MODULE -1

1. What is business economics and its role in managerial decision making?

*Ans*) Business Economics, also called Managerial Economics, is the application of economic theory and methodology to business. Business involves decision making. Decision making means the process of selecting one out of two or more alternative courses of action. The question of choice arises because the basic resources such as capital, land, labour and management are limited and can be employed in alternative uses. The decision-making function thus becomes one of making choice and taking decisions that will provide the most efficient means of attaining a desired end, say, profit maximisation.

2. What is the scope of business economics?

*Ans*) Demand Analysis and Forecasting:

A business firm is an economic organisation which transform productive resources into goods to be sold in the market. A major part of business decision making depends on accurate estimates of demand. A demand forecast can serve as a guide to management for maintaining and strengthening market position and enlarging profits. Demand analysis helps identify the various factors influencing the product demand and thus provide guidelines for manipulating demand. Demand analysis and forecasting provided the essential basis for business planning and occupies a strategic place in managerial economic. The main topics covered are: Demand Determinants, Demand Distinctions and Demand Forecasting.

*Cost and Production Analysis:

A study of economic costs, combined with the data drawn from the firm’s accounting records, can yield significant cost estimates which are useful for management decisions. An element of cost uncertainty exists because all the factors determining costs are not known and controllable. Discovering economic costs and the ability to measure them are the
necessary steps for more effective profit planning, cost control and sound pricing practices.

Production analysis is narrower, in scope than cost analysis. Production analysis frequently proceeds in physical terms while cost analysis proceeds in monetary terms. The main topics covered under cost and production analysis are: Cost concepts and classification, Cost-output Relationships, Economics and Diseconomics of scale, Production function and Cost control.

*Pricing Decisions, Policies and Practices:

Pricing is an important area of business economic. In fact, price is the genesis of a firm's revenue and as such its success largely depends on how correctly the pricing decisions are taken. The important aspects dealt with under pricing include. Price Determination in Various Market Forms, Pricing Method, Differential Pricing, Product-line Pricing and Price Forecasting.

*Profit Management:

Business firms are generally organised for purpose of making profits and in the long run profits earned are taken as an important measure of the firm's success. If knowledge about the future were perfect, profit analysis would have been a very easy task. However, in a world of uncertainty, expectations are not always realized so that profit planning and measurement constitute a difficult area of business economic. The important aspects covered under this area are: Nature and Measurement of profit, Profit policies and Technique of Profit Planning like Break-Even Analysis.

*Capital Management:

Among the various types business problems, the most complex and troublesome for the business manager are those relating to a firm's capital investments. Relatively large sums are involved and the problems are so complex that their solution requires considerable time and labour. Often the decision involving capital management are taken by the
top management. Briefly Capital management implies planning and control of capital expenditure. The main topics dealt with are: Cost of capital Rate of Return and Selection of Projects

3. Differentiate b/w scarcity and choice?

Ans. **Scarcity** is the fundamental economic problem of having seemingly unlimited human wants in a world of limited resources. It states that society has insufficient productive resources to fulfill all human wants and needs.

**Choice** involves decision making. It can include judging the merits of multiple options and selecting one or more of them. One can make a choice between imagined options ("what would I do if ...?") or between real options followed by the corresponding action.

Scarcity requires **choice**. People must choose which of their desires they will satisfy and which they will leave unsatisfied. When we, either as individuals or as a society, choose more of something, scarcity forces us to take less of something else. Economics is sometimes called the study of scarcity because economic activity would not exist if scarcity did not force people to make choices.

4. Define basic concepts in economics –

Scarcity: **Scarcity** is the fundamental economic problem of having seemingly unlimited human wants in a world of limited resources. It states that society has insufficient productive resources to fulfill all human wants and needs.

Choice: **Choice** involves decision making. It can include judging the merits of multiple options and selecting one or more of them. One can make a choice between imagined options ("what would I do if ...?") or between real options followed by the corresponding action.

Resourse Allocation: Allocation in economics is an analysis of how limited resources, also called factors of production, are distributed among producers, and how scarce goods and services are divided among
consumers. Accounting cost, opportunity cost, economic cost and other costs are considered in this analysis.

5. Define trade-off and opportunity cost

Ans. When we sacrifice one thing to obtain another, that's called a **trade-off**. Trade-offs create **opportunity costs**, one of the most important concepts in economics. Whenever you make a trade-off, the thing that you do not choose is your opportunity cost.

Everything has opportunity costs. If you just bought something, you could have always chosen to buy something else instead. If you just chose to spend your time in a particular way, you could have always done something else. "Something else" is your opportunity cost.

6. What is Marginal Analysis?

**Ans.** Marginal analysis is an examination of the additional benefits of an activity compared to the additional costs incurred by that same activity. Companies use marginal analysis as a decision-making tool to help them maximize their potential profits. Individuals unconsciously use marginal analysis as well, to make a host of everyday decisions.


**Ans.** Marginal utility is the additional satisfaction a consumer gains from consuming one more unit of a good or service. Marginal utility is an important economic concept because economists use it to determine how much of an item a consumer will buy. Positive marginal utility is when the consumption of an additional item increases the total utility. Negative marginal utility is when the consumption of an additional item decreases the total utility.


**Ans.** The law of diminishing marginal utility is a law of economics stating that as a person increases consumption of a product while keeping consumption of other products constant, there is a decline in the marginal utility that person derives from consuming each additional unit of that product.
product. Marginal utility is derived as the change in utility as an additional unit is consumed.

9. Write a note on Production Possibility Curve.

**Ans.** The production possibility curves is a hypothetical representation of the amount of two different goods that can be obtained by shifting resources from the production of one, to the production of the other. The curve is used to describe a society’s choice between two different goods. Figure 1, shows the two goods as consumption and investment. Investment goods are goods that are involved in the production of further consumption goods. They include physical capital such as machines, buildings, roads etc. and human investments such as education and training. The sums of all investments make up the capital stock of a society. To show the point where all resources were used to produce consumption goods, one should move straight up the vertical axes to the curve. To show the point were all resources were used to produce investment goods, one should move straight on the horizontal axes to the curve. Both points are extreme and unrealistic. Both points A and B represented more realistic combinations, with point A showing more consumption and less investment, while point B shows more investment and less consumption.