UNIT-1

Sub: BEFA.
T Hari Meena.

Introduction & Definition for Business:

⇒ Introduction for Business: Business is an Economic activity where goods and services are exchanged for one another & for money to satisfy human wants.
– Human beings are continuously engaged in satisfy their unlimited wants. These human wants are satisfied by businessmen by producing goods & services by conducting business.

⇒ Definitions:

– According to Lewis Henry: Business as, "Human activity directed towards producing (or) acquiring wealth through buying & selling of goods.

– According to Dicksee: Business refers to a form of activity conducted with an objective of Earning profits for the benefit of those on whose behalf the activity is conducted.

Features / characteristics of Business:

1) Exchange of goods and services: All business activities are directly (or) indirectly concerned with the exchange of goods (or) services for money (or) money's worth

2) Deals in numerous transactions: In business, the exchang of goods and services is a regular feature. A businessman regularly deals in a number of transactions and not just one (or) two transactions.

3) Profit is the main objective: The business is carried on with the intention of Earning a profit. The profit is a reward for the services of a businessman.

Scanned by CamScanner

4. Business skills for Economic success: A businessman needs good business qualities and skills to run a business.

5. Risks and Uncertainities: Business is subject to risks and uncertainities like risk of loss due to fire (or) theft, change in demand (or) fall in price.

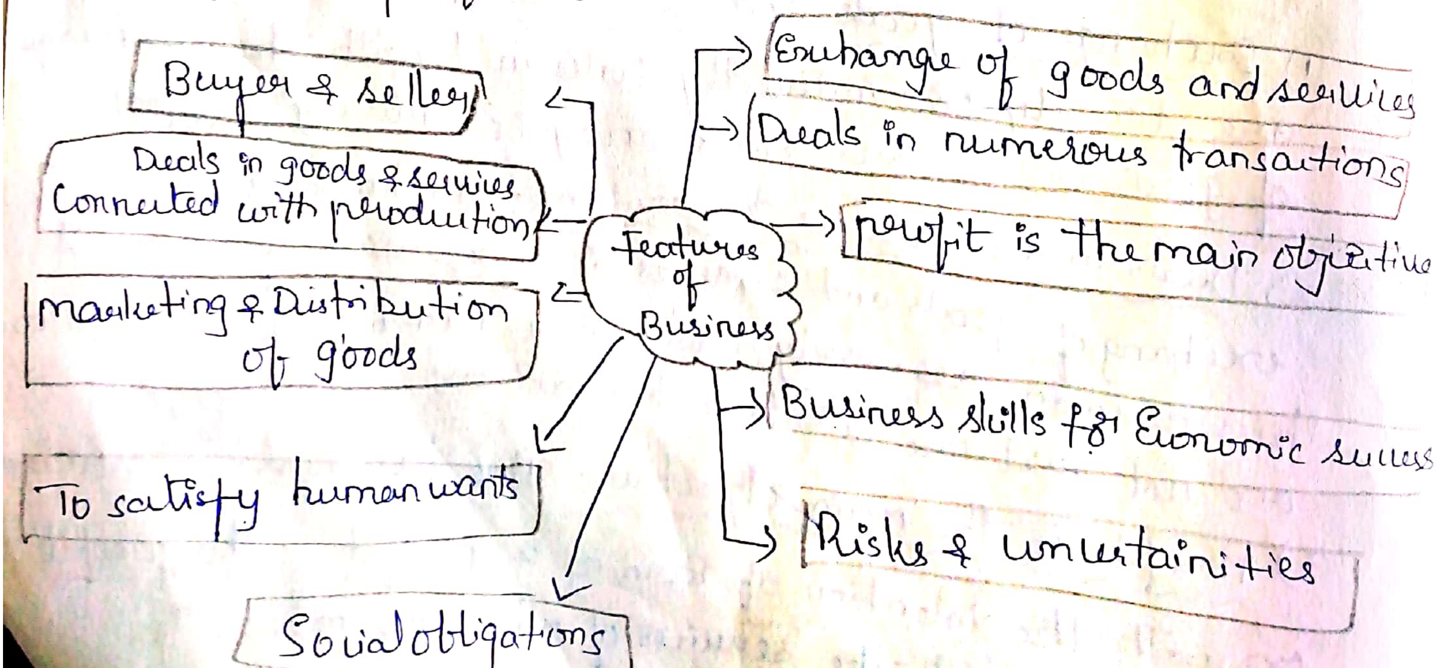
6. Buyer and seller: Business is nothing but a contract (or) an agreement between buyer and seller. Every business transaction has two parties that is buyer and seller.

7. Connected with production / (or) Deals in goods & services:- Business activity may be connected with production of goods (or) services.

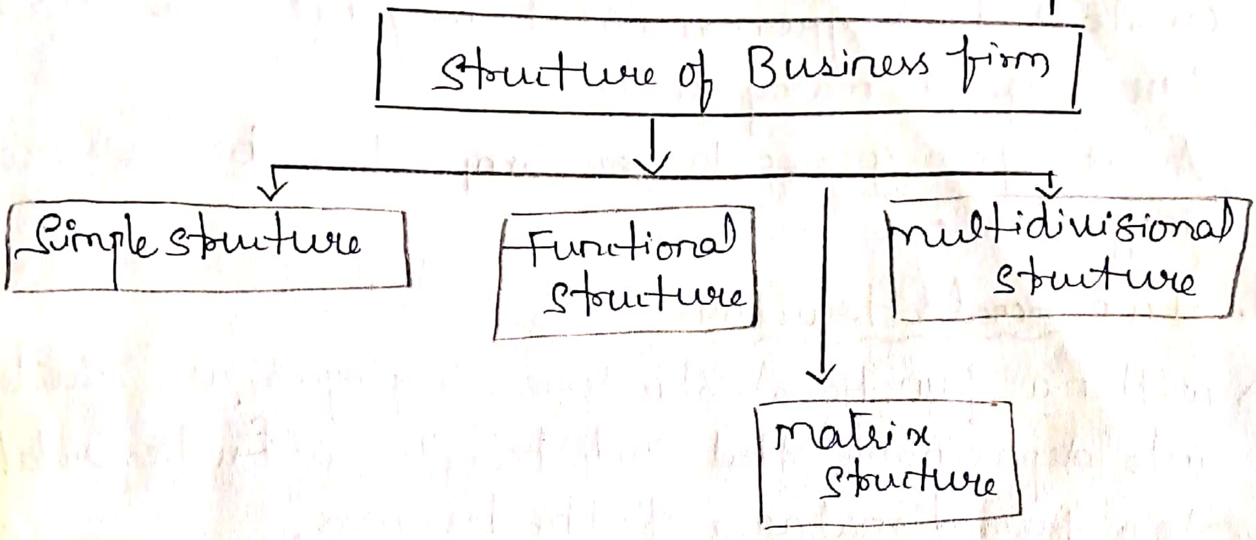
8. Marketing and Distribution of goods: Business activity may be concerned with marketing (or) distribution of goods in which case it is called as commercial activity.

9. To satisfy human wants: The businessman also desires to satisfy human wants through conduct of business. By producing and supplying various commodities, business men try to promote consumer's satisfaction.

10. Social obligations: Modern businessmen are conscious of their social responsibility. Today's business is service-oriented rather than profit oriented.



Structure of Business firm: There are four types of structures in the business firm. They are:

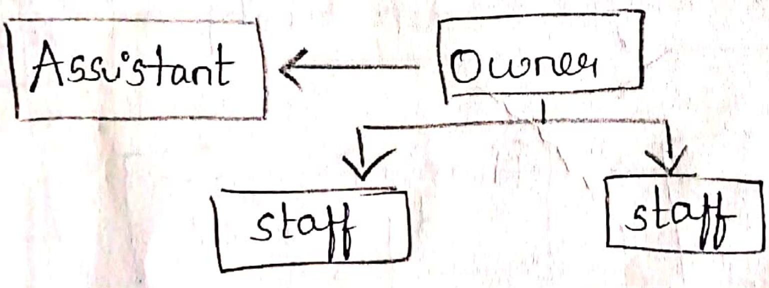


I. Simple structure:

→ Simple structures do not rely on formal systems of division of labour and organizational charts are not generally needed.

