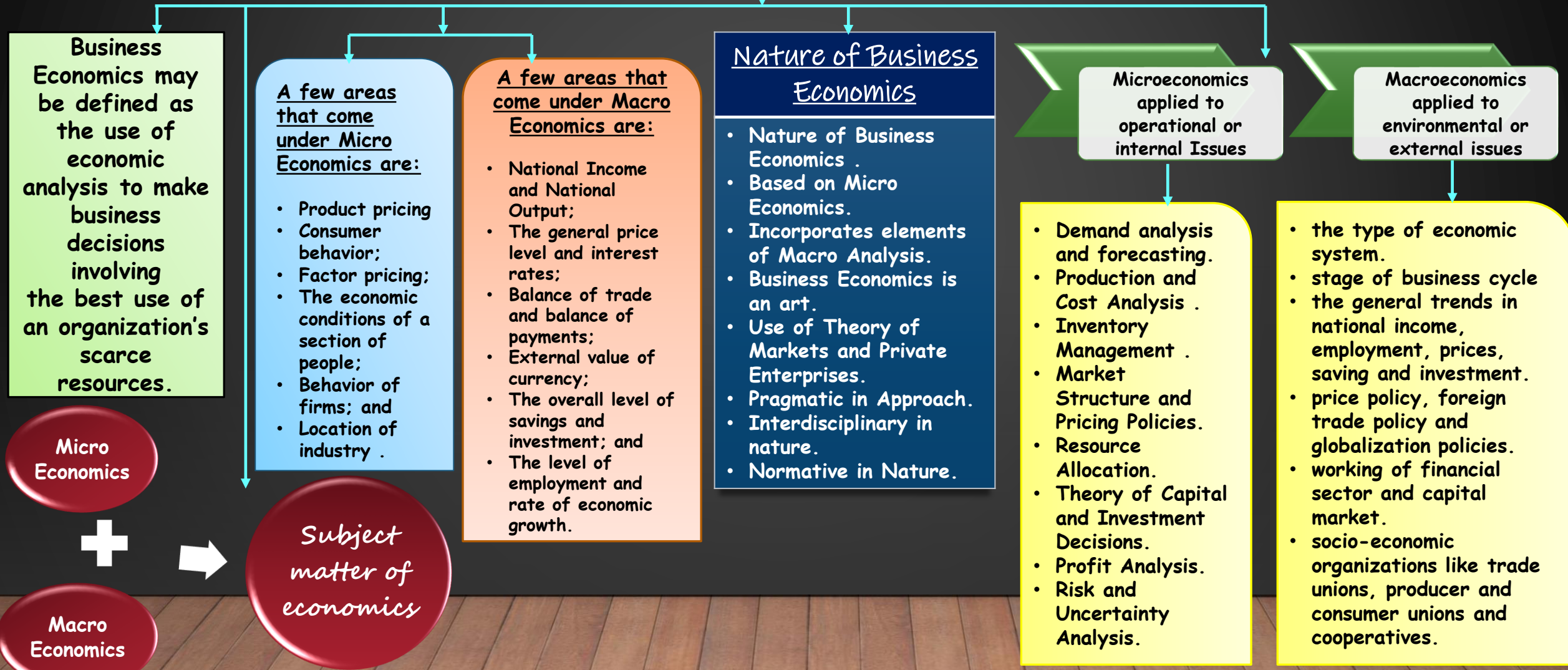


UNIT : 1.1

NATURE AND SCOPE OF BUSINESS ECONOMICS



UNIT :1.2

BASIC PROBLEMS OF AN ECONOMY ROLE OF PRICE MECHANISM

Central Economic Problems

What to produce ?

How to produce ?

For whom to produce?

What provision (if any) are to be made for economic growth?

How do capitalist economies solve their central problems?

- Deciding 'what to produce' ?
- Deciding 'how to produce'?
- Deciding 'for whom to produce'?
- Deciding about consumption, saving and investment.

characteristics of this economy

- Collective Ownership.
- Economic planning.
- Absence of Consumer Choice.
- Relatively Equal Income Distribution.
- Minimum role of Price Mechanism or Market forces.
- Absence of Competition.

Features of mixed economy

- Co-existence of private and public sector .
- In fact, in a mixed economy, there are three sectors of industries:
 - ❖ Private sector
 - ❖ Public sector
 - ❖ Combined sector

Mixed economy has the following merits:

- Economic freedom and existence of private property.
- Price mechanism and competition forces .
- consumers' sovereignty and freedom of choice.
- Encourages enterprise and risk taking.

we divide all the economies into three broad classifications

Capitalist economy

is an economic system in which all means of production are owned and controlled by private individuals for profit.

Socialist economy

In this economy, the material means of production i.e. factories, capital, mines etc. are owned by the whole community represented by the State . A socialist economy is also called as "Command Economy" or a "Centrally Planned Economy" .

Mixed economy

The mixed economic system depends on both markets and governments for allocation of resources. In fact, every economy in the real world makes use of both markets and governments and therefore is mixed economy in its nature .

UNIT : 2.1

THEORY OF DEMAND AND SUPPLY

The concept 'demand' refers to the quantity of a good or service that consumers are willing and able to purchase at various prices during a given period of time.

Effective demand for a thing depends on :
a. desire
b. means to purchase
c. willingness to use those means for that purchase

According to the law of demand, other things being equal, if the price of a commodity falls, the quantity demanded of it will rise and if the price of a commodity rises, its quantity demanded will decline.

Two things are to be noted about the quantity demanded

- A. The quantity demanded is always expressed at a given price.
- B. The quantity demanded is a flow.

The important factors that determine demand are :

- a. Price of the Commodity
- b. Consumers' Expectations
- c. Other Factors
- d. Tastes and preferences of consumers
- e. Income of the consumers
- f. Price of related commodities

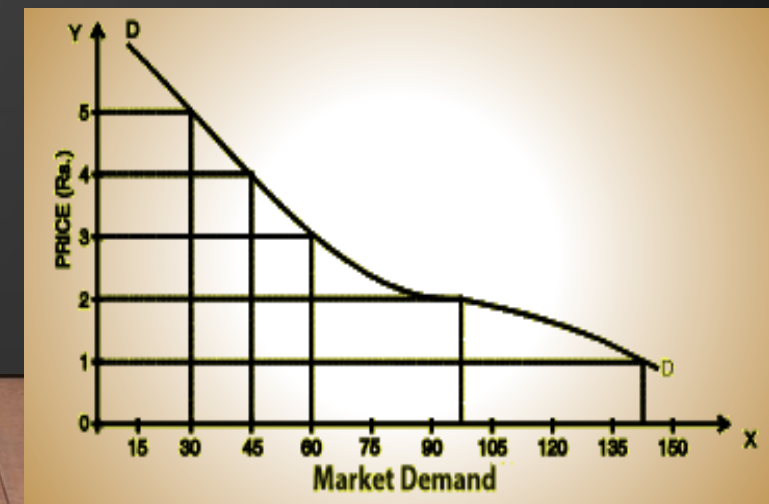
Demand Schedule

	Price (in Rupees)	Quantity demanded (Units)
A	5	10
B	4	15
C	3	20
D	2	35
E	1	60



Market Demand Schedule

Price (₹)	Quantity demanded by			Total Market Demand
	P	Q	R	
5	10	8	12	30
4	15	12	18	45
3	20	17	23	60
2	35	25	40	100
1	60	35	45	140



UNIT : 2.1

THEORY OF DEMAND AND SUPPLY

Rationale of the Law of Demand

Law of diminishing marginal utility

Price effect

- a. Substitution effect
- b. Income effect

Arrival of new consumers

Different uses

Elasticity of demand is defined as the responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends. More precisely, elasticity of demand is the percentage change in quantity demanded divided by the percentage change in one of the variables on which demand depends.

Exceptions to the Law of Demand

- Conspicuous goods.
- Giffen goods
- Conspicuous necessities.
- Future expectations about prices .
- Demand for necessities
- Speculative goods.
- consumers to be rational and knowledgeable about market conditions.

$$EP = \frac{\frac{\text{Change in Quantity}}{\text{Original Quantity}} \times 100}{\frac{\text{Change in Price}}{\text{Original Price}} \times 100}$$

In symbolic terms :

$$EP = \frac{\Delta q}{q} \times \frac{p}{\Delta p} = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

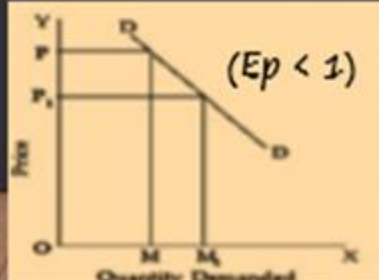
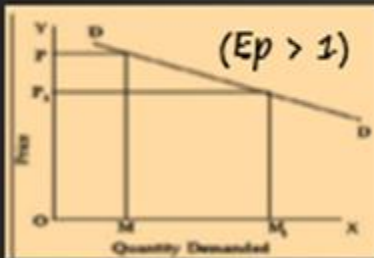
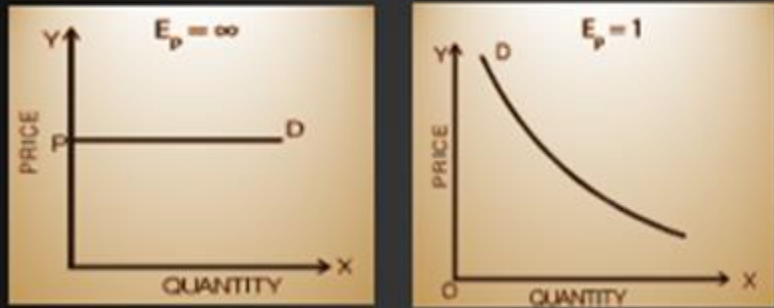
Elasticity measures, meaning and nomenclature

Numerical measure of elasticity	Verbal description	Terminology
Zero	Quantity demanded does not change as price changes	Perfectly (or completely) inelastic
Greater than zero, but less than one	Quantity demanded changes by a smaller percentage than does price	Inelastic
One	Quantity demanded changes by exactly the same percentage as does price.	Unit elasticity
Greater than one, but less than infinity	Quantity demanded changes by a larger percentage than does price	elastic
Infinity	Purchasers are prepared to buy all they can obtain at some price and none at all at an even slightly higher price	Perfectly (or infinitely) elastic

UNIT : 2.1

THEORY OF DEMAND AND SUPPLY

Interpretation of the numerical values of elasticity of demand

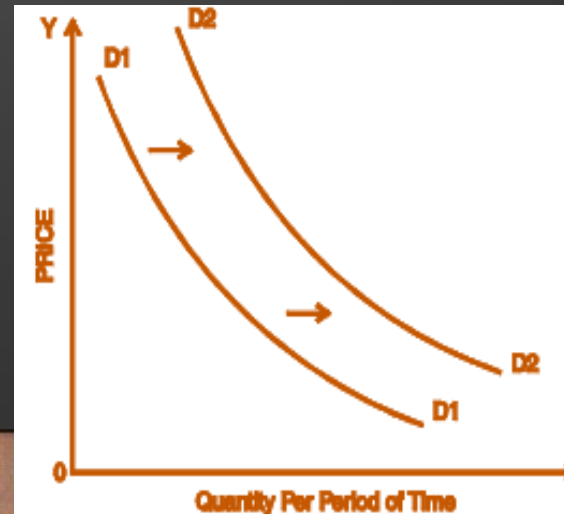


Determinants of Price Elasticity of Demand

- Availability of substitutes
- Position of a commodity in a consumer's budget
- Nature of the need that a commodity satisfies
- Number of uses to which a commodity can be put.
- Time period
- Consumer habits
- Tied demand
- Price range

A rightward shift in the demand curve (when more is demanded at each price) can be caused by a rise in income, a rise in the price of a substitute, a fall in the price of a complement, a change in tastes in favour of this commodity, an increase in population, and a redistribution of income to groups who favour this commodity.

A leftward shift in the demand curve (when less is demanded at each price) can be caused by a fall in income, a fall in the price of a substitute, a rise in the price of a complement, a change in tastes against this commodity, a decrease in population, and a redistribution of income away from groups who favour this commodity.



