



According to Minimum Uniform Syllabus Prescribed by
NATIONAL EDUCATION POLICY-2020

BUSINESS ECONOMICS



K.P.M. Sundharam
E.N. Sundharam

Sultan Chand & Sons

Business Economics

According to Minimum Uniform Syllabus for B.Com., BBA Prescribed by
NATIONAL EDUCATION POLICY–2020

K.P.M. Sundharam
*Formerly of Shri Ram Collage of Commerce,
Delhi Univeristy*
and
E.N. Sundharam



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Author's Acknowledgement: The writing of a Textbook always involves creation of a huge debt towards innumerable authors and publications. We owe our gratitude to all of them. We acknowledge our indebtedness in extensive footnotes throughout the book. If, for any reason, any acknowledgement has been left out we beg to be excused. We assure to carry out correction in the subsequent edition, as and when it is known.

Preface

Preface to the Fifth Edition

We are pleased to place before the esteemed readers, the 5th edition of our book “Business Economics”. The book covers all the more comprehensively the course content requirements of the students appearing for B.Com. and BBA courses.

The new addition, besides maintaining plus features of the earlier editions like simplicity of style, lucid presentation, etc. incorporates the following additions:

Chapter 35 on Trade/Business Cycle has been thoroughly updated, now includes topics on Business Cycle like (i) Inflation (ii) Causes of inflation (iii) Economic Depression – causes of Economic Depression, ways to prevent another Economic Depression. (iv) Recession – factors of Recession, technical factors of Recession, Recession due to COVID-19 Pandemic, Difference between Recession and Depression. (v) Economic Recovery – Understanding Economic Recovery, Key factors of Economic Recovery, The Process of Recovery, Indicators of Recovery, Examples of Economic Recovery. (vi) Reflation – Key factors of Reflation, Reflation methods, Examples of Reflation, Reflation versus Inflation. (vii) Deflation – Key factors of Deflation, Causes of Deflation, Changing views on Deflation’s impact, Deflation changes Debt and Equity Financing.

We are confident that with all these additions, the readers will find the revised edition of the book all the more useful and rewarding. Constructive and helpful suggestions for the improvement in the book will be gratefully acknowledged.

Preface to the Fourth Edition

In recent years, South Indian Universities have changed the course content of Economics at the B.Com. level by introducing Business Economics or Managerial Economics, comprising only those aspects of economic analysis which

are relevant to commerce students. Business Economics begins with different assumptions, proceeds along different lines, evolves different concepts and reaches new conclusions. It deals with such conventional topics as profit, demand and supply, competitive conditions, pricing and costs, etc., but these concepts and theories are explained from the point of view of professional business managers and not from that of a theoretical economist. This book has been brought out specifically to meet the course content of B.Com. of Chennai (Madras), Bangalore, Andhra, Kerala and other South Indian Universities.

The first three chapters of this book are introductory chapters but are of great importance to students of commerce and business. In the first chapter, we deal with the definition, nature and scope of Economics and we emphasise, at the outset, the distinction between General Economic Analysis and Business Economics, by explaining:

- (a) Decision-making in business : subject-matter of Business Economics; and
- (b) Economic theories applied to Business Analysis.

We follow this up with a study of the central problems of all economic systems and show how these problems are sought to be solved by capitalist, socialist and mixed economies. We then explain the various objectives followed by modern business units : profit maximisation, sales maximisation and growth objectives and social responsibilities of modern business.

The core of this book, of course, is price theory. We explain demand and revenue functions, cost functions, pricing under different competitive conditions, pricing policies and methods of business firms, and of public utilities. We have a full chapter on Government regulation of prices in which, among other things, we have explained the system of dual pricing and administered prices. We have also explained elaborately : demand forecasting, cost control and cost reduction and break-even analysis.

Throughout, we have used the simplest language possible, with easy-to-follow examples, and also simple diagrams to illustrate economic theories and concepts. Model questions have been added at the end of each chapter consisting of essay type, short-answer type and objective questions to familiarise students with the type of questions which can be asked from each chapter. We have also added simple mathematical and statistical appendices at the end of certain chapters to help students to solve mathematical problems.

We sincerely hope that this revised and improved edition of the book will benefit the undergraduate commerce students of our universities.

AUTHOR

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Syllabus

UNIVERSITY OF MADRAS
B.Com. (GENERAL) DEGREE COURSE
With Effect from 2020-2021, BGE-CSA01

ALLIED-I: BUSINESS ECONOMICS
Common to B.Com. (CS)-II Sem., B.Com. (BM), B.Com. (MM),
B.Com. (CA) & B.Com. (ISM)

Unit-I: Introduction to Economics – Wealth, Welfare and Scarcity Views on Economics – Positive and Normative Economics – Definition – Scope and Importance of Business Economics – Concepts: Production Possibility Frontiers – Opportunity Cost – Accounting Profit and Economic Profit – Incremental and Marginal Concepts – Time and Discounting Principles – Concept of Efficiency – Business Cycle: Inflation, Depression, Recession, Recovery, Reflation and Deflation.

