial development for small scale industries. A special financial corporation is established and as a result, the small scale industries get an oxygen for the economic development for the capital need. Financial institution provide them enough financial aid.

5) Foreign Capital :

There are many foreign investors who make available finance to government or even to the entrepreneurs. Such financial aid may be in terms of Rupee or in foreign currency. Sometimes even the foreign government may be a foreign investor.

FDI (Foreign Direct investment) is the very important instrument for foreign capital. Our government does many MOUs with foreign countries to invite foreign capital in India. Besides, international institutions like IMF (International Monetary Fund) W.B (World Bank) and ADB (Asian Development Bank) help India in the form of either grants or loans to develop our financial conditions.