Unit-I

Introduction to Business And Economics

I(Q). Structure of Business Firm.?

Ans:- Structure of Business Firm

- Sole-proprietorship
- partnership
- limited liability Company
  - public limited Company
  - private limited Company
- Co-operative enter prices
- public company

1) Sole - proprietorship:- The business Which is Owned and controlled by a single person, with or without hired labour is called Sole propoietorship.

1) Easy and Simple to start flexible and Free From.
2) Requires less capital
3) Government policies.
4) Flexible and Free from.

2) partnership:- partnership is a Relationship between two or more persons, an agreement made between these persons. They agree to share the profits of the business Carried On by all or any one of them acting for all.

1) more capital, different Skilled and abilities are possible.
Risk of business is shared by more than one person.
Expansion and growth of business is easy.

3). Limitted liabilities Company:-

Limited company Company mostly adopted by the large firms.

In liability Company, equity holders are required to contributed the Limited Share Capital

limitted liability Company furtherly Classified in-to two types they are.

1) private limited Company:- It is also known as closely held company in which less no. of individual are contribute the risk capital.

Here the public is not invited to take the risk capital and become the company equity.

2) ~~private~~ public limited company:- It is also

In public limited Company there are large no. of individual to contribute the risk capital.
A part from this, in public limited Company the risk Capital are also Contribute by the joint family, partnership firm, a body complete or any other entity.

4) Co- operative enterprises:-

A jointly owned Commerical enterprises (wally organised by Consumer that produces and distributes goods and Services and run for the profit of ~~par~~ owner.

5) public enterprises :-

public Sector Organisations are Controlled and Operated by the State or Central government either Solely or in association with private enterprises.

2) Theory of Firm ?

Ans- The Theory of the firm analyses different Types of Constraints the firm to grow both in terms of output and Size. This includes ho. firms may be able to Combine labour and Capital So as to lower the average cost and output. either from Increasing, decresing or Constant returns to scale for one or more product lines.

The managerial theories as given by Robin marries and Oliver E. William Son in detail.

Williamson's Approach:-

Oliver E. Williamson States that that the firms exist because of certain assets they hold for production. Thease assets are Such that their Specific to each Other Such that their Value is much less in a Second-best Use. Features.

1. The asset extends Over a long period, this may lead to increase in transaction in costs.
2. Transaction costs Vary withe the Size of the firm.
3. The residual income decrease as the number of Owner Increase.

4. Most of the entrepreneurs find Small is beautifull and Feel expanding the size of the firm upto a particular point may be feasible and beyond that it is not.

5) Entrepreneurs consider they can not really do big business if the size of the business is kept limited.

6. The deciding factor in all the cases is the competence of the entrepreneur and his ability to transalate the vision in to action

Marris Growth Maximisation Theory

According to marris, the growth rate is determined by growth rate for firm's product in terms of demand (GP) and growth rate of capital (GC) supply to the firm.

(a) Utility function for managers (U_M)

(b) Utility function for owners (U_O) as given below.

(i) $U_m = f(S, P, Js, P, S)$ Where

S is Salary

P = power

Js = Job security

P = prestige

S = Status.

ii) The Utility for managers (Um) is governed by Salary, power, job security, prestige and Status associated with their respective jobs.

Types of Business Entities

The different types of ownerships are

1) Sole proprietorship
2) partnership
3) Joint Stock Company
4) Joint Stock Company
    (a) private limited JSC
    (b) public limited JSC
4) Co-operative Societies
5) public Sector organisations.

1) Sole propritorship:- The business which is owned and controlled by a single person, with or without hired laboug is called Sole propritorship. The person who runs sole proprietorship is called as sole tractor.

He start the business with his own capital purchase the necessary equipment and appoints the workers of his own choice, and keeps it runnig. Hense he enjoys all the profits and in case of loss, he has to bear it.

2) partnership:-

Patnership is a Relationship between two or more person, an agreement made between these persons. They agree to share the profits of the business carried on by all or anyone of them acting for all.

The person participating in the business are called individually as partners and collectively the business is called firm.

3) joint Stock Company :-

A joint Stock Company is an association of individuals called Share holders, who join together for profit and agree to supply capital divided into Shares that are transferable for carrying on a specific business.

private limited JSC :-

The capital divided in to Share are issued to promoters, their relatives and friends and transfer of Shares restricted to Share holders.

public limited JSC

Shares are issued to genral public and transfered to any one.