UNIT : 2.1

THEORY OF DEMAND AND SUPPLY

Income Elasticity of Demand

$\frac{\% \text{ change in demand}}{\% \text{ change in income}}$

This can be given mathematically as follows:

$$E_i = \frac{\Delta Q}{Q} \div \frac{\Delta Y}{Y}$$

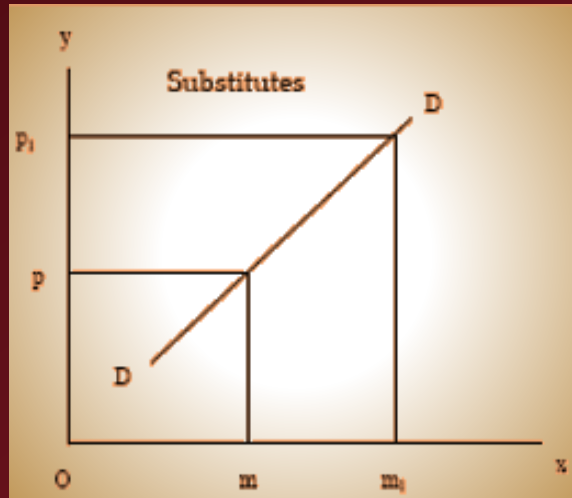
$$\frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y}$$

$$\frac{\Delta Q}{\Delta Y} \times \frac{Y}{Q}$$

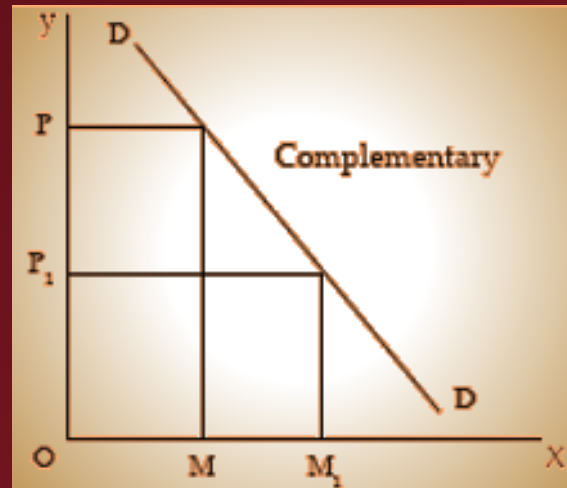
Cross Elasticity of Demand

Price of Related Goods and Demand

Substitute Products



Complementary Goods



Advertisement Elasticity

$EA = \frac{\% \text{ Change in demand}}{\% \text{ change in spending on advertising}}$

$$EA = \frac{\Delta Q_d / Q_d}{\Delta A / A}$$

Where

- ΔQ_d denotes change in demand.
- ΔA denotes change in expenditure on advertisement.
- Q_d denotes initial demand.
- A denotes initial expenditure on advertisement.

UNIT : 2.1

THEORY OF DEMAND AND SUPPLY

DEMAND FORECASTING

Types of forecasts

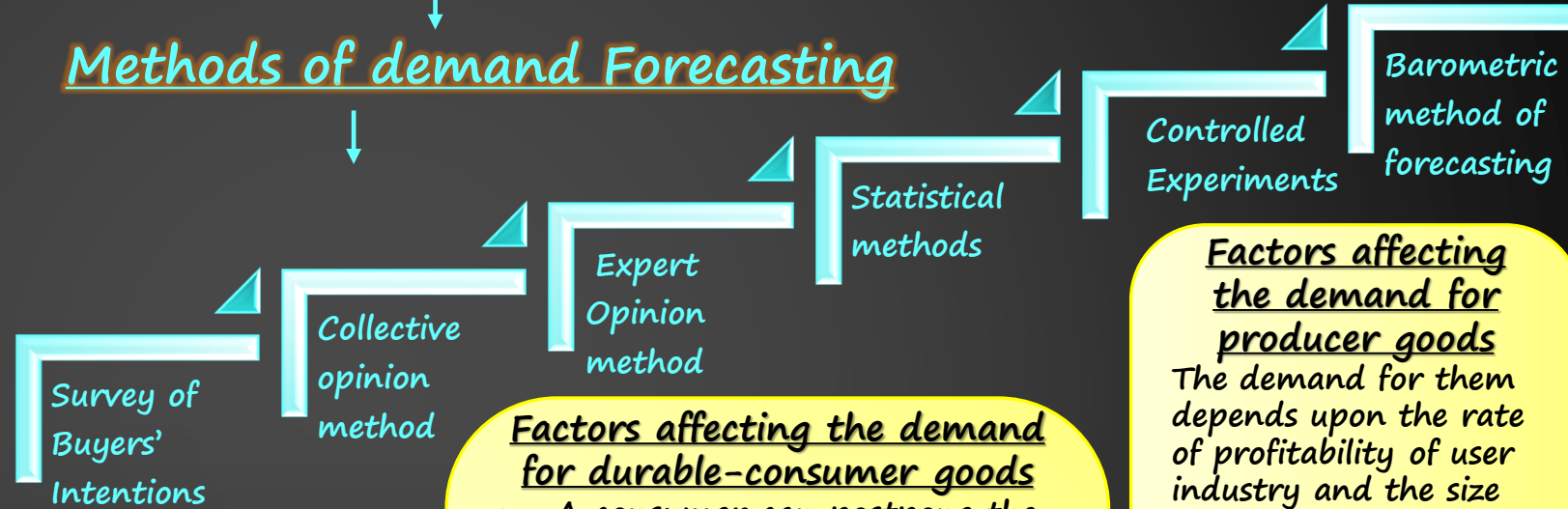
Forecasting, in general, refers to knowing or measuring the status or nature of an event or variable before it occurs.

Demand Distinctions

- Producer's goods and Consumer's goods
- Durable goods and Non-durable goods
- Derived demand and Autonomous demand
- Industry demand and Company demand
- Short-run demand and Long-run demand

The scope of the forecasting task will depend upon the area of operation of the firm in the present as well as what is proposed in future.

Methods of demand Forecasting



Factors affecting demand for non-durable consumer goods

- Disposable income
- Price
- Demography

Factors affecting the demand for durable-consumer goods

- A consumer can postpone the replacement of durable goods.
- These goods require special facilities for their use .
- As consumer durables are used by more than one person, the decision to purchase may be influenced.
- Replacement demand is an important component of the total demand for durables.
- Demand for consumer durables is very much influenced by their prices .

Factors affecting the demand for producer goods

The demand for them depends upon the rate of profitability of user industry and the size of the market of the user industries. Hence data required for estimating demand for producer goods (capital goods) are:

- (i) growth prospects of the user industries;
- (ii) norms of consumption of capital goods per unit of installed capacity.

UNIT : 2.2

THEORY OF CONSUMER BEHAVIOUR

MARGINAL UTILITY ANALYSIS

Total utility

• $TU = MU_1 + MU_2 + \dots + MU_n$

Marginal utility

• $MU_n = TU_n - TU_{n-1}$

Assumptions of Marginal Utility Analysis

- Rationality
- Cardinal Measurability of Utility
- Constancy of the Marginal Utility of Money
- The Hypothesis of Independent Utility

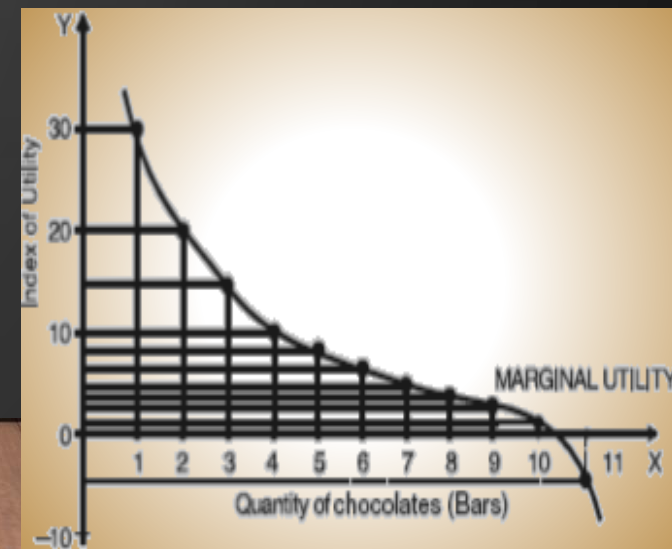
The Law of Diminishing Marginal Utility

“The additional benefit which a person derives from a given increase in the stock of a thing diminishes with every increase in the stock that he already has.”

important relationships between total utility and marginal utility :

- Total utility rises as long as MU is positive, but at a diminishing rate because MU is diminishing
- Marginal utility diminishes throughout.
- When marginal utility is zero, total utility is maximum. It is a saturation point.
- When marginal utility is negative, total utility is diminishing.
- MU is the rate of change of TU or the slope of TU.
- MU can be positive ,zero or negative.

Quantity of chocolate bar consumed	Total utility	Marginal utility
1	30	30
2	50	20
3	65	15
4	75	10
5	83	8
6	89	6
7	93	4
8	96	3
9	98	2
10	98	0
11	94	-4



UNIT : 2.2

THEORY OF CONSUMER BEHAVIOUR

Limitations of the Law

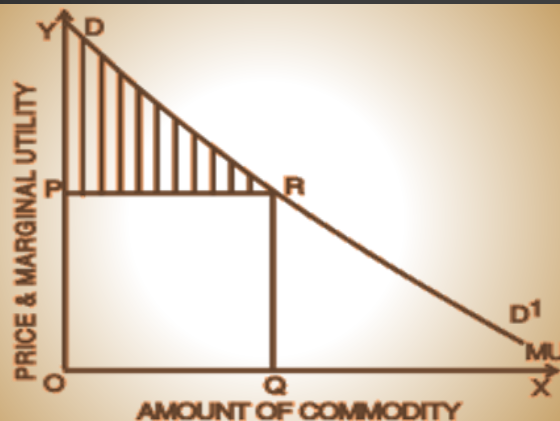
- Homogenous units
- Standard units of Consumption.
- Continuous Consumption
- The Law fails in the case of prestigious goods.
- Case of related goods.
- Based on unrealistic assumptions

The concept of consumer's surplus is derived from the law of diminishing marginal utility. the law of diminishing marginal utility, the more of a thing we have, the lesser marginal utility it has.

Consumer's Surplus

Marshall defined the concept of consumer's surplus as the "excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay", is called consumer's surplus."

Thus consumer's surplus = what a consumer is ready to pay - what he actually pays



The surplus satisfaction cannot be measured precisely.

- Consumer's surplus cannot be measured precisely - because it is difficult to measure the marginal utilities of different units of a commodity consumed by a person.
- In the case of necessities, the marginal utilities of the earlier units are infinitely large. In such case the consumer's surplus is always infinite.
- The consumer's surplus derived from a commodity is affected by the availability of substitutes.
- There is no simple rule for deriving the utility scale of articles which are used for their prestige value .
- Consumer's surplus cannot be measured in terms of money
- The concept can be accepted only if it is assumed that utility can be measured in terms of money or otherwise.

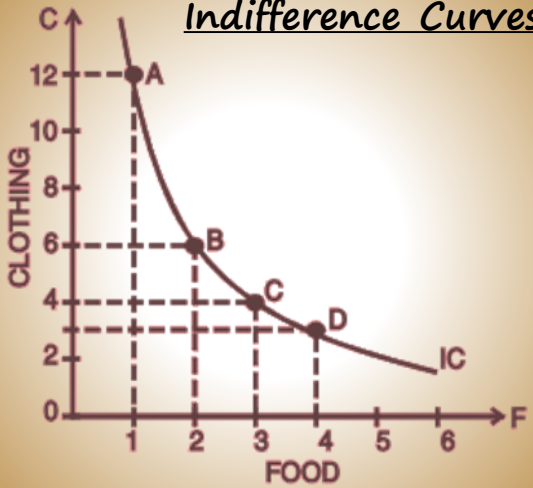
INDIFFERENCE CURVE ANALYSIS

An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer. Since all the combinations on an indifference curve give equal satisfaction to the consumer, the consumer is indifferent among them. In other words, since all the combinations provide the same level of satisfaction the consumer prefers them equally and does not mind which combination he gets.