→ If the firm is a "sole proprietorship", one person performs all of the tasks that the organization needs to accomplish. Consequently, this structure is common for many small businesses.

Example: * Simple Structure *



⇒ **Advantages of simple structure:**

- Tends to simplify and clarify authority, responsibility and accountability relationships
- promotes fast decision making and flexibility
- closeness between owner and Employees.

⇒ **Disadvantages for simple structure:**

- Neglects specialists in planning and overly depending on key person
- Overload to keyperson and he may not have Expert knowledge in many fields
- As the firm grows larger, Simple structure becomes more ineffective.

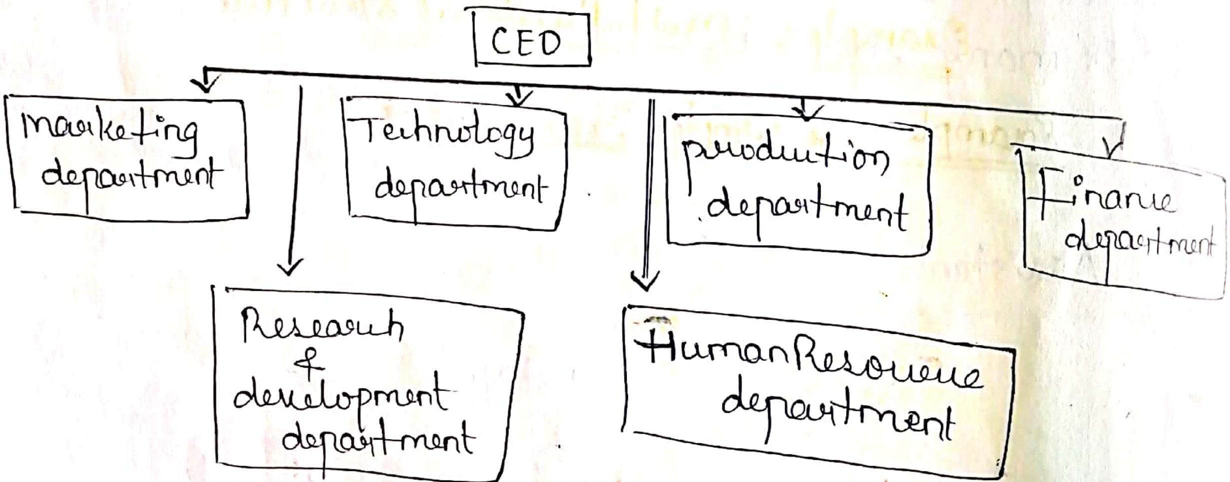
II. Functional structure:

→ within a functional structure, Employees are divided into departments that each handles activities related to a functional area of the business.

→ Such as marketing, production, human resources, information technology, and customer service.

→ The officers (or) managers have the direct authority to be exercised by them to achieve the organizational goals.

Example: * Functional structure *



⇒ **Advantages of functional structure:**

- Reinforces specialized skills and resources.
- Reduce duplication of scarce resources.
- Facilities communication within department.

Scanned by CamScanner

⇒ Disadvantages of functional structure:
- short-term focus on routine tasks
- The tendency to keep authority centralized at higher levels in the organization.
- Communication with other departments is reduced
- Conflicts resulting from violation of principles.

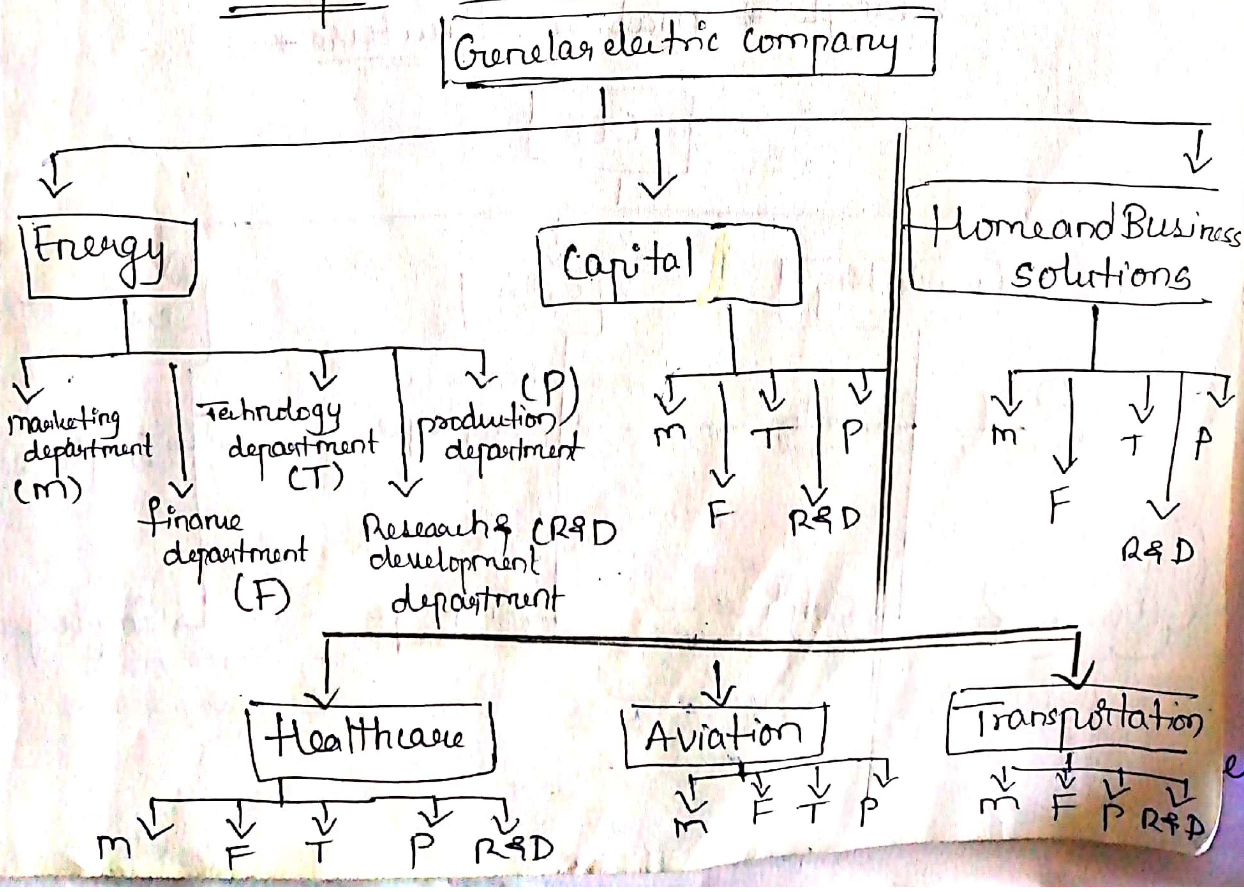
III. Multidivisional structure:

→ In this type of structure, employees are divided into departments based on product areas and/or geographic regions.

→ This structure comprised of multiple, smaller functional structures. i.e. Each division within a divisional structure can have its own marketing team, sales team and so on.

→ Example:- Generlar electric Company has six product divisions, they are energy, capital, Home and Business solutions, Healthcare, Aviation and transportation.

Example: multidivisional structure



⇒ Advantages for multidivisional structure:

- Increased organizational effectiveness
- Increased Control
- Profitable growth
- Internal Labour market

⇒ Disadvantages :-

- managing the corporate - Divisional Relationship
- Co-ordination problems between Divisions
- Communication problems.