4) Co- Operative Society :-

A Voluntary organisation of person of Same working class United together with collectively own funds in order to get commodities of daily use. To start co-operative business an application is submitted to the register of co-operatives with minimum number of persons is 10 and maximum is Unilimited.

5) public Sector Organisation :- public sector organisations are controlled and operated by the state or central goverment either Soley or in associations with private enterprise

Limited Liability Companies

limited liability Company is a U.S
team where in the members of corporate
structure are not personally liabile for the
debts and obligation it is a type Unincorpor-
ated accociation requiring " Ariticles of
Organizations" to be filed within the state

Creation of limited liability company (LLC)

1) choose a legal business name.
2) File articles of organizations and pay fees.
3) create an operating agreement
4) public a notice (in Some states) in a local newspaper intention to form an LLC.
5) Obtain licenses and permits.

Features:-

a) separate Entity : sell or buy a property i.e of its own.
(b) Limited liability : The limited liability of the employees, members, managers etc. It means members are not responsible for the for the misdeeds, legal-faults of the other members.
c) Tax Ease : LLC gives the members of the Corporation an option to tax themselves either a sole proprietorship partnership or Corporation.

Advantages:-

1) The LLC owners file their own personal tax returns.
2) There are fewer regulations in LLC Compared to other organisation.
3) There are less paperwork and less record keeping Comparatively.
4) Even a single natural person can start an LLC, if it is not restricted by the State.
5) LLC can plan for income and tax.
6) Flexibility for selecting how the members are to be taxed.

Disadvantages:-

1) In some states, the members of LLC may have to pay self-employment tax.
2) LLC for different persons, there may arrive confusion.
3) LLC may or may not require legal formalities and organized manner to run itself

* Sources of Capital For A Company *

The following are the common methods of Finance.

1) Long-term Finance
2) Medium-term finance.
3) Short-term finance.

I) Long-term Finance :-

(i) Own capital
(ii) Share capital
(iii) Retained profits
(iv) Long-term loans.
v) Debentures
vi) Government grants and loans.

II) Medium-Term Finance :-

(i) Bank loans
ii) Hire-purchase
iii) Leasing or renting
iv) Venture capital.

III) Short-Term Finance :-

(i) commercial paper
ii) Bank overdraft
iii) Trade credit
iv) Debt-factoring or credit factoring
v) Advance from Customers
vi) Internal Funds.

I) Long-Term Finance :-

Long-term finance refers to that finance available for a long period say three years and above. The long term methods below are used to purchases fixed assets such as (Land, building, plant and so on)

(a) Own capital :- The owners of the business have to invest own finances to start and money invested by owners will stay with the business through out the life of the business.

(b) Share capital :- The capital of a company is divided in-to equal parts known as shares Those who contribute the amount and purchase the share are called shareholders,

(c) Retained profits :- The amount of net income for a business. use after buying dividend its share holders of the management weather to keep the earnings or give them to shareholders.

(d) Long term loans :- A long-term loan is a type of credit paid over a considerable period, usually more than 3 years. This loan tenure can be somewhere between 3-30 year

v) Debentures:-

A debenture is an acknowledgement of debt. A debenture holders is the creditor of the company. A fixed rate of interest is paid to them. A debenture is a bond or a certificate or document issued by the Company under its common seal at a certain rate of interest payable after certain period.

vi) government grants and loans:-

governments grants for housing and dental implants. Grants applications require extensive planning and work, and they are very competitive. Law or governing agencies determine the amount of funding for each grant.

II) Medium-Term Finance:-

i) Bank loans:-

These loans are given at fixed rate of interest and repayment interest are scheduled at the begining and directly debited to the current account of the borrower.

ii) hire-purchase:-

It is a facility to buy a fixed asset while paying the price over a long period of time. Asset can be taken by making a down payment of part of the price and balance will be repaid with a fixed rate of interest in agreed number of installments.

iii) Leasing or Renting :-

Where there is a need of assets need not be purchased on lase or rent for specific number of years. The company who owns the asset is called lessor and the Company which takes the assed on lease is called lessee.

Venture Capital :-

It is available only for limited capital and normally provided for such project where relatively high degree of risk. Bank offers such finance through their merchant banking divisions or specilist bank which offers advice and financial assistance.