UNIT : 2.2

THEORY OF CONSUMER BEHAVIOUR

Indifference Curves



Properties of Indifference Curves

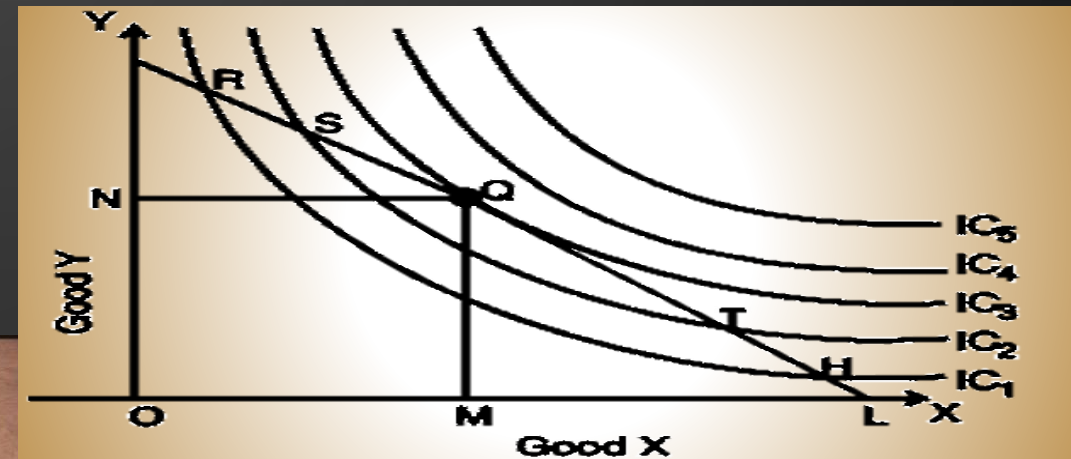
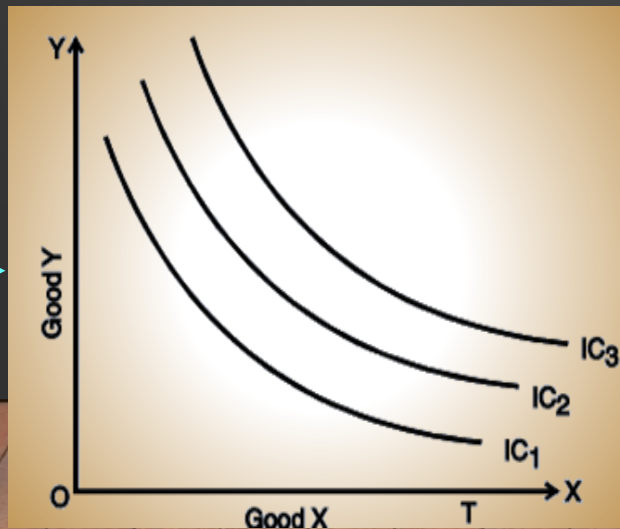
- Indifference curves slope downward to the right.
- Indifference curves are always convex to the origin.
- Indifference curves can never intersect each other.
- A higher indifference curve represents a higher level of satisfaction than the lower indifference curve
- Indifference curve will not touch either axes.

Consumer's Equilibrium

- A consumer is in equilibrium when he is deriving maximum possible satisfaction from the goods and therefore is in no position to rearrange his purchases of goods. We assume that:
- The consumer has a given indifference map which shows his scale of preferences for various combinations of two goods X and Y.
 - He has a fixed money income which he has to spend wholly on goods X and Y.
 - Prices of goods X and Y are given and are fixed.
 - All goods are homogeneous and divisible, and
 - The consumer acts 'rationally' and maximizes his satisfaction.

Indifference Map

An Indifference map represents a collection of many indifference curves where each curve represents a certain level of satisfaction. In short, a set of indifference curves is called an indifference map.



UNIT : 2.3

SUPPLY

The term 'supply' refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a given period of time. Two important points apply to supply:

- Supply refers to what a firm offers for sale in the market, not necessarily to what they succeed in selling. What is offered may not get sold.
- Supply is a flow. The quantity supplied is 'so much' per unit of time, per day, per week, or per year.

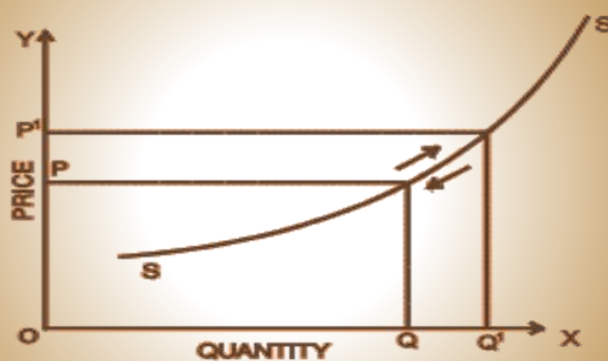
DETERMINANTS OF SUPPLY -

- Price of the good
- Prices of related goods.
- Prices of factors of production.
- State of technology.
- Government Policy.
- Nature of competition and size of industry

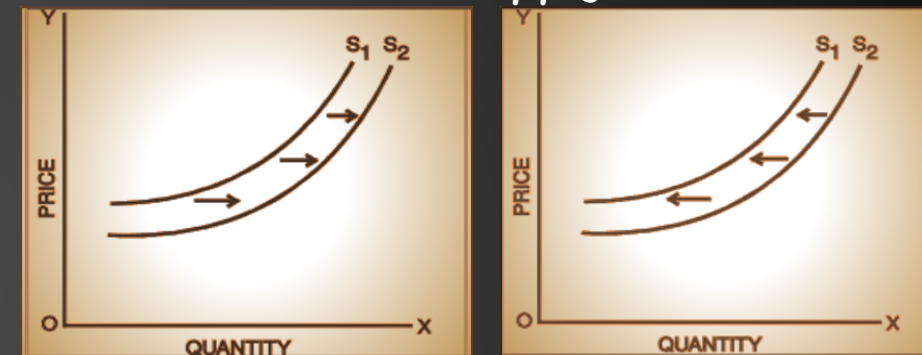
LAW OF SUPPLY -

The law of supply can be stated as: Other things remaining constant, the quantity of a good produced and offered for sale will increase as the price of the good rises and decrease as the price falls.

When the supply of a good increases as a result of an increase in its price, we say that there is an increase in the quantity supplied and there is an upward movement on the supply curve. The reverse is the case when there is a fall in the price of the good.



Shifts in supply curves



ELASTICITY OF SUPPLY

The elasticity of supply is defined as the responsiveness of the quantity supplied of a good to a change in its price.

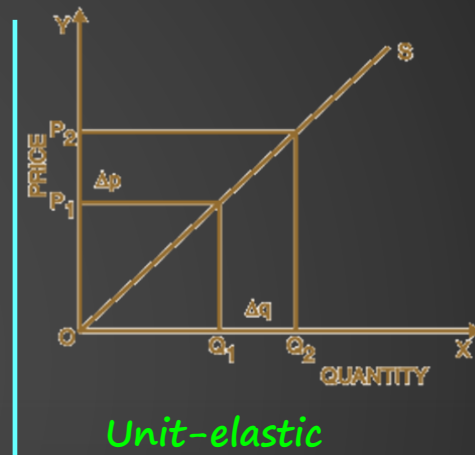
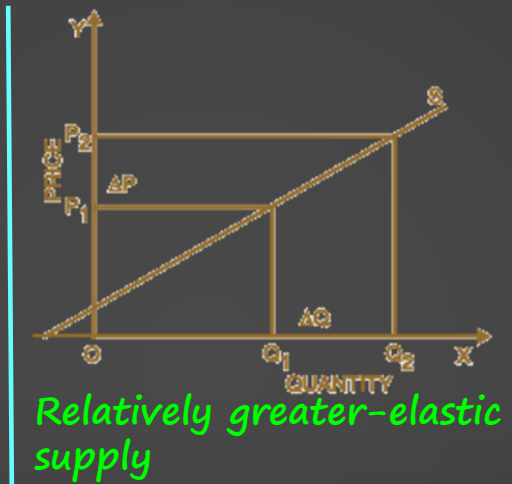
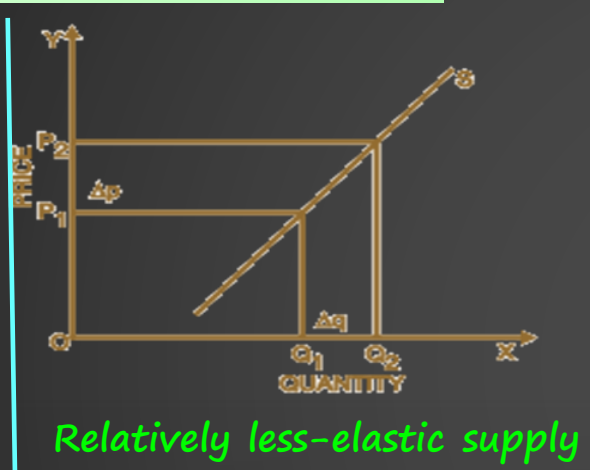
$$E_s = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in Price}}$$

OR

$$\frac{\text{Change in quantity supplied}}{\text{quantity supplied}} \div \frac{\text{Change in price}}{\text{price}}$$

$$\frac{\frac{\Delta q}{q}}{\frac{\Delta p}{p}} = \frac{\Delta q}{\Delta p} = \frac{p}{q}$$

Type of Supply Elasticity -



Measurement of supply-elasticity

The elasticity of supply can be considered with reference to a given point on the supply curve or between two points on the supply curve. When elasticity is measured at a given point on the supply curve, it is called point elasticity. $E_s \frac{dq}{dp} \times \frac{p}{q}$

Equilibrium Price

Equilibrium refers to a market situation where quantity demanded is equal to quantity supplied. The intersection of demand and supply determines the equilibrium price.



UNIT : 3.1

THEORY OF PRODUCTION

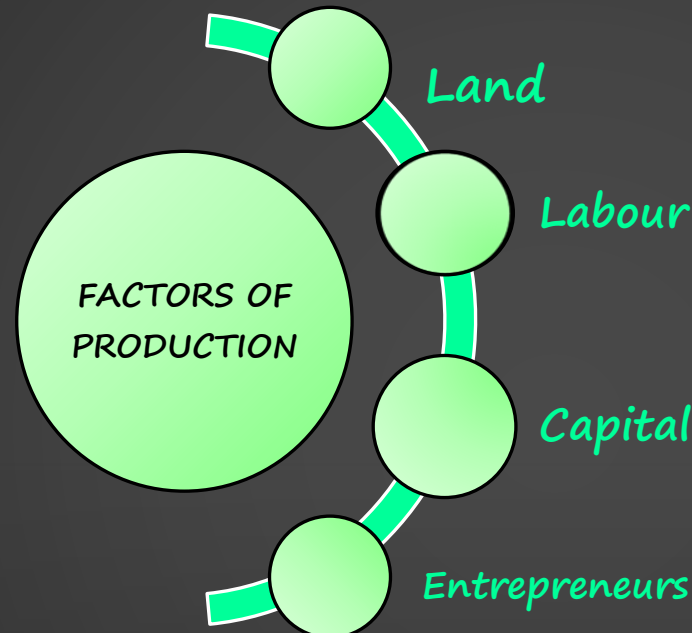
"Production is the organized activity of transforming resources into finished products in the form of goods and services; and the objective of production is to satisfy the demand of such transformed resources".

Production consists of various processes to add utility to natural resources for gaining greater satisfaction from them by:

Changing the form of natural resources.

Changing the place of the resources from a place where they are of little or no use to another place where they are of greater use. This utility of place can be obtained by:

- * Extraction from earth
- * Transferring goods from where they give little or no satisfaction, to places where their utility is more,
- * Making available materials at times
- * Making use of personal skills in the form of services



The production function is a statement of the relationship between a firm's scarce resources (i.e. its inputs) and the output that results from the use of these resources. More specifically, it states technological relationship between inputs and output.

$Q = f(a, b, c, d, \dots, n)$ Where 'Q' stands for the rate of output of given commodity and a, b, c, d, \dots, n , are the different factors (inputs) and services used per unit of time.

Assumptions of Production Function :

- First we assume that the relationship between inputs and outputs exists for a specific period of time. In other words, Q is not a measure of accumulated output over time.
- Second, it is assumed that there is a given "state-of-the-art" in the production technology. Any innovation would cause change in the relationship between the given inputs and their output.
- Third assumption is that whatever input combinations are included in a particular function, the output resulting from their utilization is at the maximum level.

Short-Run Vs Long-Run Production Function:

In fact, it refers to the extent to which a firm can vary the amounts of the inputs in the production process. A period will be considered short-run period if the amount of at least one of the inputs used remains unchanged during that period.

The long run is a period of time (or planning horizon) in which all factors of production are variable. It is a time period when the firm will be able to install new machines and capital equipments apart from increasing the variable factors of production.