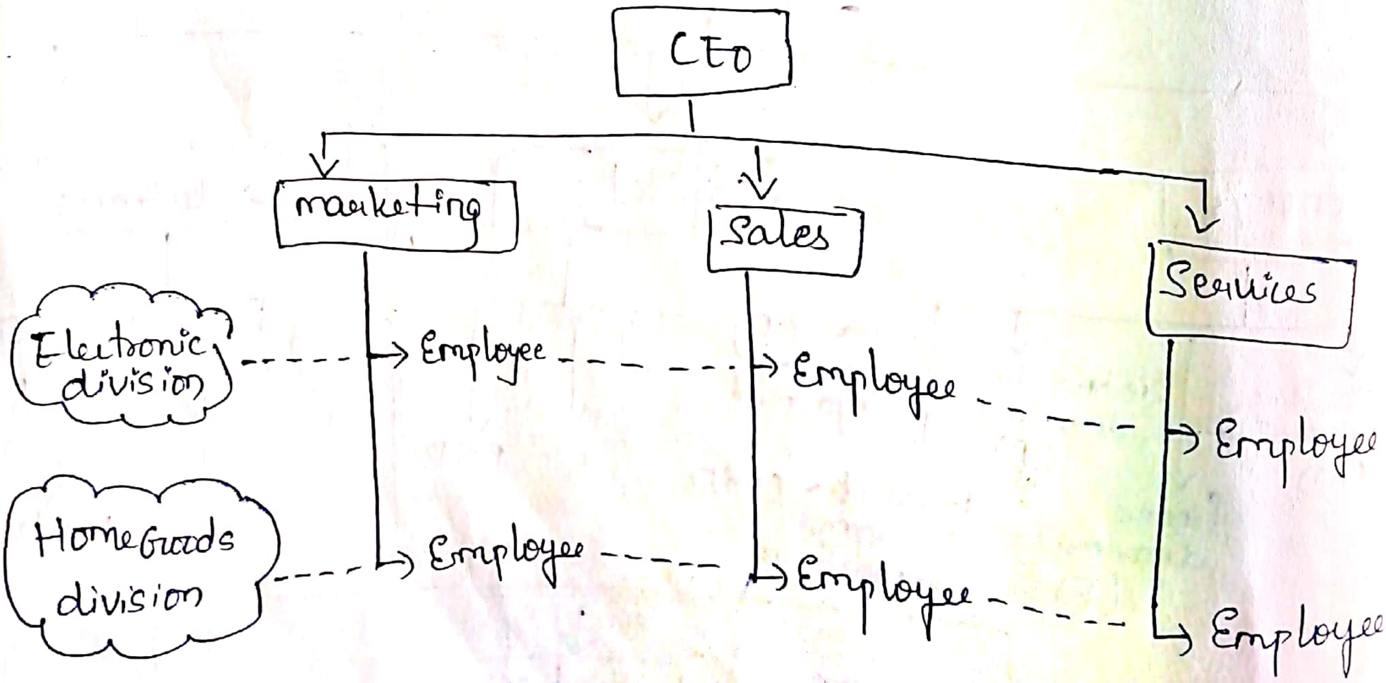
IV. matrix structure:

→ Firms that engage in projects of limited duration often use a matrix structure where employees can be put on different teams to maximize creativity and Idea flow.

→ ~~Firms:~~

→ This structure is common in high tech and engineering firms.

Example * matrix structure *



⇒ **Advantages for matrix structure:**

- Resources can be used efficiently, since experts and Equipment can be shared across projects.
- Employees are in contact with many people, which helps with sharing of information and can speed the decision process.
- provide more multi-skilled workers.

⇒ **Disadvantages for matrix structure:**

- Difficult to co-ordinate & Balance.
- complexity, which can lead to confused employees.
- Increase in work load.

---

* Sources of capital for a Company *

⇒ **Introduction to capital:**

capital can refer to funds raised to support a particular business (or) project. It can also represent the accumulated wealth of a business, represented by its assets less liabilities. It can also mean stock (or) ownership in a company. It is one of the resource to form a business entity.

* Sources of capital for a Company *

* Long term finance	* Medium term finance	* short term finance
a: own capital	a. Bank loans	a. Commercial paper
b. Share capital	b. Hire Purchase	b. Bank overdraft
c. Debentures	c. Leasing (or) renting	c. Trade credit
d. Government grants & loans	d. Venture capital	

⇒ There are 3 types of sources of capital for a company: They are

1. Long term finance
2. medium term finance
3. short term finance.

⇒ 1. Long term finance:

a) own capital: Irrespective of the form of organization such as soletrader, partnership (or) a company, the owners of the business have to invest their own finances to start with. Money invested by the owners, partners (or) promoters is permanent and will stay with the business throughout the life of business.

b) share capital: Normally in the case of a company, the capital is raised by issue of shares. The capital so raised is called share capital. The share capital can be of two types, preference share capital and Equity share capital.

c) Debentures: Debentures are the loans taken by the company. It is certificate (or) letter by the company under its common seal acknowledging the receipt of loan. A debenture holder is the creditor of the company. A debenture holder is entitled to a fixed rate of interest on the debenture amount.

d) Government grants & loans: Government may provide long term finance directly to the business houses (or) by indirectly subscribing to the shares of the companies. The government gives loans only if the project satisfies certain conditions, such as setting up a project in a notified area, or ventures into projects which are beneficial for the society as a whole.

Scanned by CamScanner

2. Medium term finance:

a) Bank loans: Bank loans are extended at a fixed rate of interest. Repayment of the loan and interest are scheduled at the beginning and are usually directly debited to the current account of the borrower. These are secured loans.

b) Hire Purchase: It is a facility to buy a fixed asset while paying the price over a long period of time. In other words, the possession of the asset can be taken by making a down payment of a part of the price and the balance will be repaid with a fixed rate of interest in agreed number of installments.

c) Leasing (or) renting: where there is a need for fixed assets, the asset need not be purchased. It can be taken on lease (or) rent for specified number of years. The company who owns the assets is called lessor and the company which takes the asset is called lessee. The agreement between the lessor and lessee is called a lease agreement.

d) Venture capital: This form of finance is available only for limited companies. Venture capital is normally provided in such projects where there is relatively a higher degree of risk. For such projects, finance through the conventional sources may not be available. Many banks offer such finance through their merchant banking divisions, or specialist banks which offer advice and financial assistance. The financial assistance may take form of loans and venture capital.

Scanned by CamScanner

⇒ 3. Short term finance:

→ a. Commercial paper: It is new money market instrument introduced in India in recent times. CPs are issued in large ~~dem~~ denominations by the leading, nationally reputed, highly rated and credit worthy, large manufacturing and finance companies in the public and private sector. The proceeds of the issue of commercial paper are used to finance current transactions and seasonal and interim needs for funds.

→ b. Bank overdraft: This is special arrangement with the banker where the customer can draw more than what he has in his saving / current account subject to a maximum limit. Interest is charged on a day to day basis on the actual amount overdrawn.

→ c. Trade credit: This is short term credit facility extended by the creditors to the debtors, normally, it is common for the traders to buy the materials and other supplies from the suppliers on credit basis. After selling the stocks the traders pay the cash and buy fresh stocks again on credit. Sometimes, the suppliers may insist on the buyer to sign a bill.

** LIMITED LIABILITY COMPANIES **

⇒ Introduction:

- LLC stands for Limited Liability Company and has rapidly become one of the most popular business entity types for new and small business, largely because it is considered to be simpler and more flexible than a corporation.
- The LLC business structure combines the pass-through taxation of a partnership (or) sole proprietorship with the limited liability of a corporation, creating the best of

both worlds for business owners.

- This means that if choose to form an LLC, business will become it's own legal entity that has separate debts and legal matters.

- However, LLCs are still tied to personal taxes and owner of an LLC are referred to as a member and LLCs can have a single member (or) multiple. There are no seperate positions like there are with a corporation (which requires shareholders, directors and officers).

⇒ LLC Advantages:

LLC Advantages
- → Limited liability protection
- → Pass through taxation
- → No ownership Restrictions
- → Versatile tax status
- → Flexible Profit Distribution
- → minimal compliance Requirements
- → Less regulation.

→ Limited Liability protection: By forming an LLC, only the LLC is liable for the debts and liabilities incurred by the business - not the members. The members liability is limited to the personal interest they have invested in the company thus protecting the personal assets of the individual member that are separate from the LLC.