III) Short term Finance :-

(i) Commercial Banks & paper :-

The provide most important source of Capital. They provide a major portion of working capital loans. They are tailored made based on specific requirements.

ii) Bank over draft :-

Over draft means an agreement with a bank by which an current account holder is allowed to with draw money than the balance to his credit up to a certain limit.

(iii) Trade credits :-

It is a short term credit facility extended by the creditors to the debtors. It is a very convenient method, flexible, possible to obtain favourable terms.

iv) Debt factoring or credit Factoring :-

A company sells its products to its customers on credit. i.e customers can purchase products first and pay at a later time. The payment date will be mutually decided and agreed.

v) Advance from customers :-

Advance from a customer is a payment made by a customer to a business before the business has provided the goods or services agreed upon.

vi) Internal Funds :-

Internal Funds are generated by the firm itself by way of secrete reserve depreciation, provisions retained profits & so on and can be utilised to meet the urgencies.

Q6 Non-conventional Sources of Finance ?

Ans:- Non-conventional refers to the financial mechanisms employed and not necessarily to the financial institutions who employ them. The modification of loan terms that grants eligibility to borrows with very limited financial strength.

There are two types of Non-conventional Sources of Finance.

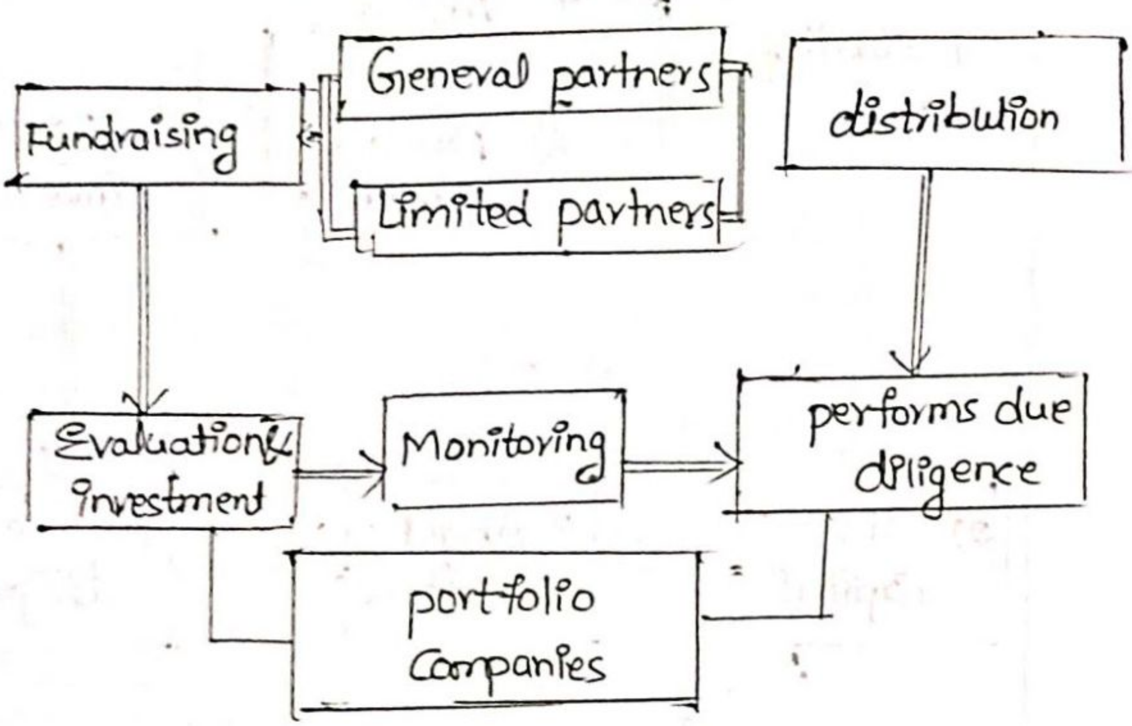
1. Venture capital
2. Angel Funds.

1) Venture Capital:- Venture Capital invested in which there is a Substantial element of risk, typically a new or expanding business. There are 3 types of Venture capital provided for.

1) To start-up Company Funds.
2) For expanding business.
3) Acquisitions and mergers.

