

**OPERATIONAL LEVEL-1**
**O2 - BUSINESS ECONOMICS**
**INTRODUCTION**

This course is designed to focus on fundamentals concepts of economic and to develop understanding and skills of the students in order to enable them to identify and correlate various economic issues, to cost and management accounting for taking managerial decisions.

**OBJECTIVE**

This course enables the students to:

- Identify how a market economy functions,
- Develop an understanding of the economic environment, under which business operates,
- Develop the economic analysis for the guidance and information of decision-makers, and
- Identify the economic factors, influencing the behaviour and performance of firms and industries.

**LEARNING OUTCOMES**

Upon completion of this course, students will be able to:

- Understand short run and long run cost behaviour
- Realize the impact of long run costs on industry structure;
- Elucidate Supply and Demand Curve along with the formation of Equilibrium price;

- Prepare price stabilisation policy considering the reasons for price instability in markets for primary goods;
- Comprehend implications of price instability for producer Incomes and supply;
- Demonstrate profit maximisation by graphical and numerical approaches;
- Get acquainted with the influence of globalisation on cost and market behaviour
- Understand measures of markets competition and concentration;
- Explicate the effects of monopoly and collusive practices;
- Elucidate the nature of externalities and the government measures to deal with it;
- Realize the roles of commercial and central banks specially in the context of its influence on financial markets and global banking crises;
- Understand foreign exchange markets, factors influencing exchange rates and government policies on it;
- Know about the government macroeconomics policy goals;
- Comprehend the causes of imbalance in the balance of payment;
- Ascertain the role of global financial institutions;
- Comprehend the nature and causes of globalization along with its impact

**INDICATIVE GRID**

PART	SYLLABUS CONTENT AREA	WEIGHTAGE
A	1. Nature and Scope of Economics 2. Consumer's Behavior and Its Analysis 3. Organization 4. Return to Shareholders 5. Demand & Supply Analysis 6. Price Elasticity 7. Price Instability and Government Measures 8. Cost Behavior 9. Profit Maximization 10. Competition, Market Effects and Government Measures	60%
B	11. Functions of the Financial System 12. Domestic Institutions and Markets 13. Foreign Exchange Markets 14. Macroeconomic: Trade Cycle 15. Macroeconomic: The Role of Government 16. International Context	40%
<b>TOTAL</b>		<b>100%</b>

**Note:** The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

**DETAILED CONTENTS**
**PART - A**
**1. Nature and Scope of Economics**

- Definition of Economics
- Allocation of scarce resources and wants,
- Micro VS Macro
- Terminology of Economics; land, labor, capital and enterprise
- Basic economics school of thoughts, Classical, new classical and modern school of thought
- Major economics system of the world capitalism, socialism and Islamic

- Concept of Opportunity Cost and Production Possibility Curve.

**2. Consumer's Behavior and Its Analysis**

- Utility and its kinds
- Law of Diminishing Marginal Utility
- Consumer's equilibrium through Indifference Curves Techniques
- Income Effect, Price Effect and Substitution Effect
- Consumer's surplus.

**3. Organization**

- Form of Organization:
  - Define Organization

- Need of Organization
- Private and public sector organization
- Types of Not-for-Profit Organization:
  - Define Profit seeking Organizations, not-for-profit organizations,
  - Distinguish the goals of profit seeking organizations and not-for-profit organisations
  - Internal and external Stakeholders Role in setting Organization Goals
- Goal comparison between Managers and Shareholders
- Define Principle agent and Issues related to Principle Agent

#### 4. Return to Shareholders

- Return on Short Run Measures
- Return on Long Run Measures
- Risk and Return- the required rate
- Impact of Financial Performance on Share Prices

#### 5. Demand & Supply Analysis

- Definition of Market
- Concept and law of Demand Curve
- Concept and law of Supply Curve
- Formation of Equilibrium price
- Short Run and Long Run Equilibrium Price

#### 6. Price Elasticity

- Calculation of Price Elasticity of Demand
- Impact of Price Elasticity of Demand
- Influences on Price Elasticity of Demand
- Calculation of Price Elasticity of Supply
- Influences on Price Elasticity of Supply

#### 7. Price Instability and Government Measures

- Reasons for Price Instability in Markets for Primary Goods
- Implications of Price Instability for Producer Incomes and Supply
- Price Stabilization Policies
- Minimum and Maximum Pricing Policies in Good Markets
- Minimum and Maximum Pricing Policies in Factor Markets

#### 8. Cost Behavior

- Types of Cost
- Short Run Cost Behaviour
- Long Run Cost Behaviour
- Impact of Long Run Costs on Industry Structure
- Isocost and isoquant concepts

#### 9. Profit Maximization

- Cost Volume Profit Analysis
- Profit Maximization- Graphical Approach
- Profit Maximization- Numerical Approach
- Influence of e-business on Cost and Market Behavior:
  - Effects on organizations due to e-business
  - Impact of e-business on transaction costs and pricing decisions
- Influence of Globalization on Cost and Market Behavior

- Emerging Market opportunities due to globalization
- Impacts of globalization (eg industrial relocation, emergence of growth markets, enhanced competition, cross-national business alliances and mergers, widening economic divisions between countries)

#### 10. Competition, Market Effects and Government Measures

- Methods of Business Integration
- Measures of Market Competition and Concentration
- Effects of Monopoly and Collusive Practices
- Competition Policy
- Nature of Externalities
- Government Measures to deal with Externalities

#### PART - B

#### 11. Functions of the Financial System

- Finance for Consumers
- Finance for Firms
- Finance for Government
- Role and Functions of Financial Intermediaries

#### 12. Domestic Institutions and Markets

- Commercial Banks and Credit Creation
- Yield on Financial Instruments
- Role of Central Banks
- Influence of Central Bank over Financial Markets
- Global Banking Crises-Basic Concept only

#### 13. Foreign Exchange Markets

- About Foreign Exchange Markets
- Factors Influencing Exchange Rates
- Government Policies on Exchange Rates

#### 14. Macroeconomic: Trade Cycle

- Factors affecting National Income
- Circular Flow of Income
- Stages in the Trade Cycle
- Impact of the Trade Cycle on Business Environment
- Multiplier effect

#### 15. Macroeconomic: The Role of Government

- Government Macroeconomic Policy Goals
- Elements of Public Finance
- Unemployment
- Inflation
- Fiscal Policy
- Monetary Policy
- Supply side Policies

#### 16. International Context

- About Balance of Payment
- Causes of imbalance in the balance of Payment
- Policies to eliminate current account deficits
- Terms of Trade
- Role of Global Financial Institutions
- Nature and Causes of Globalization
- Trade Agreements and Trade Blocks
- Impacts of Globalization

#### Recommended Books:

Core Readings		
TITLE	AUTHOR	PUBLISHER
Economics	Campbell R. McConnell / Stanley L. Brue	McGraw-Hill
Economics	Paul A. Samuelson and William D. Nordhaus	McGraw-Hill