→ Pass through Taxation: The LLC typically does not pay taxes for itself. Instead, the net income/loss is 'passed through" to the personal income of the owner/members, and is simply taxes as personal income. So LLC is a separate entity from its members with its own federal tax

→ Less regulation: LLCs are less regulated than corporations which means a lot less paperwork.

Scanned by CamScanner

→ **No ownership Restrictions:** The LLC does not have any residency (or) citizenship restrictions, which allows foreign nationals to have ownership in an LLC, if desired. In addition, other corporate entities may be LLC members.

→ **Versatile Tax status:** One of the most advantageous aspects of the LLC is that it has the ability to choose how it is treated as a taxable entity. The LLC, may elect to be taxed as a C-(or) S-corporation at any time the members so choose.

→ **Flexible Profit Distribution:** for an LLC, if the members choose, the net income / profits of the LLC may be allocated to the members in different proportions to their ownership percentage in the LLC.

→ **minimal Compliance Requirements:** LLCs are subject to limited state mandated annual filing requirements and ongoing formalities. The LLC members may have whatever meetings they wish and may document any such things as they wish, however they are not required to do so.

⇒ **LLC Disadvantages:**

→ **Self Employment Taxes:** Oftentimes the taxes that are passed through and reported as personal income of LLC members will be higher than the taxes at a corporate level.

LLC disadvantages

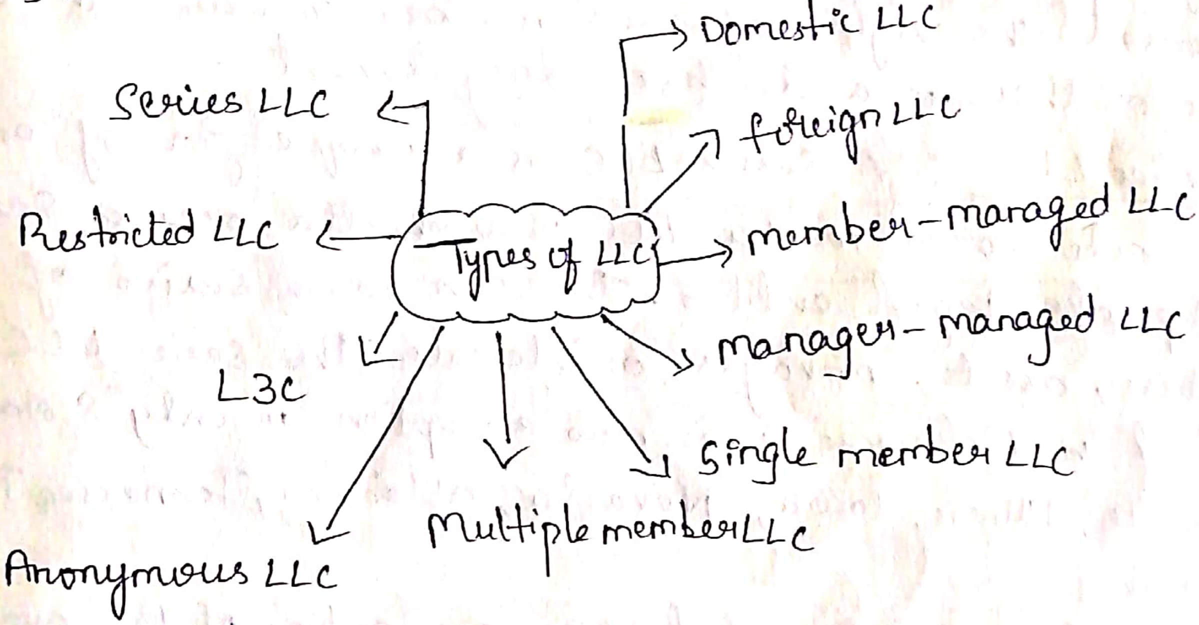
- → Self Employment taxes
- → Careful Personal Records
- → LLC Termination
- → Banking.

→ **Careful Personal Records**: As the owner of an LLC, you need to keep careful records of your business Expenses – seperate from your personal finances. This is the only way to ensure limited liability. ∴ you should have seperate bank accounts and cards to track business expenses.

→ **LLC Termination**: Usually, if a member departs an LLC, then the LLC is terminated and ceases to Exist.

→ **Banking**: Since it's required to keep your business finances separate from your personal finances, you will need a business checking account. Banks usually charge a number of different fees and monthly Expenses for these types of a accounts.

⇒ **Types of LLCs**:—



→ **Domestic LLC**: If your LLC is formed & operating within your state, this is a domestic LLC. Your state has the authority to govern your LLC if formed within their jurisdiction.

→ **Foreign LLC**: This does not mean that the LLC was formed internationally & operating in the U.S.A. foreign LLC is operating in a different state than the LLC was formed in. For example, you might have formed you LLC in Texas, but you are operating you LLC in Georgia

→ Member Managed LLC : This type of LLC is where all owners (members) are operating the business themselves, equally. This is the most Common type of LLC.

→ Manager Managed LLC : If some of your business partners want to remain passive in running the business, then this type of structure is a manager managed LLC. Either members or nonmembers can be delegated as a manager

→ Single member LLC : Simply put, this is an LLC with only one member.

→ Multiple member LLC : Simply put, this is an LLC with multiple members. A multiple member LLC must be more careful in spelling out carefully, with the LLC operating Agreement the rights of each member in case the LLC folds or there is a death or disagreement.

→ Series LLC : A series LLC is a unique for of an LLC that acts as a master LLC or umbrella over a series of seperate legal entities. This can be a series of members, assets, managers or interests. This series LLC started in Delaware & is now an option in only 8 states: Delaware, Illinois, Iowa, Nevada, Oklahoma, Tennessee, Texas & Utah.

→ Restricted LLC's : Restricted LLC's are a type of LLC available in Nevada only that were launched in 2009. these types of LLC's choose to be restricted within their articles of org. & therefore Cannot make Certain Business distributions among members untill 10 years after forming their LLC.

→ L3C : An L3C Company is a for-profit Company with a stated philanthropic social purpose. This type of LLC is a hybrid business structure that uses the legal & tax flexibility of an LLC, the social benefits of a non-profit org, and the branding & market positioning advantages of a social enterprise.

→ Anonymous LLC : An anonymous LLC is where the ownership details of the LLC is not made public by the state the LLC is registered. New Mexico is one of the only states that allow for truly anonymous LLCs.

** Types of Business entities **

⇒ Introduction for Business entity:

- A business entity is an organization created by one (or) more natural persons to carry on a trade (or) business.
- A business entity concepts states that the transactions associated with a business must be separately recorded from those of its owners (or) other businesses.

⇒ Types of Business entities :-

Types of Business entities

- sole proprietorship
- partnership
- Co-operatives
- Company
  - * private limited company
  - * public limited company
  - * Limited Liability Company
  - * unlimited Liability Company.

⇒ Sole proprietorship:

- This is a business run by one individual for his (or) her own benefit. It is the simplest form of business organization.

Scanned by CamScanner

— This type of business is simple to ... and may enjoy greater flexibility of management
— The business owner is personally liable for all debts incurred by the business.

⇒ Advantages:

→ Formation of a sole trader form of organization is relatively easy even closing the business is easy and high degree of flexibility.

→ prompt decision making & personal contact with customers directly

→ Business secrets can well be maintained because there is only one trader.

⇒ Disadvantages:

→ The liability of the sole trader is unlimited and due to death, insanity of insolvency the business may be come to an End.

→ Limited amounts of capital & lack of specialization.

→ No division of labour so the key person feel more burden

⇒ * partnership:

— partnership is composed of two (or) more persons who join together to carry on a business venture for profit.

— Each partner shares the profits, losses and management of the business and Each partner is personally and Equally liable for debts of the partnership

— formal terms of the partnership are usually contained in a written "partnership agreement."

⇒ Advantages:

— Easy to form and more capital available.

— Combined Talent, Judgement and skill

- Diffusion of Risk, flexibility in changing conditions.