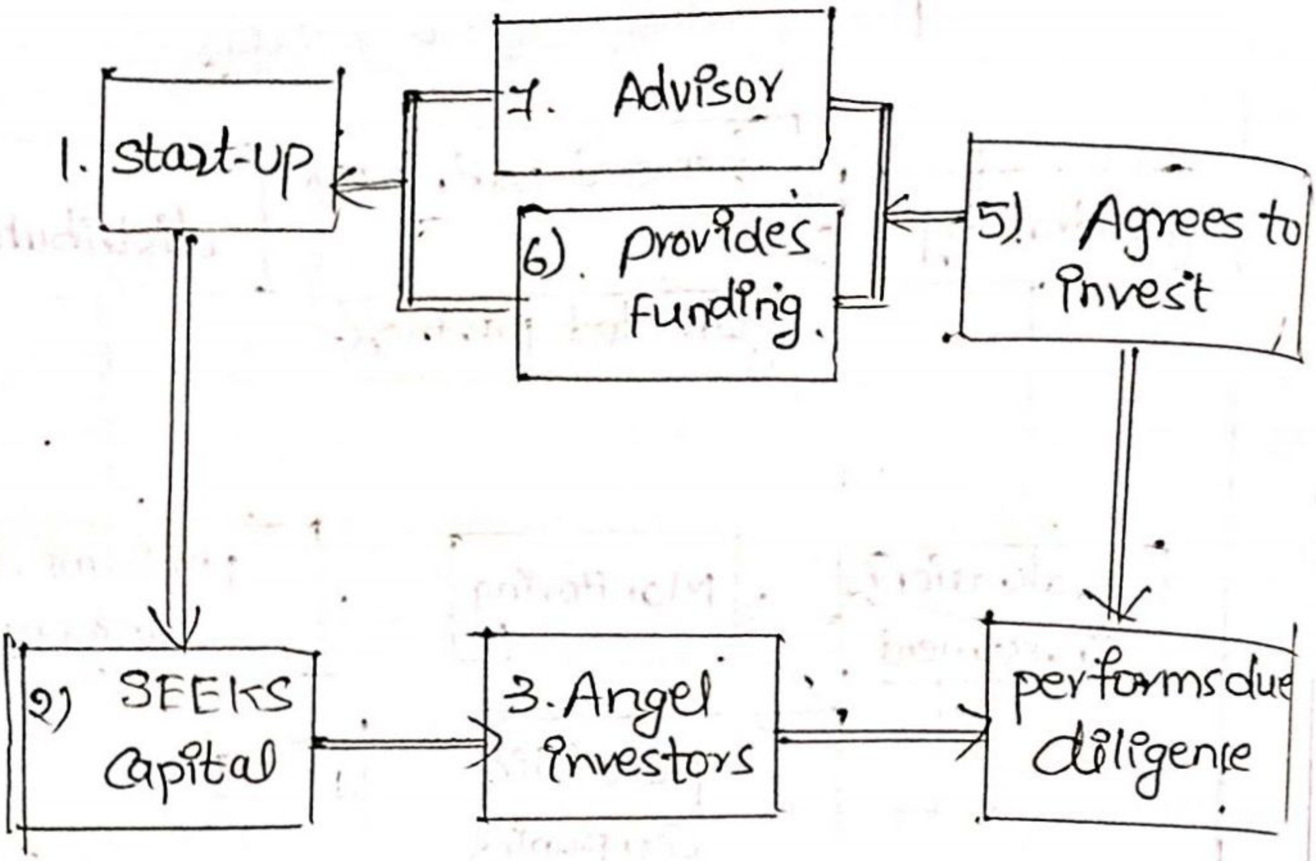
Venture Capital investment are generally made as cash in exchange for shares in the invested company.

The Venture capital process



2) Angel Funds :-

Angel Funds refers to a money pool created by high networth individuals or companies and they generally called as angel investors, For investing in business start-ups. Angel investors expect to get their money back. with 5 to 7 years with an annualized internal rate of return (IRR) of 20% to 40%. Whereas Venture capital. Funds strike for the higher end of this range or more. The SEBIC (securities exchange board of India) Regulates the rules for angel Funds.



Angel investor process.

Q.1. Significance of Economics, Micro and Macro Economics concepts.

Ans:- Definition of Economics:-

Economics is a study of human activity both at individual and national level. Every one is involved in efforts aimed at earning and spending money to satify our wants such as food, clothing, shelter and others

Adamsmith:-

The father of economics. defined economics as the study of nature and uses of national wealth.

