

PAPER
4

FOUNDATION COURSE
STUDY MATERIAL
BUSINESS ECONOMICS



Board of Studies (Academic)
The Institute of Chartered
Accountants of India

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BEFORE WE BEGIN

The contents of the study material for Foundation have been designed and developed by the Board of Studies (Academic), ICAI with an objective to synchronize the syllabus with the International Education Standards (IESs) of IFAC (International Federation of Accountants) to instill and enhance the necessary pre-requisites for becoming a well-rounded, competent and globally competitive Accounting Professional.

The requirements of “IES 1 Entry Level Requirements” have been kept in mind while developing the different chapters of study material.

This study material also lays emphasis on National Education Policy 2020 (NEP 2020) initiatives like conceptual clarity rather than rote learning and new pedagogical and curriculum restructuring based on the use of technology while teaching.

The traditional role of a chartered accountant was restricted to accounting and auditing, has undergone a sea change. Presently, there has been a marked shift towards strategic decision making and entrepreneurial roles that add value beyond traditional financial reporting. The primary factors responsible for the change are the increasing business complexities on account of a plethora of laws, borderless economies consequent to giant leap in e-commerce, emergence of financial instruments, emphasis on corporate social responsibility, significant developments in information technology, to name a few. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment. The competence requirements are being continuously reviewed to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Economics deals with problems and questions that affect almost all kinds of individuals in their capacities as consumers and producers. Therefore, economic literacy is essential for each and every individual. Business Economics, which has been introduced at the Foundation level of the Revised CA course, has been developed keeping in mind the fact that CAs now a days have to take up the role of not merely an accountant or auditor, but a business solution provider. Business Economics which integrates economic theory with business practice will help them in the process of business decision making.

The learning outcomes at the beginning of each unit orient the learners to focus on key concepts. The end of the chapter summary is intended to recapitulate what has been covered in the units. The sample questions appended at the end of each chapter, help students to

practice what they have learned in the chapter /unit. The glossary at the end of the book intends to provide a quick review of the major concepts to the learners.

There are ten chapters in Business Economics namely, Introduction to Business Economics, Theory of Demand and Supply, Theory of Production and Cost, Price Determination in Different Markets, Business Cycles, Determination of National Income, Public Finance, The Money Market, International Trade, and Indian Economy. An attempt has been made to make this study material as self-contained as possible. The economic concepts have been explained in a clear, thorough way, using various applications to illustrate the use of theory and to reinforce students' understanding of it. Care has been taken to explain the principles and concepts in a lucid and easy language with the help of diagrams, pictures, tables, and illustrations so as to enable students to understand concepts properly and relate theory to real world situation.

The learners are requested to keep themselves updated on the wide-ranging changes that occur in the economic arena in view of the lack of feasibility of instantly incorporating them in the study material. Your valuable suggestions to improve the contents and /or use of pedagogical devices would be appreciated.

Happy Reading and Best Wishes!

SYLLABUS

PAPER – 4: BUSINESS ECONOMICS (100 MARKS)

Objective:

To develop an understanding of the concepts and theories of Economics and to acquire the ability for addressing application-oriented issues.

Contents:

1. Introduction to Business Economics

Meaning and scope of Business Economics

Basic Problems of an Economy and Role of Price Mechanism.

2. Theory of Demand and Supply

Meaning and Determinants of Demand, Law of Demand and Elasticity of Demand – Price, Income and Cross Elasticity

Theory of Consumer's Behaviour – Indifference Curve approach

Meaning and Determinants of Supply, Law of Supply and Elasticity of Supply, Market Equilibrium and Social Efficiency.

3. Theory of Production and Cost

Meaning and Factors of Production, Short Run and Long Run

Law of Production – The Law of Variable Proportions and Laws of Returns to Scale, Producer's Equilibrium

Concepts of Costs – Short-run and long-run costs, Average and Marginal Costs, Total, Fixed and Variable Costs

4. Price Determination in Different Markets

Market Structures: Perfect Competition, Monopoly and Monopolistic Competition. Using Game Theory to study Oligopoly.

Price Determination in these Markets

Price- Output Determination under different Market Forms

5. Determination of National Income

a. Macro Economic Aggregates and Measurement of National Income

- b. Determination of National Income: Keynes' Two Sector Basic Model, Three Sectors and Four Sectors Models

6. Business Cycles

- ◆ Meaning
- ◆ Phases
- ◆ Features
- ◆ Causes behind these Cycles

7. Public Finance

- a. Fiscal functions: An Overview, Centre and State Finance
- b. Market Failure/ Government intervention to correct market failure.
- c. Process of budget making: Sources of Revenue, Expenditure Management, and Management of Public Debt.
- d. Fiscal Policy

8. Money Market

- a. Concept of Money Demand
- b. Important theories of Demand for Money
- c. Concept of Money Supply, Cryptocurrency and other new terminology
- d. Monetary Policy

9. International Trade

- a. Theories of International Trade including theories of intra-industry trade by Krugman.
- b. Trade Policy – The Instruments of Trade Policy
- c. Trade Negotiations
- d. Exchange Rates and its economic effects
- e. International Capital Movements: Foreign Direct Investment

10. Indian Economy (Before 1950- Chanakya and Nand Vansh, OECD Paper (1950-1991), Basic knowledge 1991 Onwards)

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