UNIT : 3.1

THEORY OF PRODUCTION

Cobb-Douglas Production

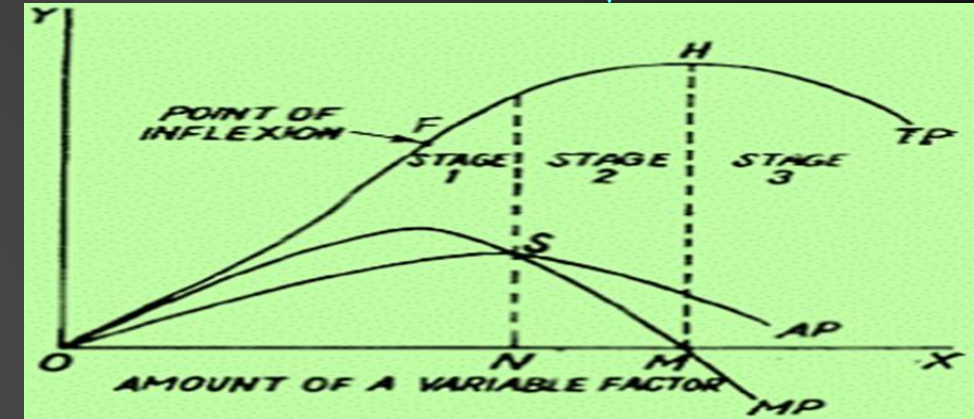
Function: A famous statistical production function is Cobb-Douglas production function. Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the American manufacturing industries.

Cobb-Douglas production function is stated as:

$$Q = KL^aC^{(1-a)}$$

The relationship between average product and marginal product

- when average product rises as a result of an increase in the quantity of variable input, marginal product is more than the average product.
- when average product is maximum, marginal product is equal to average product. In other words, the marginal product curve cuts the average product curve at its maximum.
- when average product falls, marginal product is less than the average product.



Stage 1: The Stage of Increasing Returns: In this stage, the total product increases at an increasing rate upto a point (in figure upto point F), marginal product also rises and is maximum at the point corresponding to the point of inflexion and average product goes on rising.

Stage 2: Stage of Diminishing Returns: In stage 2, the total product continues to increase at a diminishing rate until it reaches its maximum at point H, where the second stage ends. In this stage, both marginal product and average product of the variable factor are diminishing but are positive

Stage 3: Stage of Negative Returns: In Stage 3, total product declines, MP is negative, average product is diminishing. This stage is called the stage of negative returns since the marginal product of the variable factor is negative during this stage.

The law operates under certain assumptions which are as follows:

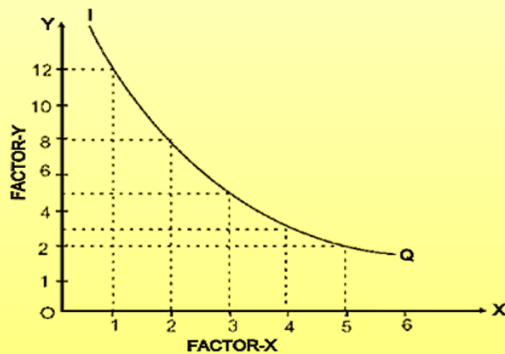
- The state of technology is assumed to be given and unchanged. If there is any improvement in technology, then marginal product and average product may rise instead of falling.
- There must be some inputs whose quantity is kept fixed. This law does not apply to cases when all factors are proportionately varied.
- The law does not apply to those cases where the factors must be used in fixed proportions to yield output.
- We consider only physical inputs and outputs and not economic profitability in monetary terms.

UNIT : 3.1

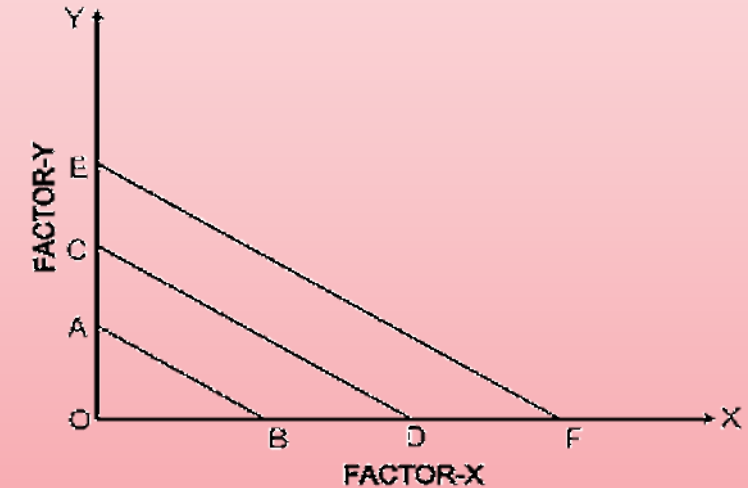
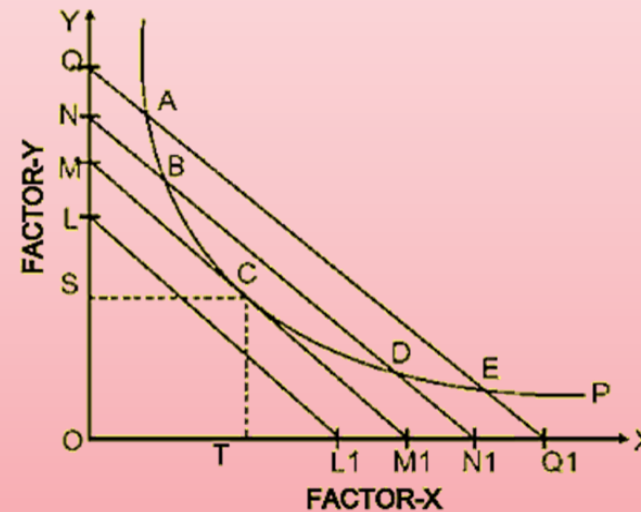
THEORY OF PRODUCTION

PRODUCTION OPTIMISATION

Factor combination	Factor X	Factor Y	MRTS
A	1	12	
B	2	08	4
C	3	05	3
D	4	03	2
E	5	02	1



Isocost or Equal-cost Lines: Isocost line, also known as budget line or the budget constraint line, shows the various alternative combinations of two factors which the firm can buy with given outlay.



Least-cost Combination of Factors: Producer's Equilibrium

UNIT : 3.2

THEORY OF COST

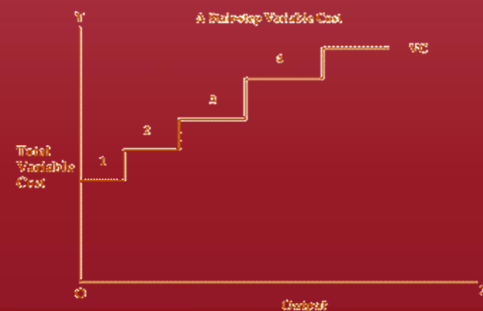
Accounting costs relate to those costs which involve cash payments by the entrepreneur of the firm. Thus, accounting costs are explicit costs and includes all the payments and charges made by the entrepreneur to the suppliers of various productive factors.

Accounting costs do not include these costs.

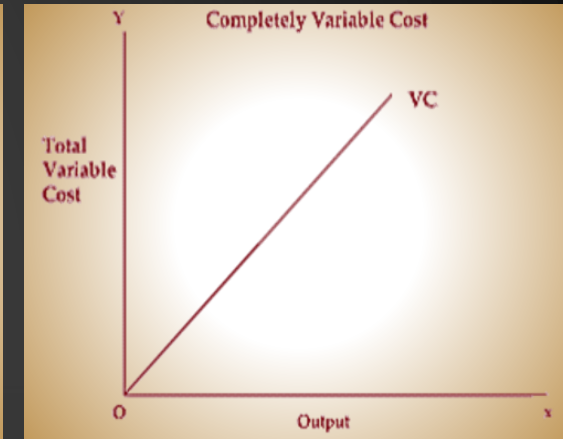
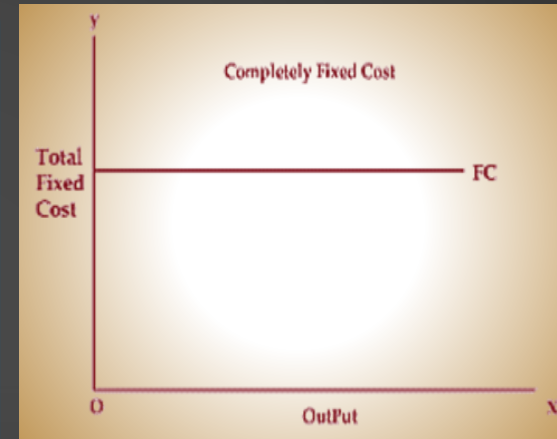
- the normal return on money capital invested by the entrepreneur himself in his own business;
- the wages or salary not paid to the entrepreneur, but could have been earned if the services had been sold somewhere else.
- Outlay costs and Opportunity costs.
- Direct or Traceable costs and Indirect or Non-Traceable costs
- Incremental costs and Sunk costs.
- Historical costs and Replacement costs.
- Private costs and Social costs.
- Fixed and Variable costs.

Cost function refers to the mathematical relation between cost of a product and the various determinants of costs. In a cost function, the dependent variable is unit cost or total cost and the independent variables are the price of a factor, the size of the output or any other relevant phenomenon which has a bearing on cost, such as technology, level of capacity utilization, efficiency and time period under consideration.

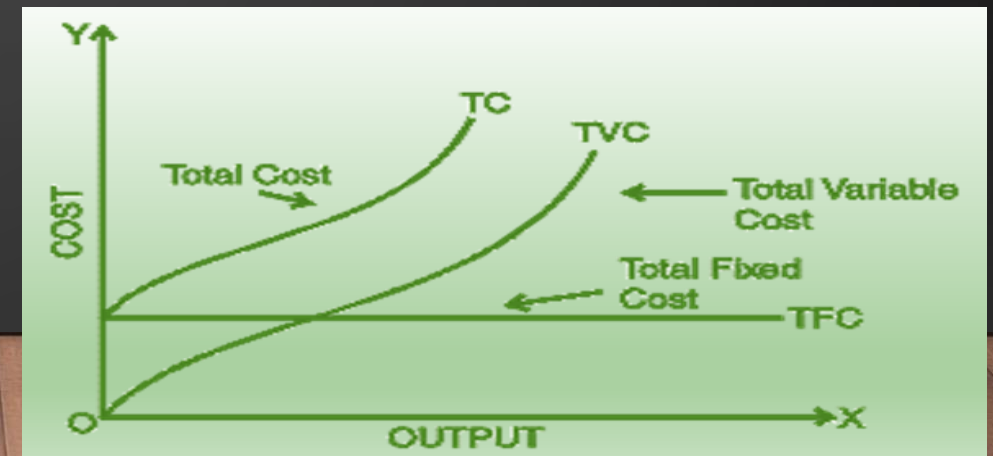
There are some costs which may increase in a stair-step fashion,



SHORT RUN TOTAL COSTS



Short run Total Cost Curves



UNIT : 3.2

THEORY OF COST

Short run average costs

- Average fixed cost (AFC)
- Average variable cost (AVC)
- Average total cost (ATC)
- Marginal cost

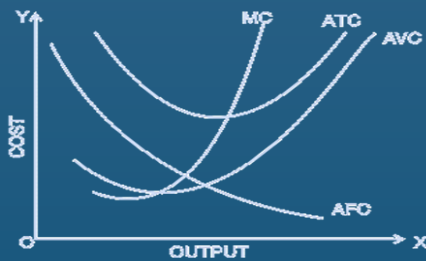
$$MC = \frac{\Delta TC}{\Delta Q}$$

DTC = Change In Total cost

DQ = Change In Output

OR

$$MC = \frac{TC_n - TC_{n-1}}{n - n-1}$$

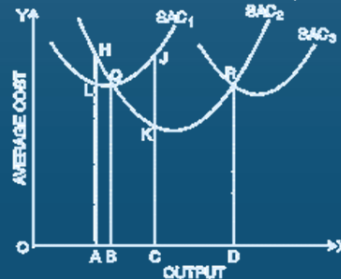


- Relationship between Average Cost and Marginal Cost

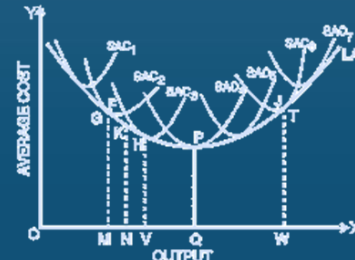
- ❖ When average cost falls as a result of an increase in output, marginal cost is less than average cost.
- ❖ When average cost rises as a result of an increase in output, marginal cost is more than average cost.
- ❖ When average cost is minimum, marginal cost is equal to the average cost. In other words, marginal cost curve cuts average cost curve at its minimum point.