-: Significance of Economics:-

1) Helping the society
2) offers scope to Evalute each Alternative
3) Inter Disciplinary
4) Assumption and Limitations.

1) Helping the Society:- It is first most important in Economics to help the Society in allocating resources for optimum Utilisation.

2) Offers scope to Evalute each Alternatives

provides an opportunity to evalate each alternative in terms of its costs and revenues.

3) Inter Disciplinary :-

The contents, tools techniques are drawn from different subjects such as economics, management, mathematics accountancy, statistics, sociology etc.

4) Assumptions and limitations :-

It is based on certain assumptions and their validity is not Universal, where changes in assumption, the theory may not hold good.

Studies the individual consumer or a firm or aggregate or total level of economic activity.

Q7) Difference	Micro economics	Macro economics
Definition	Micro economics is the study of economic actions of individuals and small group of individuals.	Macroeconomics studies the economy as a whole and not a single unit but combination of all
concern with	particular households firms and industries.	National income, general price levels national output. Unemployment and poverty.
Objective	On demand side is to maximize utility whereas to minimize profits at minimum cost.	Full employment, price stability economics growth and favourable balance of payment
Basis	price mechanism which operates with the help of demand and supply forces.	National income output and employment. which are determined by aggregate demand and aggregate supply.
Assumption.	Rational behaviour of individuals	Aggregate volume of output of an economics the extent to which is its resource are employed

8
7. Concepts and Importance of National Income.

Ans:- National income is defined as the money value of all the final goods and services produced in an economy during an accounting period of time generally one year.

concepts of National Income:-

a) Gross Domestic product :- (GDP):-

It is the sum of money values of all final goods & services produced within the domestic territories of a country during an accounting year.

$$GDP = C+I+G+(X-M)$$

Where

C = The value of all consumption.

I = Investment

G = The value of government services.

(X-M) = The value of net product i.e the difference between total exports (X) and total imports (M)

b) GDP at Factor cost and GDP at market price :-

Income generated by Factor of production with the country from its own resources is called Domestic Income or Domestic product.

It includes the following.

a) wages & salaries
b) Rents
c) Interest
d) Dividends
e) Undistributed profits including public Undertakings.
(f) Mixed income consisting of profits of Self Employed person partnership are
g) Direct taxes

$$GDP = C + I + G + (X - M)$$

GDP at factor cost = GDP at market prices + (S-T)

$$= C + I + G + (X - M) + (S - T)$$

Where S = Goverment Subsidies

T = Indirect Taxes.

(c) Gross National product (GNP) :-

GNP is the aggregate final output of citizens and businesses of an economy in a year is defined as the sum of GDP + Net factor income from abroad

$$GNP = GBP - NFIA$$

$$GNP = C + I + G + (X - M) + (R - P)$$

(d) Net Domestic product and Net National product :-

$$NDP = GDP - Depreciation$$

$$NNP = GDP - Depreciation (R-P)$$

$$\text{or } NNP = GNP - Depreciation.$$

(e) NNP at factor cost (or National Income)

= NNP at market prices - Indirect taxes + Subsidies

(f) per capital Income (PCI) :-

The average income of the people of country in a particular year is called per capital income.

$$\text{per capital income} = \frac{\text{National income for the year}}{\text{Total population in the year.}}$$

Q:- INFlation, Money Supply in inflation.

Ans.:- inflation is a persistent increase in the genral price level of a persistent decline in the real income of people i.e. decline in value of money. In other words inflations means things getting more expensive, Economists categories inflation in to two broad categories price inflation and money inflation causes of inflation.

1) Excess money supply
2) Demany pull inflation.
3) cost push inflation
4) Low increase in supply of Goods.
5) Built in inflation.

1) Excess money supply:- is one of the major cause of prices rises, because it is directly inked with increase in aggregate demand.

2) Demand pull inflation:-

When aggregate demand level increase due to any reason, and supply of out put of is Unable to match this increased demand, the inflationary pressures thus built is known as demand pull inflation.

1) Increase in money supply
2) Increase in disposal income.
3) Increase in aggregate spending
4) Increase in population of the country

3) Cost push inflation:-

One of the determinants of price is supply. A situation where demand is unchanged. & year prices.

4) Low increase in supply of Goods.

obsolete technology
Deficient machiney
Scarcity of resources
Natural calamities
Industrial disputes and external aggressions.