⇒ **Disadvantages:**

- Unlimited liability for partners
- Death (or) withdrawal of one partner causes the partnership to come to an end.
- Risk of Implied authority.

** **Co-operatives:**–

- Co-operatives is a form of voluntary organization, where in the members work together for the promotion of the interest of its members.
- There is no restriction to the entry (or) Exit of any member.

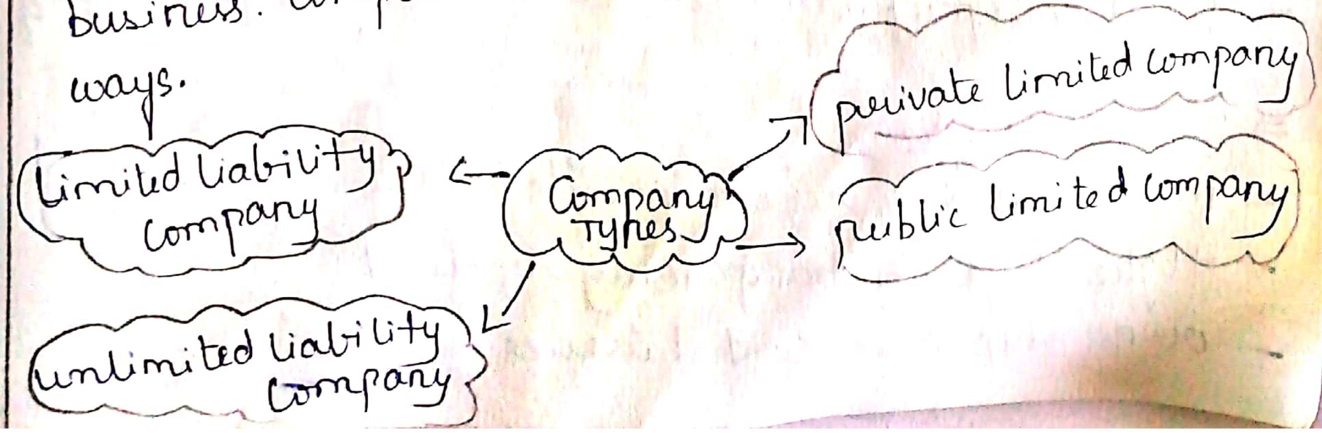
⇒ **Advantages:**

- formation of a co-operative society is Easy.
- Limited liability and open membership
- Tax advantage and state assistance due to government has adopted co-operatives as an effective instrument of socio-Economic change.

⇒ **Disadvantages:**

- Lack of secrecy and mutual interest
- Lack of profit motive breeds fraud and corruption in management.
- Lack of Business skills.

** **Company**: A company is any entity that engages in business. Companies can be structured in different ways.



⇒ * Private limited Company :-

- It is formed by registering the company name with the appropriate Registrar of companies
- Can have 2 - 50 share holders & Minimum share capital of Rs. 1 lakh.
- Liability of shareholders limited to invested share capital.

⇒ Advantages:

- Easy to start the business and limited liability.
- The management of affairs and conduct of business is greater flexibility.
- statuary meeting is not required.

⇒ disadvantages:

- Limited share holders and stock Exchange shares cannot be quoted.
- private limited company is that it cannot issue prospects to general public.

⇒ * Public limited Company:-

- must difficult to Establish, minimum number of shareholders to be 7, no maximum limit
- Is under strict scrutiny by the government as well as SEBI (Securities and Exchange Board of India)

⇒ Advantages :

- Raising capital through public issue of shares
- widening the shareholder base and spreading risk
- prestigious profile and confidence & Transferability of shares.

⇒ Disadvantages:

- more regulatory requirements
- Higher levels of transparency required
- ownership and control issues.

Scanned by CamScanner

Joint Stock Company.

*⇒ Limited Liability company :-

— It is a form of business organization under which the liability of all its members it limited.

— It is essentially hybrid entities that combine the characteristics of a corporation & a partnership (or) sole proprietorship

⇒ **Advantages:**

— Limited liability protection and No ownership restrictions.

— Minimal Compliance Requirements & flexible profit distribution.

⇒ **Disadvantages:**

— If a member departs an LLC, then the LLC is terminated and ceases to Exist.

— Complex accounts & Restricted capital raising.

*⇒ unlimited liability company:-

— It is a form of business organization under which the liability of all its members is unlimited.

— The personal assets of the members can be used to settle the debts. It can at any time re-register as a limited company. ~~under~~

⇒ **Advantages:**

— No fixed minimum share capital.

— Greater credit worthiness

⇒ **Disadvantages:**

— All assets of company members are liable to meet Company obligations.

— Company members are closely connected to the company and also greatly depend on Each other.

Scanned by CamScanner

* Joint stock Company. *

Introduction:

Joint stock Company is that "it is a business organization that is owned jointly by all its shareholders.

- All shareholders own a certain amount of stock in the company, which is represented by their shares.

Advantages:

- limited liability of its members
- The shares of a company are transferable.
- Death, retirement etc., does not affect the life of a Company.
- A Company hires a board of directors to run all the activities

Disadvantages:

- The Complex and lengthy procedure for its formation
- Lack of secrecy for the company.
- for its day to day functioning a Company has to follow a numerous number of laws, regulations, notification etc.,

Scanned by CamScanner

** Significance of Economics **

⇒ Introduction to Economics:

– Economics is a social science concerned with the production distribution and consumption of goods and services.
– It studies how individuals, businesses, governments and nations make choices on allocating resources to satisfy their wants and needs, and tries to determine how these groups should organize and co-ordinate efforts to achieve maximum output.

⇒ Definitions for Economics:

– According to Adam Smith:
" Economics as the study of the nature and causes of nation's wealth (or) simply as the study of wealth."

– According to Lionel Robbin's:
" Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."

⇒ Significance of Economics:

1. Useful for the producer: Economics is very useful for the producer. It guides him that how he should combine the four factors of production and minimize the cost of production.
2. Useful for the consumer: The consumer can adjust his Expenditure of various goods in better way if he knows the principles of economics.
3. Poverty and Development: It helps in removing the poverty from the country. under developed countries are facing many problems like un employment, over population low per capita income and low production. Economics is very useful in solving these problems.

Scanned by CamScanner

Significance of economics

1. useful for the producer
2. Useful for the consumer
3. poverty and development
4. Useful for the leader
5. Useful for the finance minister
6. useful for the distribution of national Income
7. cultural value
8. Importance for a common man.
9. Economic planning
10. Importance for labour
11. Solution for economic crisis
12. Inspires for development
13. Intellectual value
14. optimum use of Resources
15. creates the sense of Responsibility
16. useful for International trade.

4. Useful for the leader: It's study is helpful for the leaders to understand the economic problems if they have a knowledge of Economics

5. Useful for the finance minister: finance minister prepares the yearly budget of the country. Economics guides him that how he should frame the tax policy and monetary policy.

6. Useful for the Distribution of National Income: From the study of economics one can easily judge that how the income should be distributed among the four factors of production.

7. cultural value: A person's education can not be considered complete unless he has some knowledge of Economics.

8. Importance for a common man: The study of economics is very useful for every citizen. It enables

Scanned by CamScanner

him to understand and critize the economic policies of the government. He can also guide the government

9. Economic planning: Through economic planning we can utilize our natural resources in better way and can improve our economic conditions.

10. Importance of labour: It guides the workers that how they can get maximum wages from the employer. It enables them to get the right of trade union, collective bargaining and fixation of working hours.

11. Solution for Economic crises: It guides the nations that how they can save themselves from the economic crises. The advanced countries desire is that there should be economic stability and full employment without inflation to achieve these objectives, economics is very useful for them.

12. Inspires for development: The study of advanced countries economy inspires the less development countries that they can also improve their economics conditions.

13. Intellectual value: Economics has great intellectual value, because it broadens our out-look, sharpens our intellect and inculcate in us the habit of balanced thinking.

14. Optimum use of resources: In the third world countries there is a lot of wastage of resources which is the main cause of their poverty. The study of economics help to make the optimum use of their resources.