LONG RUN AVERAGE COST CURVE :

The long run average cost curve is often called as 'planning curve' because a firm plans to produce any output in the long run by choosing a plant on the long run average cost curve corresponding to the given output.



Short run Average Cost Curves



Long run Average Cost Curve

Production on a large scale is a very important feature of modern industrial society. As a consequence, the size of business undertakings has greatly increased. Large-scale production offers certain advantages which help in reducing the cost of production. Economies arising out of large-scale production can be grouped into two categories; viz., internal economies and external economies.

Internal Economies and Diseconomies:

- Technical economies and diseconomies:
- Managerial economies and diseconomies
- Commercial economies and diseconomies
- Financial economies and diseconomies
- Risk bearing economies and diseconomies

External Economies and Diseconomies:

- Cheaper raw materials and capital equipment
- Technological external economies.
- Development of skilled labour
- Growth of ancillary industries.
- Better transportation and marketing facilities.
- Economies of Information

UNIT : 4.1

MEANING AND TYPES OF MARKETS

It is essential to understand how price is determined. Since this is done in the market, we can define the market simply as all those buyers and sellers of a good or service who influence price. The elements of a market are:

- ❖ Buyers and sellers
- ❖ A product or service;
- ❖ Bargaining for a price;
- ❖ Knowledge about market conditions; and
- ❖ One price for a product or service at a given time.

In Economics, generally the classification of markets is made on the basis of :

- Geographical Area
- Time
- Nature of transaction
- Regulation
- Volume of business
- Type of Competition.

TYPES OF MARKET STRUCTURES:

- ❖ **Perfect Competition:** Perfect competition is characterised by many sellers selling identical products to many buyers.
- ❖ **Monopolistic Competition:** It differs in only one respect, namely, there are many sellers offering differentiated products to many buyers.
- ❖ **Monopoly:** It is a situation where there is a single seller producing for many buyers. Its product is necessarily extremely differentiated since there are no competing sellers producing products which are close substitutes.
- ❖ **Oligopoly:** There are a few sellers selling competing products to many buyers.

CONCEPTS OF TOTAL REVENUE, AVERAGE REVENUE AND MARGINAL REVENUE

Average revenue Symbolically, average revenue is:
 $AR = TR/Q$ Where

AR is average revenue

TR is the total revenue

Q is quantity of a commodity sold

OR $AR = (P \times Q) / Q$

Or $AR = P$

Marginal Revenue: Marginal revenue (MR) is the change in total revenue resulting from the sale of an additional unit of the commodity. $MR = \Delta TR / \Delta Q$

Where -

MR is marginal revenue ,

TR is total revenue ,

Q is quantity of a commodity sold

Δ stands for a small change

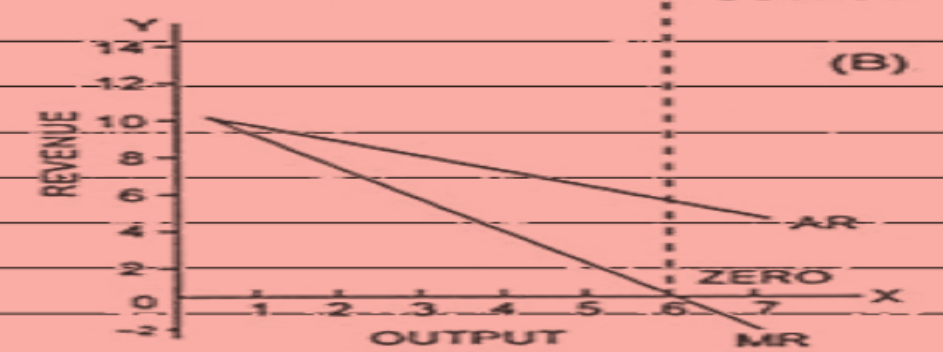
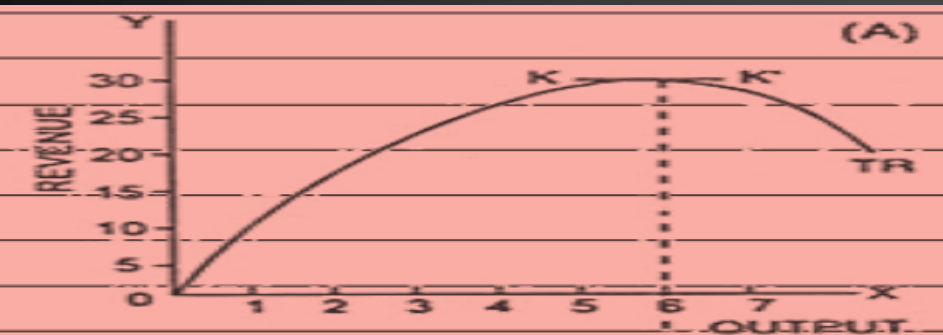
For one unit change in output $MR_n = TR_n - TR_{n-1}$

- Where TR is the total revenue when sales are at the rate of n units per period.
- TR_{n-1} is the total revenue when sales are at the rate of (n - 1) units per period.

UNIT : 4.1

MEANING AND TYPES OF MARKETS

Units	Total Revenue	Average Revenue	Marginal Revenue
1	10	10	10
2	18	9	8
3	24	8	6
4	28	7	4
5	30	6	2
6	30	5	0
7	28	4	-2
8	24	3	-4
9	18	2	-6
10	10	1	-8



RELATIONSHIP BETWEEN AR, MR, TR AND PRICE ELASTICITY OF DEMAND

- $MR = AR \times (e - 1) / e$, Where e = price elasticity of demand
- Thus if $e = 1$, $MR = AR \times (1 - 1) / 1 = 0$.
- and if $e > 1$, MR will be positive
- and if $e < 1$, MR will be negative

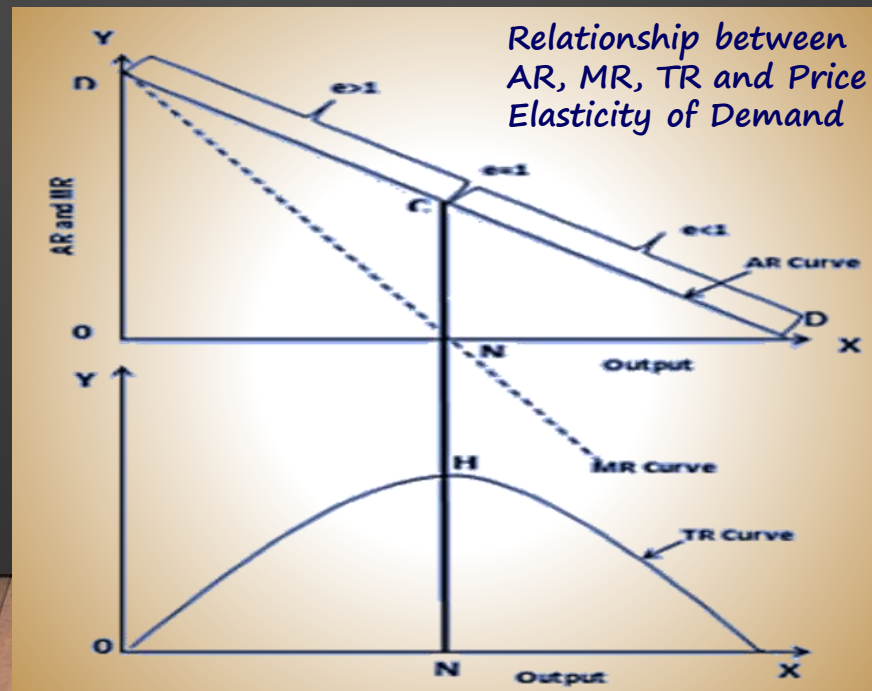
BEHAVIOURAL PRINCIPLES:

- Principle 1- A firm should not produce at all if its total variable costs are not met.

If price (AR) is greater than minimum AVC, but less than minimum ATC, the firm covers its variable cost and some but not all of fixed cost. If price is equal to minimum ATC, the firm covers both fixed and variable costs and earns normal profit or zero economic profit. If price is greater than minimum ATC, the firm not only covers its full cost, but also earns positive economic profit or super normal profit.

- Principle 2 - The firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.

In other words, it will pay the firm to go on producing additional units of output so long as the marginal revenue exceeds marginal cost i.e., additional units add more to revenues than to cost. At the point of equality between marginal revenue and marginal cost, it will earn maximum profits.



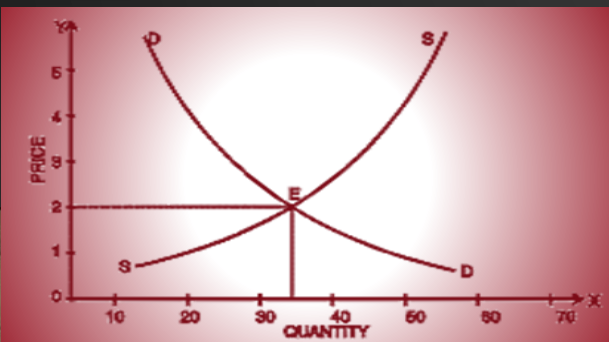
UNIT : 4.2

DETERMINATION OF PRICES

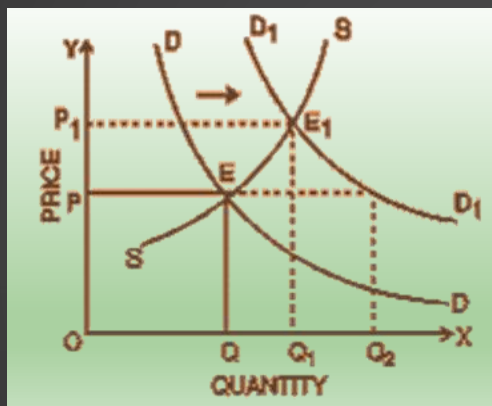
Prices of goods express their exchange value. Prices are also used for expressing the value of various services rendered by different factors of production such as land, labour, capital and organization in the form of rent, wages, interest and profit.

Determination of Equilibrium Price

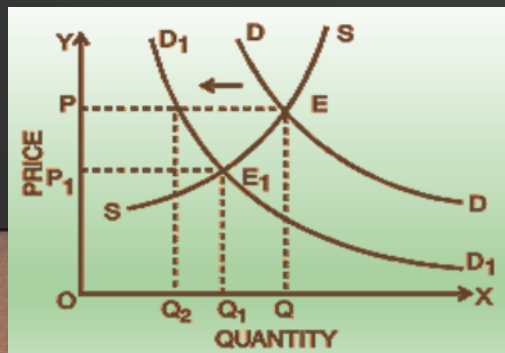
S. No.	Price (₹)	Demand Units	Supply (Units)
1	1	60	5
2	2	35	35
3	3	20	45
4	4	15	55
5	5	10	65



An increase (shift to the right) in demand;

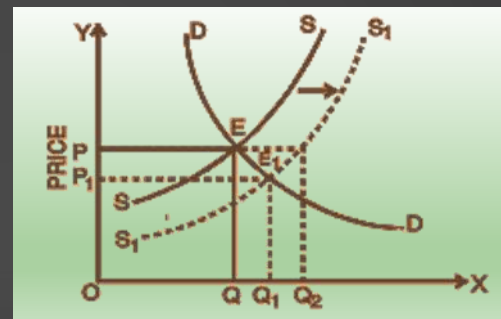


A decrease (shift to the left) in demand;

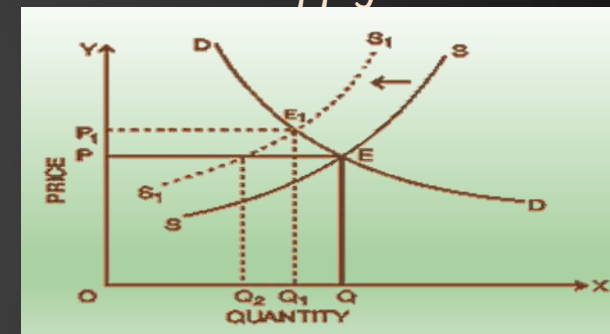


CHANGES IN DEMAND AND SUPPLY

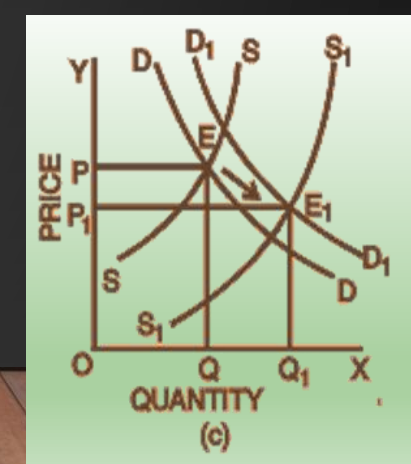
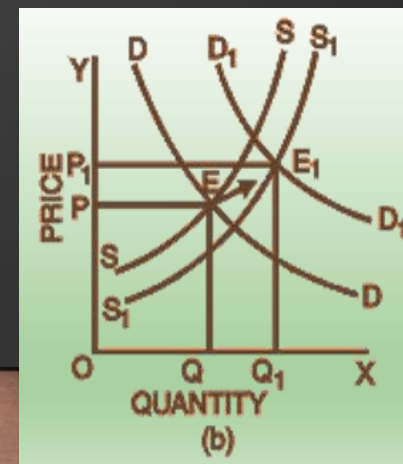
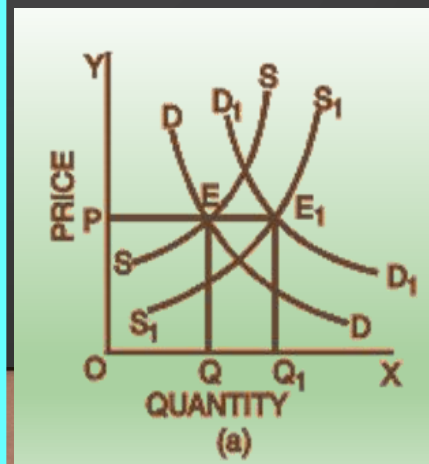
An increase (shift to the right) in supply;



A decrease (shift to the left) in supply.