5) Built in inflation:-

It is a type of Inflation that has resulted from past events and persists in the persent.

Q11). Explain Money Supply in inflation.?

Ans:- The quantity of money available for the public is a key deteerminant in many economic variable because changes in the money supply affect interest rates inflation, consumption and savings.

Money supply is expressed in the form of two broad measures.

1) Narrow Money :- Includes only liquid assets like currency, notes and coins in the hands of public and demand deposits in banks.

2) Broad money:- Includes a set of less liquid assel like teem deposits with banks.

M_1 : currency with public i.e coins and Notes + demand deposits of public with banks.

M_2 : M_1 + post office Savings deposits

M_3 : M_2 + Time deposits of the public with bank "Other" deposits with RBI.

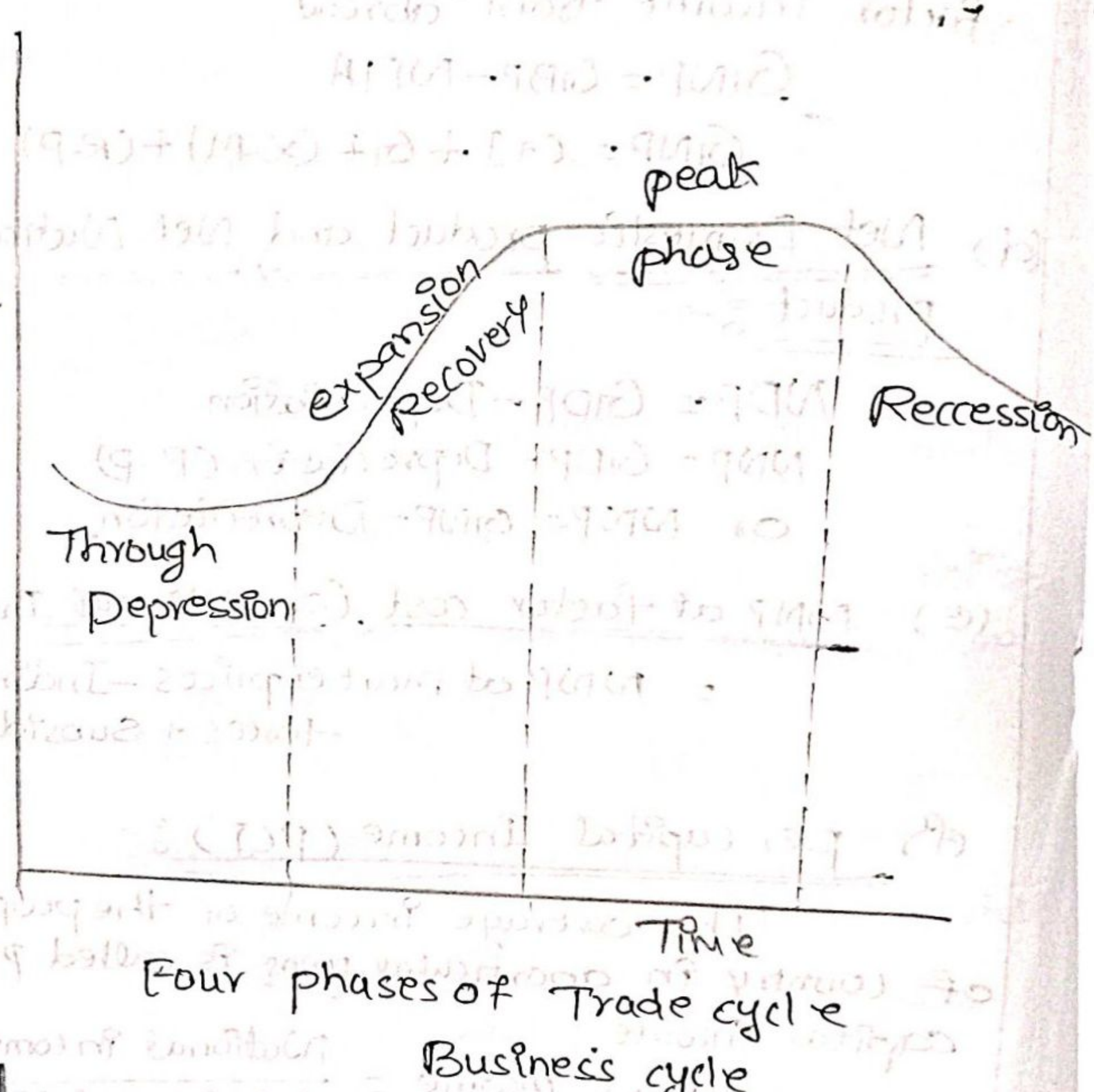
M_4 : M_3 + All other deposits with post office.

