

Class - B.Com 1.

Subject: Business Economics  
and Environment

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Topic : Scope of Business Economics.

Lecture

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# Scope of Business Economics

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Date \_\_\_\_\_  
Page \_\_\_\_\_

Economists use different economic theories to solve various economic problems in society. Its applicability is very fast. All those economics concepts, theories and tools of analysis which can be used to analyse business environments and to find out solution to practical business problems. Hence, the scope of Business economics is wide. There are different economic theories applicable to solve the practical problems.

Microeconomics help with internal or operational issues whereas Macro-economics are applied to external or environmental issues.

## 1. Micro economics Applied to Operational Issues:

Internal / operational issues that arise within a firm and are within the control of the management. It is Micro-economics help with the firm solve the firm problems like choice of business, size business, product design, pricing, promotion for sales, technology choice etc.

### (1) Analyzing Demand and Forecasting

Demand analysis helps management in identifying the various factors that influence the demand for the products of firm. It is all about understanding buyer behaviour.



It studies the preference of consumers along with the effects of changes in the determinants of demand. The chief topics covered under demand analysis are :- Demand Determinants, Law of demand, Elasticity of Demand, Demand Forecasting, Demand Differentials.

**Spencer and Siegelman** defines a business firm as an economic organisation which transforms productive resources into consumable goods which are meant for sale in the market.

### 2) Production and Cost Analysis :

Production analysis, the firm can choose the appropriate technology offering a technically efficient way of producing the output.

Cost analysis helps in determining the size of firm, the size of firm, the volume of output and factor proportions. A study of economic costs is economic costs include not only explicit costs but also implicit cost.

Chief topics covered under cost and production analysis are: Cost-Constituents, Cost output Relationship, Production Function.

### 3) Market structure and Pricing Policies :

For any firm it needs to find about the nature and the extent of competition in the market. A thorough analysis of the market structure provide this information, firm command a certain ability to determine prices in the market. These information help firm create strategies for market management under competitive situation.



Price theory helps the firm in understanding how prices are determined under different kinds of market conditions.

#### (4) Profit Analysis

Profit depends on many factors. Profitability analysis is an "Analysis of cost and revenue of the firm which determines whether or not the firm is Profitable". Profitability of an analysis can anticipate sales and profit potential specific to aspects of the market such as customer age group, geographic region.

#### (5) Theory of Capital and Investment Decisions:

Capital investment decisions also can be called 'capital budgeting' in financial terms. Capital investment decisions aim include allotting the capital investment funds of the firm in the most effective manner to make sure that the returns are the best possible returns.

#### (6) Profit Management:

Success of a firm depends on its primary measure and that is profit. Firms are operated to earn long term profit which is generally the reward for risk taking. Appropriate planning and measuring profit is the most important and challenging area of managerial economics.