Simultaneous Changes in Demand and Supply



UNIT : 4.3

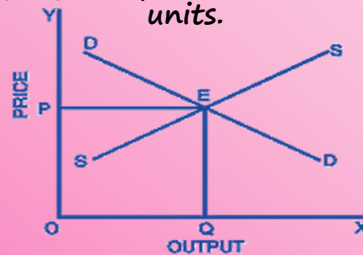
PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

PERFECT COMPETITION

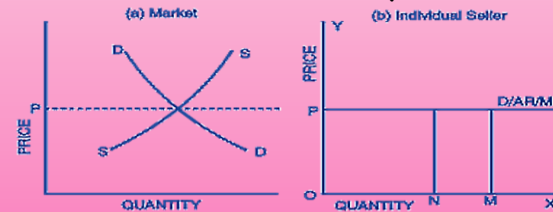
- There are large number of buyers and sellers who compete among themselves.
- The products supplied by all firms are identical or are homogeneous in all respects so that they are perfect substitutes.
- Every firm is free to enter the market or to go out of it.
- There is perfect knowledge of the market conditions on the part of buyers and sellers.
- Perfectly competitive markets have very low transaction costs
- Under perfect competition, all firms individually are price takers.

Price Determination under Perfect Competition

Equilibrium of the Industry: An industry in economic terminology consists of a large number of independent firms. Each such unit in the industry produces a homogeneous product so that there is competition amongst goods produced by different units.



Equilibrium of the Firm: The firm is said to be in equilibrium when it maximizes its profit. The output which gives maximum profit to the firm is called equilibrium output. In the equilibrium state, the firm has no incentive either to increase or decrease its output.



Conditions for equilibrium of a firm:

- The marginal revenue should be equal to the marginal cost. i.e. $MR = MC$. If MR is greater than MC, there is always an incentive for the firm to expand its production further and gain by selling additional units. If MR is less than MC, the firm will have to reduce output since an additional unit adds more to cost than to revenue. Profits are maximum only at the point where $MR = MC$.
- The MC curve should cut MR curve from below. In other words, MC should have a positive slope.

OLIGOPOLY

Oligopoly is an important form of imperfect competition. Oligopoly is often described as 'competition among the few'. Prof. Stigler defines oligopoly as that "situation in which a firm bases its market policy, in part, on the expected behaviour of a few close rivals".

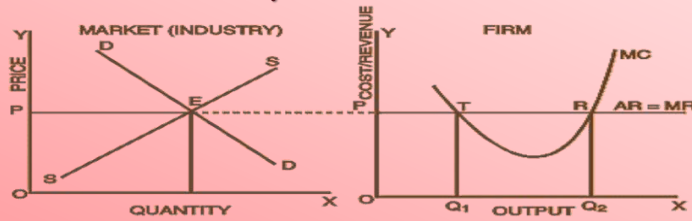
Types of Oligopoly:

- ✓ Pure oligopoly or perfect oligopoly
- ✓ Open and closed oligopoly
- ✓ Collusive and Competitive oligopoly
- ✓ Partial or full oligopoly
- ✓ Syndicated and organized oligopoly

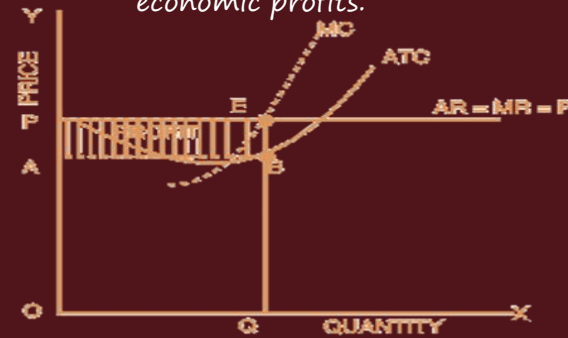
UNIT : 4.3

PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Short-Run Profit Maximization by a Competitive Firm

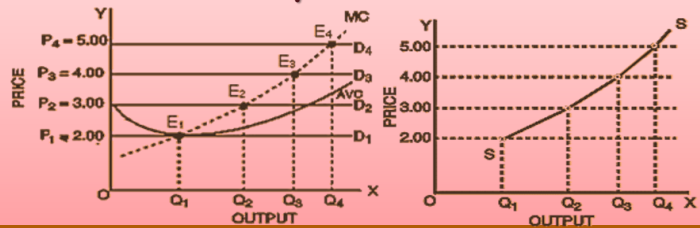


Supernormal Profits: There is a difference between normal profits and supernormal profits. When the average revenue of a firm is just equal to its average total cost, a firm earns normal profits or zero economic profits.

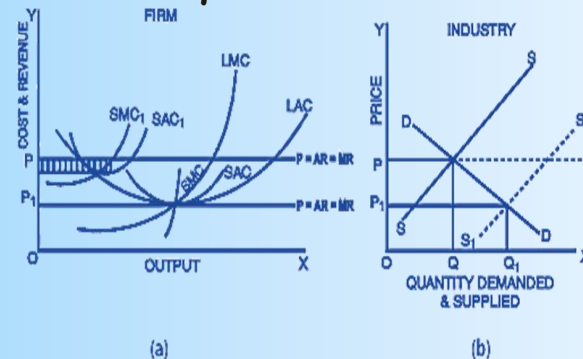


- The optimality is shown by the following outcomes associated with the long run equilibrium of the industry:
- The output is produced at the minimum feasible cost.
- Consumers pay the minimum possible price which just covers the marginal cost i.e. $MC = AR$. ($P = MC$).
- Plants are used to full capacity in the long run, so that there is no wastage of resources i.e. $MC = AC$.
- Firms earn only normal profits i.e. $AC = AR$.
- Firms maximize profits (i.e. $MC = MR$), but the level of profits will be just normal.
- There is optimum number of firms in the industry.
- In other words, in the long run, $LAR = LMR = P = LMC = LAC$ and there will be optimum allocation of resources.

Short run supply curve of the firm in a competitive market



Long Run Equilibrium of a Competitive Firm



MONOPOLY:

The word 'Monopoly' means "alone to sell". Monopoly is a situation in which there is a single seller of a product which has no close substitute. Pure monopoly is never found in practice. However, in public utilities such as transport, water and electricity, we generally find a monopoly form of market.

How do monopolies arise?

- Strategic control over a scarce resources, inputs or technology by a single firm limiting the access of other firms to these resources.
- Through developing or acquiring control over a unique product that is difficult or costly for other companies to copy.
- Governments granting exclusive rights to produce and sell a good or a service.
- Patents and copyrights given by the government to protect intellectual property rights and to encourage innovation.
- Business combinations or cartels (illegal in most countries) where former competitors cooperate on pricing or market share.
- Enormous goodwill enjoyed by a firm for a considerably long period create difficult barriers to entry.

UNIT : 4.3

PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

How do monopolies arise?

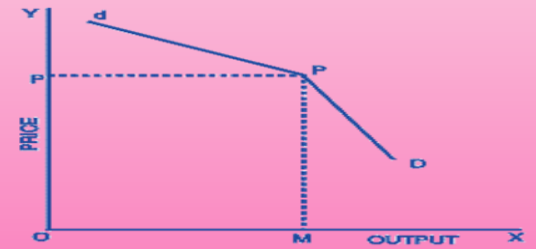
- Extremely large start-up costs even to enter the market in a modest way and requirement of extraordinarily costly and sophisticated technical know-how discourage firms from entering the market.
- Natural monopoly arises when there are very large economies of scale. A single firm can produce the industry's whole output at a lower unit cost than two or more firms could. It is often wasteful (for consumers and the economy) to have more than one such supplier in a region because of the high costs of duplicating the infrastructure.
- Stringent legal and regulatory requirements effectively discourage entry of new firms without being specifically prohibited.

The relationship between AR and MR of a monopoly firm can be stated as follows:

- ✓ AR and MR are both negatively by sloped (downward sloping) curves.
- ✓ The slope of the MR curve is twice that of the AR curve. MR curve lies half-way between the AR curve and the Y axis. i.e. it cuts the horizontal line between Y axis and AR into two equal parts.
- ✓ AR cannot be zero, but MR can be zero or even negative.

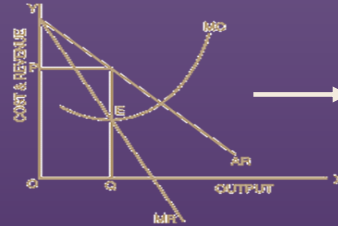
Kinked Demand Curve :

It has been observed that in many oligopolistic industries prices remain sticky or inflexible for a long time. They tend to change infrequently, even in the face of declining costs

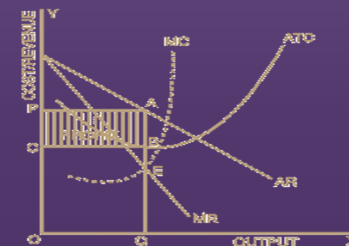


Profit maximisation in a Monopolised Market: Equilibrium of the Monopoly Firm

Short run Equilibrium



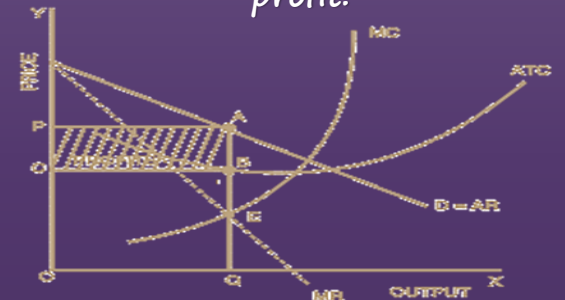
Equilibrium of a monopolist (Short run)



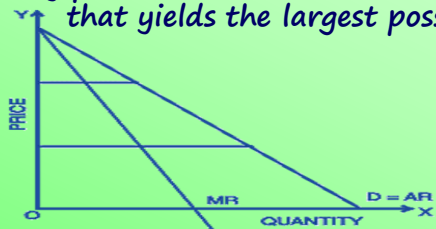
profits or losses in the short run

Long Run Equilibrium

Long run is a period long enough to allow the monopolist to adjust his plant size or to use his existing plant at any level that maximizes his profit.



Monopolist's Revenue Curves :In the absence of government intervention, a monopolist is free to set any price it desires and will usually set the price that yields the largest possible profit.



UNIT : 4.3

PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Price Discrimination :

Price discrimination is a method of pricing adopted by a monopolist in order to earn abnormal profits. It refers to the practices of charging different prices for different units of the same commodity.

Further examples of price discrimination are:

- Railways separate high-value or relatively small-bulk commodities which can bear higher freight charges from other categories of goods.
- Some countries dump goods at low prices in foreign markets to capture them.
- Some universities charge higher tuition fees from evening class students than from other scholars.
- A lower subscription is charged from student readers in case of certain journals.
- Lower charges on phone calls at off peak time.