15. Creates the sense of responsibility: Economics develop the sense of responsibility among the citizens by Explaining the various problems and their solutions.

16. Useful for international Trade: It helps the importers and exporters to earn maximum profit by understanding the trade policies of various countries.

Scanned by CamScanner

* Micro and Macro Economic Concepts *

Economics can generally be broken down into macroeconomics and microeconomics.

Economics
- Microeconomics
- Macroeconomics

* Micro economics :

- micro is been derived from the Greek word "mikros", which means small.
- microeconomics is the study of specific individual units, particular firms, particular households, individual prices, wages, individual industries particular commodities.
- The microeconomic theory (or) price theory thus is the study of individual parts of the economy.

⇒ Advantages:

- It helps in the determination of prices of a particular product and also the prices of various factors of production, i.e, land, labour, capital, organization and entrepreneur.
- It is based on a free enterprise economy, which means the enterprise is independent to take decisions.

⇒ Disadvantages;

- The assumption of full employment is completely unrealistic
- It only analyses a small part of an economy while a bigger part is left untouched.

Scanned by CamScanner

* Macro Economics:

- It is derived from the Greek word "makros", which means big
- Macro economics deals with total (or) big aggregates such as national income, output and employment, total consumption, aggregate saving and aggregate investment and the general level of prices.

⇒ **Advantages:**

- It is helpful in determining the balance of payments along with the causes of deficit and surplus of it.
- It makes the decision regarding economic and fiscal policies and solves the issues of public finance.

⇒ **Disadvantages:**

- Its analysis says that the aggregates are homogeneous, but it is not so because sometimes they are heterogeneous.
- It covers only the aggregate variables which avoid the welfare of the individual.

⇒ ***Differences between micro & macro Economics***

Basis for Comparison	micro Economics	macro Economics
meaning	The branch of Economics that studies the behavior of an individual consumer, firm, family is known as micro Economics.	The branch of Economics that studies the behavior of the whole economy, (both national & international) is known as macro Economics.
Deals with	Individual Economic variables	Aggregate Economic variables.

Scanned by CamScanner

Business application	Applied to operational (or) internal issues	Environment and External issues
Scope	Covers various issues like demand, supply, product pricing, factor pricing, production, consumption Economic welfare etc.	Covers various issues like, national income, general price level, distribution, Employment, money etc.
Importance	Helpful in determining the prices of a product along with the prices of factors of production (land, labor, capital, entrepreneur etc..) within the economy	maintains stability in the general price level and resolves the major problems of the economy like inflation, deflation, reflation, unemployment and poverty as a whole.
Examples	Individual income, Individual savings, price determination of a commodity, individual firm's output, Consumer's Equilibrium	National income, national savings, general price level aggregate demand, aggregate supply, poverty, unemployment etc.
Limitations	It is based on unrealistic assumptions, i.e in microeconomics it is assumed that there is a full employment in the society which is not at all possible.	It has been analyzed that fallacy of Composition involves, which sometimes doesn't proves true because it is possible that what is true for aggregate may not be true for individuals too.

Scanned by CamScanner

* National Income Concept *

⇒ National Income Introduction:

- It is the total value of all final goods and services produced by the country in certain year. The growth of National Income helps to know the progress of the country.
- In other words, the total ~~am~~ amount of income accruing to a country from economic activities in a year's time is known as national income.
- It includes payments made to all resources in the form of wages, interest, rent and profits.
- From the modern point of view, national income is defined as " the net output of commodities and services flowing during the year from the country's productive system in the hands of the ultimate consumers.

⇒ $\boxed{\text{National Income} = C + I + G + (X - M)}$

where,
C = Total Consumption Expenditure
I = Total investment Expenditure
G = Total government Expenditure
X = Export
M = Import

⇒ Importance of National Income:

1. Economic Policy: National Income figures are an important tool of macro-Economic analysis and policy, national income estimates are the most comprehensive measure of aggregate economic activity in an Economy.

It is through such estimates that we know the aggregate yield of the economy and lay down future economic policy for development.

2. Economy's structure: National Income statistics enable us to have a correct idea about the structure of the economy. It enables us to know the relative importance of the various sectors of the economy and their contribution towards national income. from these studies we lear how income is produced and how it is distributed, how much is spent, slowed (or) taxed.

3. Economic planning: National income statistics are the most important tools for Long-term and short-term economic planning. A country cannot possibly frame a plan without having a prior knowledge of the trends in national income. The planning Commission in India also kept in view the national income. The national income estimate before formulating the five year plans.

4. Inflationary and deflationary gaps: National income and national product figures enable us to have an idea of the inflationary and deflationary gaps, for accurate and timely anti-inflationary and deflationary policies, we need regular estimates of national income.

5. National Expenditure: National income studies show as to how national expenditure is dividend between consumption expenditure and investment Expenditure. It enables us to provide for reasonable depreciation to maintain the capital stock of a community. Too liberal allowance of depreciation may prove harmful as it may unnecessarily lead to a reduction in consumption.

Scanned by CamScanner

6. Distribution of grants-in aid: National Income estimates help a fair distribution of grants-in-aid by the federal governments to the state governments and other constituent units.

7. Standard of living: National income studies help us to compare the standards of living of people in different countries and of people living in the same country at different times.

8. International sphere: National income studies are important even in the international sphere as these estimates not only help us to fix the burden of international payments equitably among different nations but also they enable us to determine the sub-scriptions of different countries to international organizations like U.N.O., I.M.F., I.B.R.D., etc.

9. Budgetary Policies: Modern governments try to prepare their budgets within the framework of national income data and try to formulate anti-cyclical policies according to the facts revealed by the nation income estimates. Even the taxation and borrowing policies are so framed as to avoid fluctuations in national income.

10. Public sector: National income figures enables us to know the relative roles of public and private sectors in the economy. If most of the activities are performed by the state, we can easily conclude that public sector is playing a dominant role.

11. Defence and development: National income estimates help us to divide the national product between defense and development purposes. From such figures, we can easily know how much can be spread for war by the civilian population.

Scanned by CamScanner

* Business Cycle *

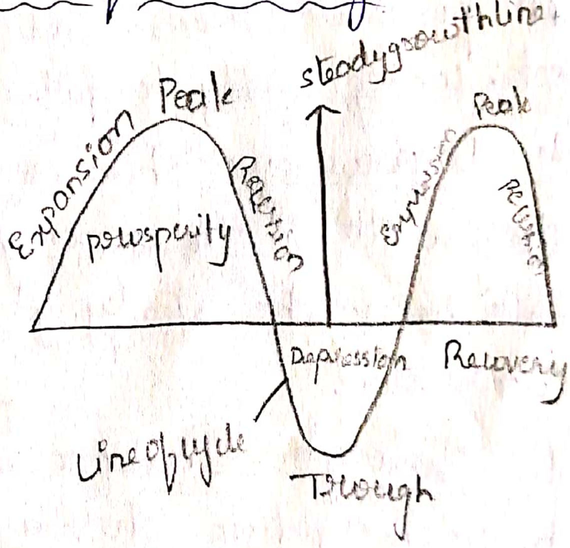
⇒ Introduction to Business Cycle :-

"The business cycle is the natural rise and fall of economic growth that occurs over time. The cycle is a useful tool for analyzing the economy. It can also help you make better financial decisions".

- Fluctuations in economic activity are a feature of every economy and pose a persistent problem in the short run normally.
- These short term fluctuations in economic activity, which are reflected in output and employment levels, are called trade cycles.

⇒ Stages of the Business cycle / Phases of Business cycle :-

Stages of Business cycle
- 1. Expansion
- 2. Peak
- 3. Recession
- 4. Depression
- 5. Trough
- 6. Recovery



1. Expansion: The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services. Debtors are generally paying their debts on time, the velocity of the money supply is high, and investment is high. This process continues until economic conditions become favourable for expansion.

2. peak : The economy then reaches a saturation point, or peak, which is second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal in the trend of economic growth. Consumers tend to restructure their budget at this point.