M_0 : currency in circulation + Banker deposits with central bank + other deposits with central bank.

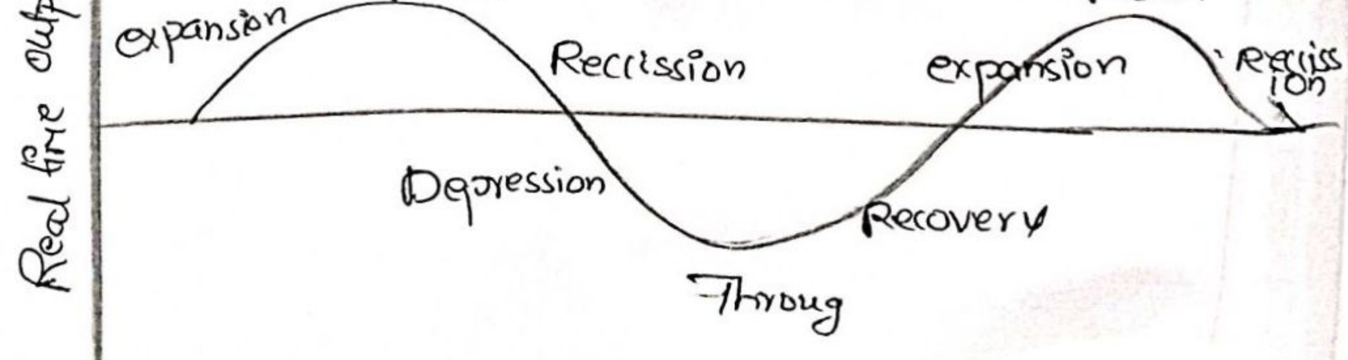
$$\text{Money Multiplier} = \frac{M_3}{M_0}$$

10 Q. Business cycle, Features and phases OF Business cycle.

Through /Depression phase:-



Four phases of Trade cycle
Business cycle



Expansion:-

The First stage in business cycle is expansion. In this stage, there is an an increase in +ve economic indicators such as employment income, output, wages, profits, demand and supply of goods and Services.

Debtors (consumer) are genereraly paying their debt on time, velacity of money supply and Investment is high.

This person is certified as long an economical condition is feivorable to expansion.

2. peak:-

peak is the Second stage of busines cycle the maximum limit of growth is attained

The economic indicator such as (profit Employement, Income, demand goods, supply of good & services do not growth further and their are at highest.

Reccission:- Reccission is the stage that follows the peak stage. The economic indicator such as employement, income, profit, demand and supply of goods and services are decline rapidly start to fall.

producess donot notice the decrease in demand and they produces more and more

4. Depression:-

Depression is the stage in which the economic indicators such as employement, Income, profit demand and supply of goods and services are continuely decline (or) decline rapidly.

5) Through:-

Through indidcate the economical growth becomes negative (-ve). The economical indicator such as employement Income, profit demand and supply of goods and services are at lowest price. The economy is reaches the Through.

6) Recovery:-

Recovery is the state in which the economics comes to recover There is a turmaroind from through and economy stages recovery from -ve growth rate.

economic Indicators such as employement, Income, profit, demand and supply of goods and services are slowly increases.

Nature and Scope of Business Economics

Introduction:-

It is Integreation of economic theory with practices for making decision.

Nature of Business Economics

1) Arts and science
2) Uses components of both micro and macro.
3) multidiciplinary / dynamic
4) prescriptive / Normative.
5) Management oriented
6) pragmatic.

1) Arts and science:-

Arts and science nothing but it require lot of logical thinking and also creativity skills so that is reasoy by managerial economics will obay will follow.

2) Uses components of both micro and macro:-

micro Economics is nothing but it deals with the single firm that mean apart of Economics, apart of organization, apart of Industry Only single it is not depending on anything and it is small Industry and small firm

Macro Economics it will deals with whole economy it will deals with a big Organization.