Conditions for price discrimination:
Price discrimination is possible only under the following conditions:

- The seller should have some control over the supply of his product .
- The seller should be able to divide his market into two or more sub-markets.
- The price-elasticity of the product should be different in different sub-markets. The monopolist fixes a high price for his product for those buyers whose price elasticity of demand for the product is less than one.
- It should not be possible for the buyers of low-priced market to resell the product to the buyers of high priced market

Objectives of Price discrimination:

- to earn maximum profit
- to dispose off surplus stock
- to enjoy economies of scale.
- to capture foreign markets and
- to secure equity through pricing

Prof. Pigou classified three degrees of price discrimination

- ✓ Under the first degree price discrimination, the monopolist separates the market into each individual consumer and charges them the price they are willing and able to pay and thereby extract the entire consumer surplus.
- ✓ Under the second degree price discrimination, different prices are charged for different quantities of sold. The monopolist will take away only a part of the consumers' surplus. The two possibilities are:
 - a) Different consumers pay different price if they buy different quantity. Larger quantities are available at lower unit price.
 - b) Each consumer pays different price for consecutive purchases. For example, suppliers of services such as telephone, electricity, water, etc., sometimes charge higher prices when consumption exceeds a particular limit.
- ✓ Under the third degree price discrimination, price varies by attributes such as location or by customer segment. Here the monopolist will divide the consumers into separate sub-markets and charge different prices in different sub-markets.

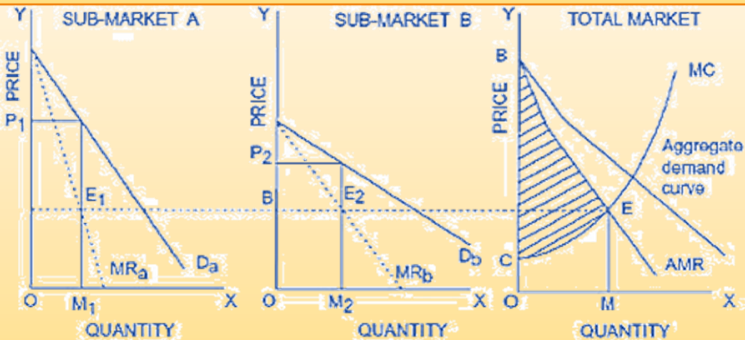
UNIT : 4.3

PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Equilibrium under price discrimination :

Under simple monopoly, a single price is charged for the whole output; but under price discrimination the monopolist will charge different prices in different sub-markets the discriminating monopolist has to make three decisions:

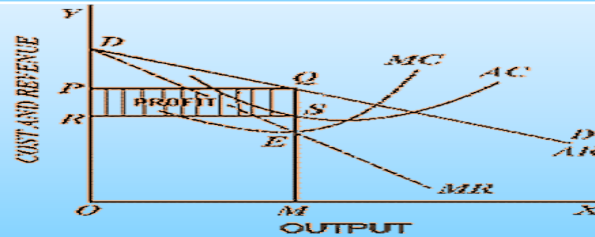
- ❑ How much total output should he produce?
- ❑ How the total output should be distributed between the two sub-markets? and
- ❑ What prices he should charge in the two sub-markets?



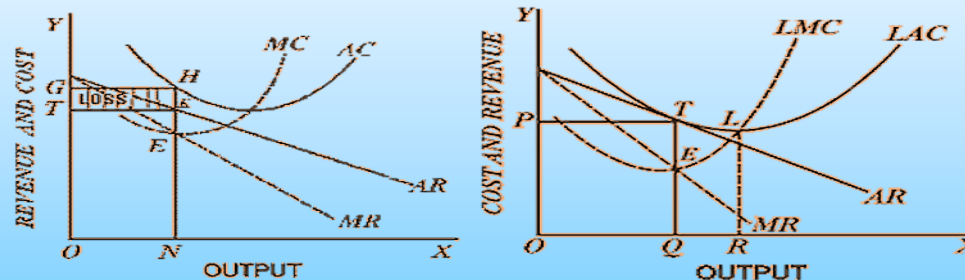
Fixation of total output and price in the two sub-markets by the discriminating monopolist

IMPERFECT COMPETITION-MONOPOLISTIC COMPETITION

- Large number of sellers: In a monopolistically competitive market, there are large number of independent firms who individually have a small share in the market.
- Product differentiation: In a monopolistic competitive market, the products of different sellers are differentiated on the basis of brands.
- Freedom of entry and exit: Barriers to entry are comparatively low and new firms are free to enter the market
- Non-price competition: In a monopolistically competitive market, firms are often in fierce competition with other firms offering a similar product or service, and therefore try to compete on bases other than price,



Short run equilibrium of a firm under monopolistic competition: Supernormal profits



Conditions for the Equilibrium of an individual firm: .

- (i) $MC = MR$
- (ii) MC curve must cut MR curve from below.

UNIT : 4.3

PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Perfect Competition	Monopoly	Monopolistic Competition
Large number of buyers and large number of firms in the industry	Single seller, no difference between firm and industry	Large number of buyers and large number of firms in the industry
Homogenous products which are perfect substitutes	No close substitutes	Differentiated products which are close substitutes, but not perfect substitutes
Insignificant market share	Command over the whole market	Each firm is small relative to the market
Competition among firms is perfect	Absence of competition	Imperfect competition
Complete absence of monopoly	High degree of monopoly power prevails	Some degree of monopoly power due to product differentiation
Free entry and exit	Strong barriers to entry	Free entry and exit
Price-taker	Price maker	Some control over price
Price is equal to marginal cost	Price is higher than marginal cost	Price is higher than marginal cost
Price less than other market forms	High equilibrium price	Price is high compared to perfect competition
Demand curve is infinitely elastic	Downward sloping and highly inelastic demand curve	Downward sloping and more elastic demand curve
MR and AR represented by the same curve	MR starts at the same point as AR, and is twice steep when compared to AR	MR starts at the same point as AR, and is twice steep when compared to AR
TR straight line positively sloping through the origin	TR inverted U shaped	TR inverted U shaped

Perfect Competition	Monopoly	Monopolistic Competition
No price discrimination-same price for all units	Can practice price discrimination by selling a product at different prices	Depends on the extent of monopoly power the firm has
No supernormal profits in the long run	Supernormal profits both in the short run and long run	No supernormal profits in the long run
No selling costs	Generally low selling costs, only for informing the consumers	Due to severe competition, selling costs are vital to persuade buyers
Price being given, decides only quantity of output	Decides on both price and output	Decides on both price and output
Product is produced at the minimum average cost	Produced at the declining portion of average cost curve	Produced at the declining portion of average cost curve
Equilibrium quantity is highest and produced at least cost	Equilibrium quantity less than other market forms	Equilibrium quantity less than optimal, there is excess capacity
No consumer exploitation	Consumers can be exploited by charging high prices	Consumers are influenced through price and non price competition
Efficient allocation of resources	Inefficient allocation of resource	Inefficient allocation of resource
No wastage of resources	Wastage of resource	Huge wastage of resources for advertisements

UNIT :5

BUSINESS CYCLES

These rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time are called business cycles or trade cycles. A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentage, altering with periods of bad trade characterised by falling prices and high unemployment percentages.

PHASES OF BUSINESS CYCLE :

The business cycles or the periodic booms and slumps in economic activities reflect the upward and downward movements in economic variables. A typical business cycle has four distinct phases. These are:

- Expansion (also called Boom or Upswing)
- Peak or boom or Prosperity
- Contraction (also called Downswing or Recession)
- Trough or Depression

CAUSES OF BUSINESS CYCLES

Internal Causes: The Internal causes or endogenous factors which may lead to boom or bust are:

- Fluctuations in Effective Demand
- Fluctuations in Investment
- Variations in government spending
- Macroeconomic policies
- Money Supply
- Psychological factors

External Causes: The External causes or exogenous factors which may lead to boom or bust are:

- Wars
- Post War Reconstruction
- Technology shocks
- Natural Factors
- Population growth

RELEVANCE OF BUSINESS CYCLES IN BUSINESS DECISION MAKING :

Business cycles affect all aspects of an economy. Understanding the business cycle is important for businesses of all types as they affect the demand for their products and in turn their profits which ultimately determines whether a business is successful or not.



CHAPTER - 1

BUSINESS AND COMMERCIAL KNOWLEDGE - AN INTRODUCTION

INTRODUCTION

Humans engage themselves alternatively between work and life. We work to earn income. We spend (and also save) the income for the sustenance of the self and the family. In the process, daily we engage in numerous transactions and exchange our income for buying various goods and services.

DOMAINS OF BUSINESS AND COMMERCIAL KNOWLEDGE (BCK)

- BCK is Vast
- BCK is Eclectic (Multidisciplinary)
- BCK is Ever Evolving and Expanding

BCK Domains- An Overview

- Activities : Manufacturing, Trading (Domestic, Foreign), Commerce (Aids to Trade or Auxiliaries to Trade) Services.
- Scale : Micro Enterprises, Small Enterprises, Medium Enterprises , Large Enterprises
- Geographic Scope : Local, National, Multinational .
- Geographic Scope : Local, National, Multinational
- Ownership : State owned/ Public Sector, Private Sector (Sole Proprietorship, Partnership, Company/ Corporate Sector).
- Markets : [Natural] Resources, Equipments, Commodities, Capital, Labour, Product Markets .
- Stakeholders : Entrepreneurs, Promoters, Customers, Investors, Business Owners, Directors, Shareholders, Managers, Employees, Suppliers, Laws & Regulators/Policy makers, Supporting / Facilitating Organisations, Society at large.
- Functions : Production/ Operations, Marketing, Accounting Finance & Taxation, Human Resource.
- Focus : Company/ Enterprise wide, A particular business line, A particular function.
- Concerns : Survival, Profitability, Growth, Sustainability, Social Responsibilities, Governance, Values & Ethics.
- Mode : Traditional/ Physical/ Brick & Mortar/In-store, Digital/ Online.
- Underlying disciplines : Economics, Laws, Philosophy, Psychology, Sociology.

DOMAINS OF BUSINESS AND COMMERCIAL KNOWLEDGE (BCK)

- BCK is Vast
- BCK is Eclectic (Multidisciplinary)
- BCK is Ever Evolving and Expanding

IMPORTANCE OF BCK FOR CHARTERED ACCOUNTANTS

The Chartered Accountants are the custodians of a nation's resources. They are responsible for putting in place a credible system of truthful and fair accounting and reporting of the society's resources, their deployment and utilisation. Business and commercial sector comprises a large share of their work arena.

Distinguishing Characteristics of Economic Activities

- Economic activities are income generating
- Economic activities are productive
- Even consumption is an economic activity
- Savings, Investment and Wealth

CHAPTER - 1

BUSINESS AND COMMERCIAL KNOWLEDGE - AN INTRODUCTION

Business as an Economic Activity

It is common to refer to shift from subsistence driven production toward market driven production as commercialisation of production or production on a commercial scale.

From the broader perspective business may be defined as an economic activity comprising the entire spectrum of activities pertaining to production, distribution and trading (exchange) of goods and services

From the medium perspective, business refers to a particular type of activity or industry such as Retail Business, Real Estate Business, and IT Business, Iron & Steel Industry, Transport Business, etc.

From a narrow perspective business may be defined as one's usual occupation of creating, owning and actively operating an economic organisation

Distinguishing Characteristics of Business vis-à-vis Other Economic Occupations

- Employment
- Profession
- Job creator, not job seeker
- Provides momentum to economic growth
- Investment intensive
- Gestation and uncertainties
- Systematic, organised, efficiency oriented activity
- Objective oriented/ purposeful

FORMS OF BUSINESS ORGANISATION

- ❖ Business ownership is a bundle of rights
- ❖ Business may be owned singly or jointly
- ❖ Business may be organised as a proprietary or a corporate concern

Partnership

Partnership implies contractual co-ownership of business. It is a relationship between two or more persons who agree to share the profits of a business. The business may be carried on by all or by some of the partners (called active partners) for and on behalf of all.

Sole Proprietorship

When an individual makes a choice to start a business of one's own, to be one's own boss sole-proprietorship emerges. As such it can be regarded as the easiest and the earliest form of business as a human occupation. This form of business organisation is much appreciated in entrepreneurship literature.

