TRINITY COLLEGE FOR WOMEN NAMAKKAL

Department of Commerce

BUSINESS ECONOMICS

20UECA02-ODD Semester

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Unit : 1 Business Economics

Meaning of Business Economics

Business Economics the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management.

Definition of Business Economics

According to Douglas “Managerial economics is concerned with the application of economic principles and methodologies to the decision-making process within the firm or organization. It seeks to establish rules and principles to facilitate the attainment of the desired economic goals of management”.

Scope of Business Economics

1.Demand Analysis and Forecasting
2.Cost and production Analysis.
3.Pricing Decisions, policies and practices.
4.Profit Management.
5.Capital Management.

Characteristics/ Features of Business Economics

1. Micro Economic Character
2. Choice and Allocation
3. Goal Oriented
4.Conceptual and Metrical
5. Pragmatic
6. Normative
7. Multi-disciplinary

gnificance of Business Economics:

Business economics is concerned with those aspects of traditional economics which are
levant for business decision making in real life.

It also incorporates useful ideas from other disciplines such as psychology, sociology,

Business economics helps in reaching a variety of business decisions in a complicated
vironment. Certain examples are :

What products and services should be produced?

What input and production technique should be used?

How much output should be produced and at what prices it should be sold?

conomic Objectives of Business

ofit Earning

arket Share / Creation of Customers

novation & Utilization of Resources

creasing Productivity

cial Objectives of Business

oviding Goods & Services at Reasonable Prices

nployment Generation

ir Remuneration to Employees

ommunity Service

Unit :2

Meaning of Law of Demand

The law of demand is one of the most fundamental concepts in economics. The law o demand states that the quantity purchased varies inversely with price. In other words, the highe the price, the lower the quantity demanded. This occurs because of diminishing marginal utility.

Definition: The law of demand states that other factors being constant (cetris peribus), price and quantity demand of any good and service are inversely related to each other. When the price of a product increases, the demand for the same product will fall.

Features of Law of Demand

Inverse Relationship

The Demand is a Dependent Variable

The Demand is a Dependent Variable

Elasticity of Demand

Elasticity of demand is the responsiveness of the quantity demanded of a commodity to changes in one of the variables on which demand depends. In other words, it is the percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends.

Types of Elasticity of Demand

Price Elasticity

Cross Elasticity

rice Elasticity

1.Price Elasticity

.Perfectly Inelastic Demand:

.Relatively Elastic Demand:

.Relatively Inelastic Demand:

.Unitary Elastic Demand:

leasuring price elasticity of demand

Total Expenditure Method.

Proportionate Method.

Point Elasticity of Demand.

Are Elasticity of Demand.

Revenue Method.

emand Forecasting

emand forecasting is a technique that is used for the estimation of what can be the demand for e upcoming product or services in the future. It is based upon the real-time analysis of emand which was there in the past for that particular product or service in the market present oday.

lethods of Demand Forecasting

assive demand forecasting

ctive demand forecasting

hort-term projections

ong-term projections

xternal macro forecasting

Unit: III

Cost Concepts

The concept of cost is a key concept in Economics. It refers to the amount of payment made to acquire any goods and services

Types of Cost Concept

Outlay costs and Opportunity costs
Accounting costs and Economic costs
Direct/Traceable costs and Indirect/Untraceable costs
Incremental costs and Sunk costs
Private costs and Social costs
Fixed costs and Variable costs

What is Target Pricing?

Target Pricing is a pricing strategy in which the selling price of the product or service is determined first and then the cost is calculated by reducing the profit margin. The price which is used as starting target price is based on the highest competitive price in the market which customer might want to pay for that product or service. As the name suggests, first the target of selling price is set and then from there rest of the calculations are done.

Importance of Target Pricing

Sometimes in certain markets, rather than calculating the price from the cost you incur it is more productive to first see how much price a customer would be willing to pay. The target pricing method is quite beneficial in these scenarios as the demand is very high.

Product line pricing :

Product line pricing involves the separation of goods and services into cost categories in order to create various perceived quality levels in the minds of consumers. You might also hear product line pricing referred to as price lining, but they refer to the same practice.

Dual Pricing:

Dual pricing is the practice of setting different prices in different markets for the same product or service. This tactic may be used by a business for a variety of reasons, but it is most often an aggressive move to take market share away from competitors. Dual pricing is similar to price discrimination.

Unit: IV

Meaning of Accounting Profit

Accounting profit is the net income earned by the company after reducing both the explicit cost and other expenses from the net revenue earned by the company by selling the core product or service of the company.

Accounting profit = Total revenue – Explicit costs

Some of the advantages of accounting profit are

It is useful in taking some of the important business decisions like investments etc.

Investors are interested in investing in those businesses which have high accounting profits.

Meaning of Economic Profit

Economic profits are defined as the net profits earned by the firm after reducing both explicit and implicit costs like opportunity costs from the total revenue earned by the company.

Economic profit =Total revenue – (Explicit cost + Implicit cost)

Break-Even Analysis:

Break-even analysis seeks to investigate the interrelationships among a firm's sales revenue or total turnover, cost, and profits as they relate to alternate levels of output. A profit-maximizing firm's initial objective is to cover all costs, and thus to reach the break-even point, and make net profit thereafter.

Uses of Break-Even Analysis

Safety Margin:

Target Profit:

Change in Price:

Unit : V

What Is Capital Budgeting?

Capital budgeting is the process a business undertakes to evaluate potential major projects or investments. Construction of a new plant or a big investment in an outside venture are examples of projects that would require capital budgeting before they are approved or rejected.

The need, significance or importance of capital budgeting arises mainly due to the following:

Large Investments

Long-term Commitment of Funds

Irreversible Nature:

Long-Term Effect on Profitability

Difficulties of Investment Decisions:

Capital Rationing

Soft Rationing

Soft rationing is when the firm itself limits the amount of capital that is going to be used for investment decisions in a given time period.

The promoters may be of the opinion that if they raise too much capital too soon, they may lose control of the firm’s operations. Rather, they may want to raise capital slowly over a longer period of time and retain control. Besides if the firm is constantly demonstrating a high level of proficiency in generating returns it may get a better valuation when it raises capital in the future.

Hard Rationing

Hard rationing, on the other hand, is the limitation on capital that is forced by factors external to the firm. This could also be due to a variety of reasons:

For instance, a young startup firm may not be able to raise capital no matter how lucrative their project looks on paper and how high the projected returns may be.

Project profitability

Project profitability describes the ability of a project to yield a financial profit or gain for an organization. In an effort to grow quickly, some firms may take on projects with slim profit margins, which can impact the overall financial health of the business.

Methods of appraising project profitability:

Economic Analysis
Financial Analysis
Marketing Analysis
Technical Feasibility

THANK YOU

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