3) Multidiciplinary / dynamic:-

Multidiciplinary / dynamic means in nature or avenue going to the business field you will be having different types of situation and different Types of thing to deals with.

dynamic:-

So managerial Economics should be such away that it should change according to the things happening so that why it should change according to the situations.

4) prescriptive / Normative:-

Business Economic well always focus on goal Achievement and it also deals with practical situations.

5) Management Oriented :- is nothing but it is used as tools as it ~~depending~~ depends management. How to earn money, How to spend money, and How to save money and although simple things.

6) ~~pragmatic~~ :-
pragmaticIs nothing but it deals with practical situations.

Scope of Business Economics

Scope in nothing but Where we can use this concept of Business Economics in which topics of and which content and accepts of business. The word manage Business can be used tools and some technichs.

1) production
2) Reduction & control of cost.
3) determining price of item.
4) Determining capital and investment decisions.
5) profit planning Management.

Production:-

production is nothing but The amount of production that you can do form your Industry or Factory. What is the raw material you have and How much is production that you can out of it you can calculate that based on by using M.E.

2) Reduction & control of cost :-

How can you control the cost of production of a product. How can you reduce you have reduce maximum amount of cost and amoul of production ~~of~~ then ~~ly~~ you can make profit importent accept that can be reduction & control of cost.

3) Determining price of item:-

How can you determining the price of the item. in order to determining the item. first we have calculate the item. of the production cost of labour you are profit How much you want to make althoughs cacluation determination to make althoughs calculation determination. and price of the determination and price of the perticular item or product can be done by using Business Economics.

Capital and Investment decisions:-

Capital and Investment decision
Suppose you are planning to start any business first we have to think you have to analyse what is your investment How much profit you going make Out of it. How much ~~profit~~ capital you have set up primary and althoughs decision can be made by using Managerial Economics. and also if you are doing partnership business with some other person. What is your share with what percent_age your share How much percentage your share.

profit planning Management:-

profit planning Management How you can profit out of your business How widely you can plan setup the business. that you can get good profits althoughs thing you can learn from Business Economics. So these in order to produce "Optimal solutions" Optimal Solutions is nothings but the best Solutions and profitable Solutions.

(12) Role of Business Economist.
(2)

Ans:- Economist often study historical trends and use them to make forcasts specifically economist may analyze issues such a consumer demand and sales to help a company maximize its profits. The work for research firm and think tanks, where they study and analyze a variety of economic issues.

In simple Economist study the production and distribution of resources, goods and services by collecting and analyzing data.

Role of Business Economist:

1) Bring reasonable profit to the company
2) To study external and internal factors influencing the business.
3) To Forecast accurately.
4) To establish and maintain contract with individual and data sources
5) To inform the management about all the possible economics trends.

6) To earn full status in the business team.

7). Assist in business planning.

8) carry cost benfits analysis.

9) Decision making related to price investment goods.

10) Reserch on Industrial market.

11) Conducts statistical analysis.

12) Ability to handle pressure.

Q (13) Explain multi - disciplinary nature of business economics ?

Ans:- Business economics is closely linked with many other disciplines such as economics, accountancy mathematics, statistics, operations research, psychology and organisational behaviour,

1) Business Economics & Economics.
2) Business Economics & statistics.
3) Business Economics & Mathematics.
4) Business Economics & operations Reserch
5) Business Economics & Accountancy
6) Business Economics & Psychology
7) Business Economics & Organisational Behaviour.

1) Business Economics & Economics:-

Economics has two main division - micro & macro economics. Economics is that branch which bridge the gap below pure economic theory & managerial practice.

2) Business Economics & statistics:-

statistics is linked with BE in teem of risk & Uncertainty statistical concepts like averages, dispersion. correlation, regression time series, interpolation, probability.

3) Business Economics & Mathematics:-

The economist make use of tools & techniques of mathematics, Such as algebra, calculus.

4) Business Economics & operations Research :-

Business Economics focuses on problem of decision making . It is a tool for finding the solutions for many managerial problems.

5) Business. Economics & Accountancy:-

The accountant provides accounting information relating to costs, revenues, receivable, payables, profit / losses etc.

6) Business Economics & psychology:

Consumer psychology is the basis on which managerial Economist acts upon how the customer reacts to given changes in price or supply and its consequential effect on demand / profits.

7) Business Economics & Organizational Behaviour :-

It enables the Business Economist to study and develop behavioural models of the firm integrating the manager's behaviour with that of the owner.