Limited Liability Partnership (LLP)

LLP form of business organization is the one where the liability of the partners is limited. However, there is much more to this form. It has to be mandatorily incorporated /registered under the Limited Liability Partnership Act, 2009.

Hindu Undivided Family (HUF) Business

HUF is an entity formed automatically by members of the common ancestry including their wives and daughters. A HUF cannot be formed by a group of people who do not constitute a family. As such, a joint Hindu family in India is, in fact and by default, a HUF. A HUF enjoys a separate entity status under the Income Tax Act.

Company

Company form of business organization is the flag bearer of corporate businesses. Company indeed is a body corporate, having an existence independent of all its members. The word company literally implies an association of two or more persons.

CHAPTER - 2

BUSINESS ENVIRONMENT

MEANING

According to Gluek and Jauch: "The environment includes factors outside the firm which can lead to opportunities for, or threats to the firm. Although, there are many factors, the most important of the factors are socio-economic, technological, suppliers, competitors, and government."

RELATIONSHIP BETWEEN ORGANIZATION AND ITS ENVIRONMENT

- Exchange of information: The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes.
- Exchange of resources: The organization receives inputs—finance, materials, manpower, equipment etc. from the external environment through contractual and other arrangements. The resources are often categorised as 5 M's Men, Money, Method, Machine, Material.
- Exchange of influence and power: Another area of organizational-environmental interaction is in the exchange of power and influence

COMPLEX	The environment consists of a number of factors, events, conditions and influences arising from different sources. It is difficult to comprehend at once the factors constituting a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality	Mobile phones making music system, computers books obsolete
DYNAMIC	The environment is constantly changing in nature. Due to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.	The film industry generates revenue from ring tones / caller tunes rather than sale of music CD
MULTI-FACETED	What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.	LCD and Plasma TV's giving way to LED and now LED's giving way to 3D TV's
FAR REACHING IMPACT	The environment has a far-reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways	An organisation like Aditya Birla Group has moved from textile to cement to retail and to financial services as well as telecom due to changing circumstances

IMPORTANCE OF BUSINESS ENVIRONMENT

- Determining Opportunities and Threats
- Giving Direction for Growth
- Continuous Learning
- Image Building
- Meeting Competition

ORGANIZATION'S RESPONSE TO ITS ENVIRONMENT

Three classes of responses are described below:

Administrative Response: The most common organizational responses to the environment are administrative. These include the formation or clarification of the organization's mission; the development of objectives, policies, and budgets; or the creation of scanning units.

Competitive Response: Competitive responses to the environment typically are associated with for-profit firms but can also apply to non-profits and governmental organizations.

Collective Response: Organizations can cope with problems of environmental dependence and uncertainty through increased coordination with other organizations.

CHAPTER - 2

BUSINESS ENVIRONMENT

ENVIRONMENTAL INFLUENCES ON BUSINESS

Environment factors or constraint are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. Business converts these resources through various processes into outputs of products and/or services.

Framework to understand the environmental influences

Firstly, it is useful to take an initial view of the nature of the organizations environment in terms of how uncertain it is. Is it relatively static or does it show signs of change, and in what ways? Is it simple or complex to comprehend? This helps in deciding what focus the rest of the analysis is to take.

Secondly, The next step might be the auditing of environmental influences. Here the aim is to identify which of the many different environmental influences are likely to affect the organization's development or performance

The final step is to focus more towards an explicit consideration of the immediate environment of the organization - for example, the competitive arena in which the organization operates.

ENVIRONMENTAL SCANNING

- Events are important and specific occurrences taking place in different environmental sectors. Events are certain happening in the internal or external organisational environment which can be observed and tracked.
- Trends are the general tendencies or the courses of action along which events take place. Trends are grouping of similar or related events that tend to move in a given direction, increasing or decreasing in strength of frequency of observation; usually suggests a pattern of change in a particular area.
- Issues are the current concerns that arise in response to events and trends. Identifying an emerging issue is more difficult. Emerging issues start with a value shift, or a change in how an issue is viewed.
- Expectations are the demands made by interested groups in the light of their concern for issues.

COMPONENTS OF BUSINESS ENVIRONMENT

Internal Environment : Internal environment is composed of multiple elements existing within the organization, including management, current employees and corporate culture. Internal environment is the conditions, people, events and factors within an organization that influence its activities and choices, particularly the behaviour of the employees.

External Environment : A business does not operate in a vacuum. It has to act and react to what happens outside the factory and with is the office walls. These factors that happen outside the business are known as external factors or influences. There are two major types of external environment:

- Micro Environment
- Macro Environment

SWOT Analysis :

A systematic approach to understanding the environment is the SWOT analysis. Business firms undertake SWOT analysis to understand the external and internal environment. SWOT, which is the acronym for strengths, weaknesses, opportunities and threats. An effective organizational strategy, therefore, is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimizing the impact of weaknesses.

PESTLE ANALYSIS

The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.

CHAPTER - 3

BUSINESS ENVIRONMENT

IMPORTANT POINTS TO BE REMEMBER

- ICICI Bank
- HDFC Bank
- Axis Bank
- STATE BANK OF INDIA
- INFOSYS LTD.
- Wipro Ltd
- CIPLA LIMITED
- DR. REDDY'S LABORATORIES LTD.
- OIL & NATURAL GAS CORPORATION LTD.
- INDIAN OIL CORPORATION LTD. (IOCL)
- BHARAT PETROLEUM CORPORATION LTD
- GAIL (India) Ltd

IMPORTANT POINTS TO BE REMEMBER

- COAL INDIA LIMITED
- NTPC LTD.
- POWER GRID CORPORATION OF INDIA LTD. (PGCIL)
- RELIANCE INDUSTRIES LIMITED (RIL)
- LARSEN & TOUBRO LTD.
- Tata Sons Limited
- ITC Limited
- Bajaj Auto Ltd
- BHARTI AIRTEL LIMITED
- Asian Paints
- Adani Ports and Special Economic Zone Ltd.

IMPORTANT POINTS TO BE REMEMBER

- Deutsche Bank
- American Express
- NESTLE
- MICROSOFT CORPORATION
- IBM CORPORATION
- INTEL CORPORATION
- HP
- APPLE

CHAPTER - 4

GOVERNMENT POLICIES FOR BUSINESS GROWTH

Policy in the Contemporary Global Economies

In the contemporary world, the strong economies like US, European nations like Germany, France, Switzerland, Denmark, Sweden and Japan from Asia have clear cut policies on governance, economy, market, taxes and duties and military spending. These efforts are commonly referred to as Liberalization, Privatization and Globalization (LPG).

- Liberalization of economic policy refers to the gradual decrease in government command and control over the economic policies. Simplification of tax structure, removing quotas, bars and economic restrictions are some examples of liberalization.
- Privatization, in its purest form means transfer of government ownership to private hands. In real life, it is done in different forms. In some cases, ownership of all shares is transferred from government to a single highest bidder (VSNL was taken by Tata Telecom).
- Globalization refers to taking off restrictions in export and import of goods and services. It also covers the measures of lifting the trade barriers.

PUBLIC POLICY

- Public Policies are always goal oriented.
- Public policy represents the outcome of the government's collective actions.
- Public policy is what the government actually decides or chooses to do.
- Public policy is positive in the sense that it depicts the concern of the government and involves its action to a particular problem on which the policy is made

THE NATURE OF PUBLIC POLICY

- Restrictive policies curtail all benefits in some particular issue.
- Regulatory practices regulate the activities of a particular sector of economy.
- Facilitating policies are the ones which facilitates an activity. The conducive policies towards the development of MSMEs

THE ECONOMIC CHANGE PROCESS

- There is dual route of approval of FDI.
- Automatic permission was granted for technology agreements in high priority industries
- Permission was granted to Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 per cent capital in high priorities sectors.
- Hike in the foreign equity participation limits to 51 per cent for existing companies and liberalisation of the use of foreign "brands name".
- Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of Foreign Investments.

FOREIGN DIRECT INVESTMENT IN INDIA (FDI)

Foreign Direct Investment (FDI) plays a very important role in the process of development of a nation.

Here are a few sectors where FDI is prohibited under both the Government Route as well as the Automatic Route:

- Atomic Energy
- Lottery Business
- Gambling and Betting
- Business of Chit Fund
- Nidhi Company
- Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
- Housing and Real Estate business (except development of townships, construction of residential/ commercial premises, roads or bridges to the extent specified)
- Trading in Transferable Development Rights (TDRs)
- Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

INTRODUCTION

- a freight forwarder . a person or company who organizes shipments for the business firms to get goods from the manufacturer or producer to a market, customer or final point of distribution
- a business incubator helps create and grow young businesses by providing them with necessary support and financial and technical services; and a business accelerator helps a budding business quickly launch a product and put it in the fast lane of commercial success;
- a financial consultant who advises the business on the various sources of finance- domestic as well as foreign; debt as well as equity; short-term as well as long-term and helps it mobilise its requirements too. It may be noted that merchant bankers/ financial consultants are not themselves the financing institutions- the auxiliaries or aids to trade;
- a merchandiser who helps the business e.g. a fashion house obtains its supplies- fabrics, accessories, etc.

Government as a Business Facilitator :

The New Economic Policy of 1991 which is better known as the LPG or GPL policy i.e. the policy of liberalisation, privatisation and globalisation is regarded as the watershed development in business facilitation in India.

NON-FUNDING INSTITUTIONS FOR BUSINESS FACILITATION IN INDIA (INDIAN REGULATORY BODIES)

- ❖ Reserve Bank of India (RBI) : The Reserve Bank of India (RBI) was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.
- ❖ Securities and Exchange Board of India (SEBI) : SEBI is an authority to regulate and develop the Indian capital market and protect the interest of investors in the capital market. Controller of Capital Issues has been repealed by the SEBI, an authority under Capital Issue (Control) Act, 1947.
- ❖ Competition Commission of India (CCI) : Competition is a contest between organisms, animals, individuals, groups, etc. in the context of business, competition is the best means of ensuring that the 'Common Man' has access to the broadest range of goods and services at the most competitive prices..
- ❖ The Competition Act, 2002 : Basically, Competition law is a tool to implement and enforce competition policy and to prevent and punish anti-competitive business practices by firms and unnecessary Government interference in the market. The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, follows the philosophy of modern competition laws
- ❖ Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted under Insurance Regulatory and Development Authority Act, 1999 and duly passed by the Parliament.
- ❖ FUNDING INSTITUTIONS (INDIAN DEVELOPMENT BANKS) : Development Banks are those financial institutions that provide funds and financial assistance to new and upcoming business enterprises. Development banks are distinguishable from commercial banks

CHAPTER -6

COMMON BUSINESS TERMINOLOGIES

BUSINESS - MANY FACETS OF THE SAME REALITY

- Technical Facet
- Commercial Facet
- Financial Facet
- HR Facet
- Administrative Facet

FINANCE, STOCK AND COMMODITY MARKET TERMINOLOGY

✓ Agent	✓ Brokerage Firm	✓ Balance sheet	✓ Yield
✓ Amortize	✓ Book Closure	✓ Bond	✓ Vision
✓ Annuity Due	✓ Business Day	✓ Book Value	✓ Value At Risk (VAR)
✓ Appreciation	✓ Breakeven point	✓ Bull Market	✓ Unique Selling Proposition
✓ Arbitrage	✓ Business Day	✓ Budget	✓ Turnaround
✓ Asset	✓ Bid and Offer	✓ Bears	✓ Triple Bottom Line (TBL)-
✓ Ask/Offer	✓ Business Risk	✓ Base Price	✓ Thin Market
✓ Audit	✓ Niche Marketing	✓ Basket Trading	✓ Target Marketing
✓ Bad debts	✓ Capital Gains Yield	✓ Bear Market	✓ Syndicated Loan
✓ Badla	✓ Capital Markets	✓ Blue Chips	✓ Reverse Repo Rate
✓ Beta	✓ Acceptance	✓ Bid	✓ Repo Rate
✓ Bonds	✓ Administered Rates	✓ Amortize	✓ Privatization
✓ Bonus	✓ Zero Down Payment Mortgage	✓ Risk	✓ Price Skimming
✓ Brokerage	✓ Zero Coupon Bond	✓ Pre-Emptive Pricing	✓ Price Sensitivity
✓ Bull	✓ Price Discrimination	✓ Portfolio	✓ PESTLE
✓ Close Price	✓ Stock Split	✓ Overdraft	✓ Personal Selling
✓ Cash Budget	✓ Mutual Fund	✓ Mission	✓ Merger