Principles Of Business Decision

MODULE 1-INTRODUCTION

BY M.M DOMINIC(COURSE TEACHER)

DEFENITION

- Economics is a science that deals with human wants and their satisfaction.
- The word economics has been derived from OIKONOMIO Which means house hold management.
- Economics is a subject that studies about the problem arising out of unlimited wants and scarcity of resources which satisfies these wants

DEFENITIONS

- Wealth definition

Adam smith-Father of economics- book An Enquiry into the nature and causes of wealth of nations

Economics is regarded as a science which studies the production and consumption of wealth of nation.

- Welfare definition

Alfred marchal- book Principle of economics

Economics is a study of mankind in the ordinary Business of life. It examines that part of individual and social action which is most closely connected with the attainment and use of material requisite of well being

- Scarcity definition

Professor Lionel robins – Economics is a science which studies human behavior as a relation between ends and scarce which have alternative uses.

BRANCHES OF ECONOMICS

- The study of economics is broadly divided into 2- Micro economics and macro economics

MICRO ECONOMICS

- The term has been derived from the Greek word mikros which means small
- Study of behaviour of individual economic unit
- Study of individual consumption, a firm, industry income,

MACRO ECONOMICS

- The term has been derived from the Greek word makros which means large
- It deals with economy as a whole
- Aggregate supply, Aggregate demand etc

MANAGERIAL ECONOMICS

- Application of economic theories and methods to solve business problems, taking decision is called managerial economics

According to Edwin Mansfield Managerial Economics is concerned with application of economic concepts and economic analysis to the problems of formulating rational managerial decision.

Difference between Economics and Managerial economics

ECONOMICS	MANAGERIAL ECONOMICS
Gives economic principles and theories	Application of theories to the problems of the firm
Both micro and macro in character	It is micro in character
Deals with theoretical aspects	Deals with practical aspect
Deals with firms and individuals	It deals only with the firm
Builds up economic models	They adopt economic models to suit the specific condition and serve the problem solving process

SIGNIFICANCE OF BUSINESS ECONOMICS

1. SIGNIFICANCE TO BUSINESS FIRM

- It provides economic concepts
- It helps to build analytical model
- It helps in forecasting
- It helps in understanding external forces
- It helps in answering business questions

2.Significance to consumers

Measure total utility and marginal utility obtained from consumption of various products

Decision making

Decision making is the selection based on some criteria from two or more possible alternatives

Steps in decision making

1. Problem identification
2. Problem diagnosis
3. Discovering alternatives
4. Evaluating alternatives
5. Selecting the best alternatives
6. Implementation

7 Follow up

ELEMENTS OF DECISION MAKING:

- Objectives of the dedision
- Alternatives
- Outcome
- Criteria
- The decision environment

- Limiting factor

Types of business decision

1. Spontaneous and Rational decision

2. Programmed and non programmed decision

3. Individual and group decision

4. Short run and long run decision

PRINCIPLES OF BUSINESS ECONOMICS

1. Opportunity cost concept

Cost of next best alternative . Opportunity cost of decision is the sacrifice of alternatives required by that decision

2.Incremental concept

2aspects- incremental cost and incremental revenue

3. time value of money(Discounting principle)

The value of money received today is more than the value of money received tomorrow

4.Equi marginal principle

An input should be allocated between various uses that the value added by the last unit is the same in all cases

5. Concept of time perspective

Short run and long run on the basis of time . Short run is a period not sufficient to change the factors of production. Long run is a period sufficient to change the factors of production

Application of economic theories in decision making

1.Demand theory

Demand theory helps a business firm to understand the change in consumer behavior when the price of commodity , consumer income , taste and fashion change .

2.Production theory

Production theory helps the business firm to understand how much output can be produced from a given combination of input.

3.cost theory

This theory helps a decision maker to study the cost output relation in short run and long run

4. theory of price

Provides a basic understanding of market condition like perfect competition , monopoly, monopolistic and oligopoly.one can also determine the equilibrium price and output level

5. profit theory

A firm can manage and measure its profit and can also plan for its future profit

6.theory of capital

Helps a decision maker to choose the most profitable investment opportunity.

7. Theory of business cycle

Take business decision in different phases of business cycle.