Unit-II: Demand and Supply Functions – Meaning of Demand – Determinants and Distinctions of Demand – Law of Demand – Elasticity of Demand – Demand Forecasting – Supply Concept and Equilibrium.

Unit-III: Consumer Behaviour – Law of Diminishing Marginal Utility – Equimarginal Utility – Indifference Curve – Definition, Properties and Equilibrium.

Unit-IV: Production – Law of Variable Proportion – Laws of Returns to Scale – Producer's Equilibrium – Economies of Scale – Cost Classification – Break-Even Analysis.

Unit-V: Product Pricing – Price and Output Determination under Perfect Competition, Monopoly – Discriminating Monopoly – Monopolistic Competition – Oligopoly – Pricing Objectives and Methods.

DELHI UNIVERSITY
COURSE: B.Com. (Hons.)
DSC 13-BUSINESS ECONOMICS : BCH

Learning Outcomes: After the completion of the course, the learners will be able to:

1. Understand the nature and scope of Business Economics.
2. Analyse how consumers try to maximize their satisfaction by spending on different goods.
3. Study the relationship between inputs used in production and the resulting outputs and costs.

4. Analyse and interpret various facets of and pricing under different market situations.
5. To know about the contemporary issues and applications in Micro Economics.

Unit 1: Introduction to Business Economics – Nature and Scope of Business Economics, Demand and Supply: Meaning, Law, Individual vs. Market, Movement vs. Shift, Market Equilibrium. **Elasticity of Demand:** Price, Income and Cross Elasticities. **Measurement of Elasticity of Demand:** Outlay and Percentage Method. **Elasticity of Supply:** Concept and Measurement (Percentage Method).

Unit 2: Consumer Behaviour – Cardinal vs. Ordinal Utility, Indifference Curves: Features, Budget Line, Consumers Equilibrium, ICC and Engels Curve, PCC and Derivation of Demand Curve, Income and Substitution Effects of Price Change (normal, inferior and giffen goods), **Applications:** Effect of Interest Rates on Household Savings, Lumpsum Subsidy vs. Excise Subsidy.

Unit 3: Production and Cost – Production Function: TP, AP and MP, Law of Variable Proportions. Isoquants: Properties, Optimal Combination of Resources, Expansion Path and Returns to Scale. **Cost:** Different Cost Concepts, Derivation of Short-run and Long-run Cost Curves (LAC and LMC), Economies and Diseconomies of Scale.

Unit 4: Market Structures – Perfect Competition: Features, Equilibrium under Short-run and Long-run, Derivation of Supply Curve under Short-run and Long-run. **Monopoly:** Features, Equilibrium under Short-run and Long-run, Absence of Supply Curve, **Price Discrimination:** Degrees, Conditions and Dumping. **Monopolistic Competition:** Features, Product Differentiation and Excess Capacity and Equilibrium, **Oligopoly:** Collusive and Non-collusive, Cournot's Model, Kinked Demand Curve, Cartels (OPEC and CIPEC)

Unit 5: Contemporary Issues and Applications – Rent Control, Minimum Wages, Individual Supply Curve of Labour, Peak Load Pricing, Prisoners' Dilemma and Game Theory.

GURU GOBIND SINGH INDRAPRASTHA UNIVERSITY, New Delhi

Bachelor of Business Administration (BBA)
BBA 107: Business Economics

Objective: The objective of this subject is to give understanding of the basic concepts and issues in business economics and their application in business decisions.

Unit I: Introduction to Business Economics and Fundamental Concepts – Nature, Scope. Definitions of Business Economics. Difference between Business Economics and Economics. Contribution and Application of Business Economics to Business. Micro vs. Macro Economics. Opportunity Costs, Time Value of Money, Marginalism, Incrementalism, Market Forces and Equilibrium, Risk, Return and Profits. Introduction to Behavioural Economics: Nudge Theory.

Unit II: Consumer Behavior and Demand Analysis – Cardinal Utility .Approach: Diminishing Marginal Utility, Law of Equi-Marginal Utility. Ordinal Utility Approach: Indifference Curves, Marginal Rate of Substitution, Budget Line and Consumer Equilibrium. Theory of Demand. Law of Demand, Movement Along vs. Shift in Demand Curve, Concept of .Measurement of Elasticity of Demand, Factors Affecting Elasticity of Demand, Income Elasticity of Demand. Cross Elasticity of Demand, Advertising Elasticity of Demand. Demand Forecasting: Need, Objectives and Methods in Brief.

