

Course: BBA Part I
Paper: IV
Topic: Scope of Business Economics
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Scope of Business Economics

What Is Business Economics?

Business economics is a field of applied economics that studies the financial, organizational, market-related, and environmental issues faced by corporations. Economic theory and quantitative methods form the basis of assessments on factors affecting corporations such as business organization, management, expansion, and strategy. Studies might include how and why corporations expand, the impact of entrepreneurs, the interactions among corporations, and the role of governments in regulation.

The Scope of Business Economics

I. Microeconomics Applied to Operational Issues

As the name suggests, internal or operational issues are issues that arise within a firm and are within the control of the management. It is within the scope of business economics to analyze this.

Further, a few examples of such issues are choice of business, size of business, product designs, pricing, promotion for sales, technology choice, etc. Most firms can deal with these using the following microeconomics theories:

1. Analyzing Demand and Forecasting

Analyzing demand is all about understanding buyer behavior. It studies the preferences of consumers along with the effects of changes in the determinants of demand. Also, these determinants include the price of the good, consumer's income, tastes/ preferences, etc.

Forecasting demand is a technique used to predict the future demand for a good and/or service. Further, this prediction is based on the past behavior of factors which affect the demand. This is important for firms as accurate predictions help them produce the required quantities of goods at the right time.

Further, it gives them enough time to arrange various factors of production in advance like raw materials, labor, equipment, etc. Business Economics offers scientific tools which assist in forecasting demand.

2. Production and Cost Analysis

A business economist has the following responsibilities with regards to the production:

- Decide on the optimum size of output based on the objectives of the firm.
- Also, ensure that the firm does not incur any undue costs.

By production analysis, the firm can choose the appropriate technology offering a technically efficient way of producing the output. *Cost* analysis, on the other hand, enables the firm to identify the behavior of costs when factors like output, time period, and the size of plant change. Further, by using both these analyses, a firm can maximize profits by producing optimum output at the least possible cost.

3. Inventory Management

Firms can use certain rules to reduce costs associated with maintaining inventory in the form of raw materials, work in progress, and finished goods. Further, it is important to understand that the inventory policies affect the profitability of a firm. Hence, economists use methods like the ABC analysis and mathematical models to help the firm in maintaining an optimum stock of inventories.

4. Market Structure and Pricing Policies

Any firm needs to know about the nature and extent of competition in the market. A thorough analysis of the market structure provides this information. Further, with the help of this, firms command a certain ability to determine prices in the market. Also, this information helps firms create strategies for market management under the given competitive conditions.

Price theory, on the other hand, helps the firm in understanding how prices are determined under different kinds of market conditions. Also, it assists the firm in creating pricing policies.

5. Resource Allocation

Business Economics uses advanced tools like linear programming to create the best course of action for an optimal utilization of available resources.

6. Theory of Capital and Investment Decisions

Among other decisions, a firm must carefully evaluate its investment decisions and allocate its capital sensibly. Various theories pertaining to capital and investments offer scientific criteria for choosing investment projects. Further, these theories also help the firm in assessing the efficiency of capital. Business Economics assists the decision-making process when the firm needs to decide between competing uses of funds.

7. Profit Analysis

Profits depend on many factors like changing prices, market conditions, etc. The profit theories help firms in measuring and managing profits under such uncertain conditions. Further, they also help in planning future profits.

8. Risk and Uncertainty Analysis

Most businesses operate under a certain amount of risk and uncertainty. Also, analyzing these risks and uncertainties can help firms in making efficient decisions and formulating plans.

II. Macroeconomics applied to Environmental Issues

External or environmental factors have a measurable impact on the performance of a business. The major macroeconomic factors are:

- Type of economic system
- Stage of the business cycle
- General trends in national income, employment, prices, saving, and investment.
- Government's economic policies
- Performance of the financial sector and capital market
- Socio-economic organizations
- Social and political environment.

The management of a firm has no control over these factors. Therefore, it is important that the firm fine-tunes its policies to minimize the adverse effects of these factors.