3. Recession : The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages etc. consequently to fall.

4. Depression : There is a commensurate rise in unemployment The growth in the economy continues to decline, and as this falls below the steady growth line, the stage is called depression.

5. Through : In depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services reach their lowest. The economy eventually reaches the through. This is the lowest it can go. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

6. Recovery : After this stage, the economy comes to the stage of recovery. In this phase, there is a turnaround from the through and the economy starts recovering from the negative growth rate.

Scanned by CamScanner

- Demand starts to pick up due to the lowest prices and consequently, supply starts reacting, too.
- The economy develops a positive attitude towards investment and employment and hence, production starts increasing.
- Employment also begins to rise and due to the accumulated cash balances with the bankers, lending also shows positive signals.
- In this phase, depreciated capital is replaced by producers, leading to new investment in the production process.
- Recovery continues until the economy returns to steady growth levels. This completes one full business cycle of boom and contraction. The extreme points are the peak and the through.

⟹ * Features / characteristics of Business cycle: *

Features of Business cycle

- 1. Movement in Economic activity
- 2. Periodical
- 3. Different Phases
- 4. Different types.
- 5. Duration
- 6. Dynamic
- 7. phases are Cumulative
- 8. Uncertainty to businessmen
- 9. International Nature.

1. Movement in Economic Activity:- A trade cycle is a wave-like movement in economic activity showing an upward trend and a downward trend in the economy.

2. Periodical: Trade cycles occur periodically but they do not show the same regularity.

3. Different Phases: Trade cycles have different phases such as ~~peak~~ Expansion, peak, Recession, Depression, Trough and Recovery.

4. Different types: There are minor and major trade cycles minor trade cycles operate 3-4 years, while major trade cycles operate for 4-8 years (or) more.

5. Duration: The duration of trade cycles may vary from a minimum of 2 years to a maximum of 12 years.

6. Dynamic: Business cycles cause changes in all sectors of the economy. Fluctuations occur not only in production and income but also in other variables like employment, investment, consumption, rate of interest, price level, etc.;

7. Phases are cumulative: Expansion and contraction in a trade cycle are cumulative, in effect, i.e increasing (or) decreasing progressively.

8. Uncertainty to businessmen: There is uncertainty in the economy, especially for the businessmen as profits fluctuate more than any other type of income.

9. International Nature: Trade cycles are international in character. for Eg. Great Depression of 1930s.

* Business Economics *

⇒ Introduction to Business Economics :-

- Business economics is the applied branch of economics which analyses business situations.
- Business economics is the latest terminology used in Business organization. It denotes the application of economic theories to the business conditions and decision making in business.
- It involves a co-ordination process linking business methods with the formation of future plans and making decisions in business.

Scanned by CamScanner

Definitions:

*A/c to McNair and Merriam :— "Business Economics Consists of the use of economic modes of thought to analyze business situations."

*A/c to spencer and siegelman :— "The integration of economic theory with business practice for the purpose of facilitating decision— making and forward planning by management."

*Characteristics of Business Economics */ Nature / features :—

characteristics —
- 1. Micro Economic nature
- 2. Use of economic theories
- 3. Realistic one
- 4. Normative Science
- 5. Use of Macro Economics.

1. **Micro Economic nature:** Business Economics is Micro Economics in nature because it deals with the matters of a particular business firm only.

2. **Use of economic theories:** Business Economics uses all economic theories relating to the profits, distribution of income etc.

3. **Realistic one:** Business Economics is a realistic science. It studies all matters concerning business organization by considering the real conditions existing in the business field.

4. **Normative Science:** Business Economics is a normative science. It studies the matters concerning the aims and objectives of a business firm. It determines the methods to be adopted for achieving such objectives. It also makes inquiry into the good and bad in decision making. Hence it is a normative science.

Scanned by CamScanner

5. Use of macro Economics: Even though Business Economics has a the nature of micro Economics, it also uses macro Economics approaches frequently. certain matters in macro Economics like business cycles, national income, public finance, foreign trade, etc. which are essential for Business Economics. So, Business Economics uses the macro Economics phenomenon for taking business decisions.

⇒*Scope of Business Economics: *

The following fields fall under business Economics.

Scope of Business Economics
- → Demand Analysis & forecasting
- → Cost and production analysis
- → Pricing Decisions, policies & practices
- → Profit Management
- → capital Management.

1. Demand Analysis forecasting: Accurate estimates of demand help a firm in minimizing its costs of production and storage, so such type of information get through demand Analysis. Demand Analysis help for decision making & it's give information like which factors affecting the demand for a firm's product and it provide information about competition in Market for the demand's of product.

2. Cost and production Analysis:- A firm's profitability depends much on its costs of production. Cost & production Analysis provide information like which factors causing variations in costs, ~~and~~ uncertanities in production. ~~and~~ and it help full for avoid wastage of materials & time.

Scanned by CamScanner

3. Pricing Decisions, policies and Practices: Pricing of the firm's products is a very important task before a business manager. Since a firm's income and profit depend crucially on the price decision, the pricing practices, policies and decisions are to be taken after careful analysis of the nature of the market in which the firm operates.

4. Profit Management:- Business firms are generally organized for earning profit and in the long period, it is profit which provides the chief measure of success of a firm. profit management help full for the firm to profit planning and profit measurement.

5. Capital Management: Capital management requires top-level decisions. capital management implies planning and control of capital expenditure. capital Management is going to deal with cost of capital, Rate of return and Selection of projects.

⇒ * Role of Business Economist: *

1. study of the Business Environment: The most important elements of business environment for a firm are the trend of growth of national economy and world economy and the phase of the business cycle in which the economy is, at what rate and where is population getting concentrated? where are the demand prospects for established and new products?; These questions lead the economist into purposeful studies of the economic environment

→2. Study of business operations: The managerial economist can also help the management in decision making relating to the internal operations of a firm, that is, in deciding about price, rate of operations, investment ~~and growth~~ and what will be the reasonable sales and profit budget for the next year.

→3 Specific functions: Business economists are now performing specified functions as consultants also. Their specific functions are demand forecasting, industrial market research, pricing problems of industry, production programmes, investment analysis and forecasts.

→4. Economic Intelligence: The managerial economist also provides general intelligence services by supplying the management with economic information of general interest so that they can talk intelligently in conferences and seminars. They are also supplied the facts and figures for preparing the annual reports of the firm.

→5. Participation in public Debates: well-known Business Economists participate in public debates. Both governments and society seek their advice. Their practical experience in business and industry gives value to their observation.

Scanned by CamScanner

⇒ **Measures of National Income:**

Measures of NI

- GDP
- GNP
- NNP
- NDP
- ~~NNP~~ $_{FC}$
- PI
- DPI

⇒ **A. GDP (Gross Domestic Product):-**

- The total value of all final goods and services produced within the boundary of the country during a given period of time (generally one year) is called GDP

- In this case, the final produce of resident citizens as well as foreign nationals who reside within that geographical boundary is considered.

$$\boxed{GDP = Q - P}$$

where

Q = total quantity of final goods and services produced in the country

P = Price of the final goods and services.

Scanned by CamScanner

B. Gross National Product (GNP) :–

– GNP is the total value of the total production (or) final goods and services produced by the nationals of a country during a given period of time (generally one year)

- In this case, the income of all the resident and non-resident citizens (who resides in abroad of a country in included whereas, the income of foreigners who reside within India is excluded.

– The GNP contains the income earned by Indian National (both in Indian Territory and Abroad) only.

$$\boxed{GNP = GDP + (X - M)}$$

X = Export ; M = Import.

→ X−M is called the net factor Income from Abroad (NFIA).

C. (NNP) Net National product :

$$\boxed{NNP = GNP - \text{Depreciation}}$$

→ ~~Depreciation – wear and~~

→ This deduction is done because a part of current produce goes to replace the depreciated parts of the products already produced.

D. Net Domestic product (NDP) :–

$$\boxed{GDP - \text{Depreciation}}$$

→ It is the calculated GDP after adjusting the value of depreciation.