Unit III: Theory of Production – Meaning and Concept of Production, Factors of Production and Production Function. Fixed and Variable Factors, Law of Variable Proportion (Short-run Production Analysis), Law of Returns to a Scale (Long-run Production Analysis) through the use of ISO QUANTS. Concept of Cost, Cost Function. Short-run Cost, Long-run Cost, Economies and Diseconomies of Scale, Explicit Cost and Implicit Cost, Private and Social Cost.

Unit IV: Cost Analysis & Price Output Decisions – Pricing under Perfect Competition (features, short-run, long-run equilibrium of firm/industry), Pricing Under Monopoly (features, short-run and long-run equilibrium), Control of Monopoly, Price Discrimination, Pricing Under Monopolistic Competition (features, short-run and long-run equilibrium, demand and cost, excess capacity), Pricing Under Oligopoly (Cournot Model, Kinked Demand Curve Model).

NEP-2020, Common Minimum Syllabus for all UP State Universities

Subject: Commerce

Course Code: C010205T, Course Title: Business Economics

Core Compulsory / Elective: Elective

Course Outcomes: Business Economics Objective – this course is meant to acquaint the students with the Principles of Business Economics as are applicable in Business.

Unit I: Famous Economist of India like – Kautilya, Gopal Krishna Gokhale, D.R. Gadgil, Dr. Ram Manohar Lohia, Jawaharlal Nehru and Dr. B.R. Ambedkar etc. **Introduction:** Nature and Scope of Business Economics, Meaning, Kinds, Law of Demand, Law of Marginal Diminishing Utility, Elasticity of Demand, Concept and Measurement of Elasticity of Demand, Price, Incoming Cross Elasticity, Determinants of Elasticity of Demand, Importance of Elasticity of Demand.

Unit II: Theory of Cost – Short-run and Long-run Cost Curve, Traditional and Modern Approaches. **Production Function:** Law of Variable Proportion; Properties Ridge Line, Optimum Factor Combination and Expansion Path; Return to Scale; Internal and External Economics and Diseconomies.

Unit III: A. Perfect Competition – Meaning, Price and Output Determination. **B. Monopoly:** Meaning and Determination of Price Under Monopoly; Equilibrium of a Firm/ Industry. **C. Monopolistic Competition:** Meaning and Characteristics; Price and Output Determination Under Monopolistic Competition.

Unit IV: Business Cycle – Various Phases and its Causes; **Theory of Distribution:** Marginal Productivity Theory or Modern Theory. **Wage:** Meaning, Determination of Wage Rate Under Perfect Competition and Monopoly, **Rent Concept:** Modern Theories of Rent, Interest Concept and Theories of Interest Profit-Concept and Theories of Profit.

PERIYAR UNIVERSITY, Salem

B.A. ECONOMICS, Semester-VI, Core XIV – Business Economics

Objectives: To make the students understand the importance of decision making process in business, to teach the students about Demand, Demand forecasting, Profit and Capital budgeting in business.

Unit I: Nature and Scope of Business Economics – Introduction • Meaning • Definitions • Nature and Scope of Business Economics • Objectives of the Business Firms • Characteristics and Classification of Consumer Wants.

Unit II: Demand Analysis – Meaning • Definitions • Demand Functions • Law of Demand and Supply • Factors Determining Demand • Extension and Contraction in Demand • Increase and Decrease in Demand • Elasticity of Demand: Meaning, Types, Importance • Demand Forecasting – Importance • Methods of Demand Forecasting.

Unit III: Pricing Methods – Peak Load Pricing • Pricing over the Life • Cycle of a Product • Pioneer Pricing • Skimming Pricing, Surge Pricing, Penetration Price • Multi-product Pricing • Transfer Pricing • Product Line Pricing • Dual Pricing Concept.

Unit IV: Profits – Accounting and Economic Profits • Measurement • Profit Policy • Profit Planning and Forecasting • Break-Even Analysis • Cost Output Relationship • Safety Margin.

Unit V: Capital Budgeting – Cost of Capital • Capital Budgeting • Methods of Appraising a Project, Profitability.

MANGALORE UNIVERSITY

Semester-I Course Title: OEC 1.5,

Business Economics (OEC)

Course Outcomes (OCs): At the end of the course the student shall have:

1. Acquired the concepts, tools and techniques of economics in analysing and interpreting the business decisions.
2. Developed the insight of the functioning of the economy

I. Introduction to Business Economics

Chapter 1: Nature and Scope of Business Economics – Nature of Business Economics • Meaning and Definitions • Subject Matter of Business Economics • Significance of Business Economics.

Chapter 2: Economic Laws and Business Environment – Nature of Economic Laws • Factors Determining Business • Business Objectives.

Chapter 3: Demand and Supply Analysis – Law of Diminishing Marginal Utility • Law of Demand • Determinants of Demand • Price Elasticity of Demand • Law of Supply • Elasticity of Supply.

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