Business Economics

Business Economics, also know Managerial Economics is the application of economic theory and methodology to business. Also Economics is the study of human beings (e.g., consumers, firms) in producing and consuming goods and services amid a scarcity of resources. Managerial or business economics apply a branch of organizing and allocating a firm's scarce resources to achieve its desired goals.

In simple words, business economics is the discipline which helps a business manager in decision making for achieving the desired results. In other words, it deals with the application of economic theory to business management.

According to Spencer and Siegelman, Business economics is "the integration of economic theory with business practice for the purpose of facilitating decision-making and forward planning by management".

According to Mc Nair and Meriam, "Business economics deals with the use of economic modes of thought to analyses business situation".

From the above said definitions, we conclude the following objectives of business economics:

1) Explanation of nature and form of economic analysis

2) To apply economic concepts: and principles to solve business problems

3) Spell out the relationship between Managerial Economics and other disciplines

outline the methodology of managerial economics.

4) To make overall development of a firm.

5) To minimize risk and uncertainty

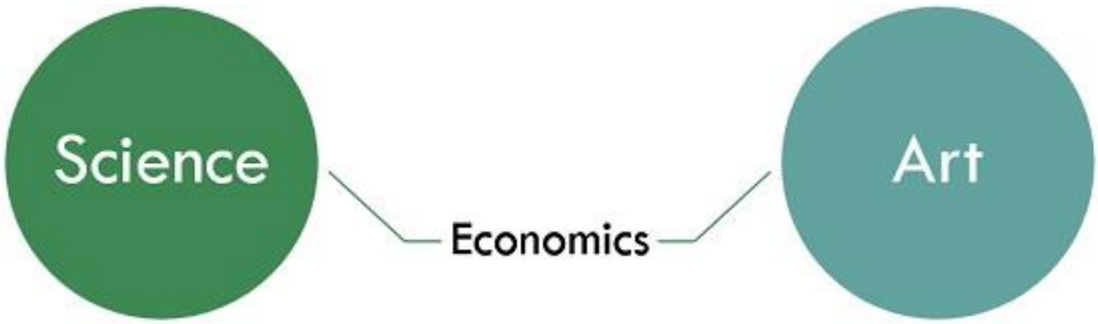
6) To help in demand and sales forecasting.

7) To help in operation of firm by helping in planning, organizing, controlling etc.

8) To help in formulating business policies.

9) To help in profit maximization.

Nature of Economics



1. **Economics is a science**: Science is an organised branch of knowledge, that analyses cause and effect relationship between economic agents. Further, economics helps in integrating various sciences such as mathematics, statistics, etc. to identify the relationship between price, demand, supply and other economic factors.

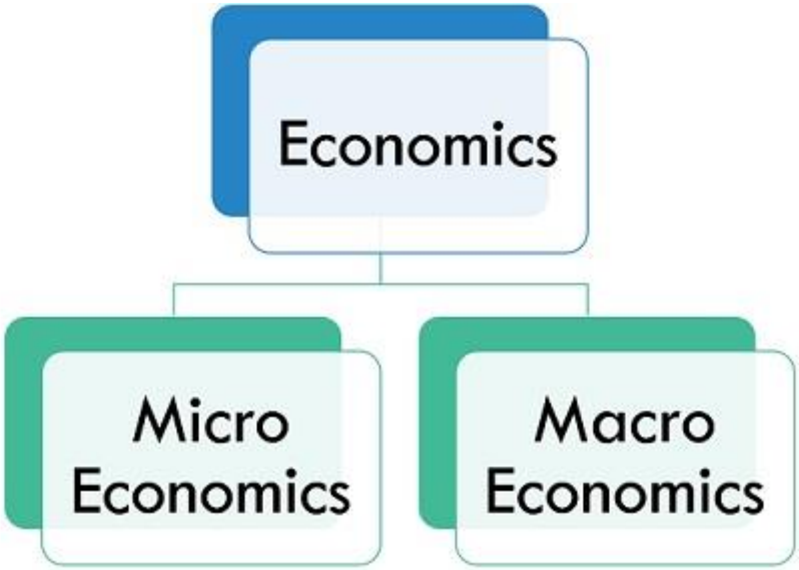
   - **Positive Economics**: A positive science is one that studies the relationship between two variables but does not give any value judgment, i.e. it states ‘what is’. It deals with **facts about the entire economy**.

   - **Normative Economics**: As a normative science, economics **passes value judgement**, i.e. ‘what ought to be’. It is concerned with economic goals and policies to attain these goals.

2. **Economics is an art**: Art is a discipline that expresses the way things are to be done, so as to achieve the desired end. Economics has various branches like production, distribution, consumption and economics, that provide general rules and laws that are capable of solving different problems of society.

   Therefore, economics is considered as science as well as art, i.e. **science in terms of its methodology and arts as in application**. Hence, economics is concerned with both theoretical and practical aspects of the economic problems which we encounter in our day to day life.

<u>**Scope of Economics**</u>



- <u>Microeconomics</u>: The part of economics whose subject matter of study is **individual units**, i.e. a consumer, a household, a firm, an industry, etc. It analyses the way in which the decisions are taken by the economic agents, concerning the allocation of the resources that are limited in nature.
- It studies consumer behaviour, product pricing, firm's behaviour. Factor pricing, etc.

- <u>Macroeconomics</u>: It is that branch of economics which studies the entire economy, instead of individual units, i.e. level of output, total investment, total savings, total consumption, etc. Basically, it is the study of **aggregates and averages**. It analyses the economic environment as a whole, wherein the firms, consumers, households, and governments make decisions.

It covers areas like national income, general price level, the balance of trade and balance of payment, level of employment, level of savings and investment.

The **fundamental difference between micro and macro economics lies in the scale of study**. Further, in microeconomics, more importance is given to the determination of price, whereas macroeconomics is concerned with the determination of income of the economy as a whole.

Nevertheless, microeconomics and macroeconomics are **complementary** to one another, as they both aimed at **maximising the welfare of the economy as a whole**.

From the standpoint of microeconomics, the objective can be achieved through the **best possible allocation of scarce resources**. Conversely, if we talk about macroeconomics, this goal can be attained through the **effective use of the resources of the economy**.