E. Personal Income :–

It refers to all of the income collectively received by all of the individuals (or) households in a country

Scanned by CamScanner

PI = NI + Transfer payments – Corporate Retained Earning, Income taxes, Social security taxes.

⇒ **Disposable personal Income:**

$$DPI = PI - Taxes$$

– It is the amount left with the individuals after paying personal taxes such as Income tax, property tax and professional tax etc.

– DPI results into savings and expenditure i.e (spend and save). This concept is very useful for studying and understanding the consumption and saving behaviour of the individuals.

Scanned by CamScanner

⇒ * Inflation :— (short Answer).

persisted (or) continues increase in the general price level of goods and services in a country.

→ And is measured as an annual percentage change.

→ and consequently the purchasing power of currency is falling.

↑ Demand — ↑ prices

⇒ * Money supply in inflation :—

Introduction to Money Supply:

" Total amount of coins and currency outside of banks and checkable deposits"

→ Increase in the money supply faster than the growth in real output will cause inflation. The reason is that there is more money chasing the same number of goods. Therefore the increase in moneytary demand causes firm to put up prices.

→ If the money supply increases at the same rates as real output, the prices will stay the same.

Scanned by CamScanner

* Theory of Firm *.

→ Introduction:

- To apply economics to business management, we need a theory of the firm, a theory indicating how firms behave and what goals they pursue.
- There are a number of theories of the objectives of the firm. Single theory applicable to all firms is not available as firms pursue more than one objective. But still, profit maximization is considered as the objective pursued by almost all business firms.

Major theories
- Optimizing theories
  - Profit Maximization theory
  - Managerial theories
    - → Baumol's model
    - → Marris's Model
    - → Williamson's Model
- Non-optimizing theories (Behavioural theories)
  - → Simon's model
  - → Cyert & March Model

1) Optimizing theories:

- Optimization techniques are probably the most crucial to managerial decision making.
- Given that alternative courses of action are available, the

Scanned by CamScanner

managers attempt to produce the most optimal decision, Consistent with stated managerial objectives.

2) **Profit Maximization theory:**

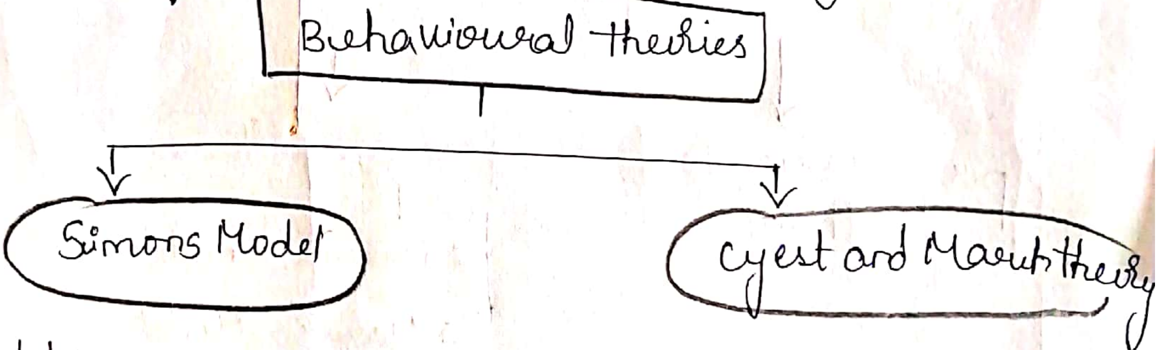
- Profit maximization is one of the most common and widely accepted objective of a firm. According to the profit maximization theory the main aim of the firm is to produce large amount of profits.
- In order to survive in the market, it is very essential for the firms to earn profits.

3) **Managerial theories of firm:**

It Examine the possibility that the firm is controlled not by its owners, but by its managers, and therefore does not aim to maximize profits.

4) **Behavioural theories of firm:**

According to the behavioural theories the firm tries to attain a satisfactory behaviour instead of maximization.



→ **Simons Model:**

- The simon's satisfying model states that firms carry out their operations under 'bounded rationality' and can only attain a satisfactory level of profit, sales and growth.
- Simon carried out a research and found that modern business do not have adequate information and is uncertain about future due to which it is very difficult to attain profit, Sales and growth objectives.

Scanned by CamScanner

→ Cyert and March theory:

- The model developed by cyert and march states that firms should be oriented towards multigoal and multidecisions making.
- Instead of dealing with uncertainty and inadequate information, the firms should fulfill the conflicting goals of various stakeholders such as shareholders, employees, customers, financiers, government and other social interest groups.

---

* Multidisciplinary Nature of Business Economics

1) Economics and Business Economics:

Business Economics has been described as economics applied to decision-making. It may be studied as a special branch of Economics, bridging the gap between pure economic theory and managerial practice.

2) Operations Research and Business Economics:

Business Economics depends heavily on the models and tools of operations research (or) quantitative techniques.

3) Mathematics and Business Economics:

Mathematical concepts and techniques are widely used in economic logic with a view to finding out answers to these questions and used for business decisions.

4) Statistics and Business Economics:

Statistical tools are a great aid in business

Scanned by CamScanner

decision-making. statistical techniques are used in collecting processing and analyzing data, testing the validity of the Economic laws with the real economic phenomenon before they are applied to business analysis.

5) Accounting and Business Economics:

Accounting information is one of the principal sources of data required by a business economics for his decision-making purpose. The profit and loss account and balance sheet statement of a firm tells how well the firm has done and business economist to throw significant light on the future course of action - whether it should improve (or) closedown

6) Psychology and Business Economics:

Psychology is the science of mind. It deals with all kinds of human behavior.

7) Organizational Behaviour:

Organizational behaviour helps the managers to understand learn about the human behaviour of employees and managers for developing the model of a firm. This make the firm about the future analysis of economic reality.

Scanned by CamScanner

UNIT-I

*) what are the Non-Conventional sources of finance?

→ Introduction: The sources which are different from the traditional sources are considered as non-conventional sources.

→ The various non-conventional sources of finance are:

Types of Non-Conventional sources → Lease financing
→ Hire Purchase
→ Factoring services.

1) Lease financing: According to James C. Van Horne, " Lease is a contract whereby the owner of an asset (Lessor) grants to another party (Lessee) the exclusive right to use the asset usually for an agreed period of time in return for the payment of rent".

Leasing is an agreement which is made between two parties i.e, the leasing company (or) lessor and the user (or) lessee wherein the former makes arrangement to buy capital Equipment for the usage of the latter for a pre-determined agreed period of time in return for the payment of rent.

2) Hire Purchase: Under hire purchase system, two parties i.e, is hire purchaser and hire vendor enter into an agreement to let (or) hire the goods on hire basis. Hire purchase agreement is similar to the contract of ailment but ~~Here~~ here, the hire purchaser possesses the option of acquiring the goods on payment of last installment.

3) Factoring services: Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e, invoices) to a third party (called a factor) at a discount. A business will sometimes factor its receivable assets to meet its present and immediate cash needs.

Scanned by CamScanner

Types of Factoring

- Resource Factoring
- Non-Resource Factoring
- Advance Factoring
- Bank participation Factoring
- * Confidential and undisclosed factoring.
- * Maturity factoring
- * Supplier Guarantee Factoring

Important Questions:

1) what is Business? Explain features | advantages | characteristics of business.
2) Explain structure of Business firm.
3) Explain theory of firm and Non-conventional sources of finance.
4) Define Business entity? Explain types of Business entities.
5) Define Limited liability Company? features of it.
6) Sources of a capital for a company.
7) Define Business firm and Explain significance of Economics? Explain Micro & Macro Economic Concepts.
8) what is national Income and Importance/significance of NI. and Explain Concepts of National Income.
9) Define Inflation. Explain Money supply in inflation.
10) ~~Infoo~~ Define Business cycle. features and phases of Business cycle.
11) what is Business Economics. And Nature and scope of Business Economics.
12) Explain Business Economics and Role of Business Economist and Explain Multidisciplinary nature of Business Economics.

Scanned by CamScanner