CONTENTS

BUSINESS ECONOMICS

Preface

		2001 (200 2001 (0.11200
[.	Introd	DUCTION 3
	1.1	Introduction 3
	1.2	Definition of Economics 4
	1.3	Subject Matter of Economics 4
	1.4	Different Economic Systems4
	1.5	Central Problems of an Economic System 5
	1.6	Price Mechanism 7
	1.7	How does Price Solve Control Problems of an Economy 8
		Short Questions 10
	,	Descriptive Questions11
٤.	Basics	of Demand and Supply 12
	2.1	What is market? 12
	2.2	The Demand Side of the Market13
	2.2.2	Determinants of Demand 13

2.2.3 The Law of Demand ------ 15
2.2.4 Demand Function ----- 15

• Business Economics and Business Environment

2.2.5 Demand Schedule of an Individual	
2.2.6 Demand Curve of an Individual	17
2.2.7 Why is Demand Curve of an Individual Negatively Sloped?	17
2.2.8 Exceptions to Law of Demand	19
2.2.9 Change in Quantity Demanded and Change in Demand	20
2 2 10 Concept of Market Demand	21
2 2 11 Market Demand Schedule	22
2.2.12 Market Demand Curve	22
2.2.13 Derivation of Market Demand Curve from	
Individual Demand Curves	- 22
2.3. The Supply Side of the Market	. 23
2.3.1. Concept of Supply of a Firm or Supplier	- 23
2.3.2 Determinants of Supply of a Firm	- 24
2.2.2. The Law of Supply	- 25
2.3.4 Supply Function	- 25
2.3.5 Supply Schedule of a Firm	- 26
2.3.6 Supply Curve of Firm	26
2.3.7 Why is Supply Curve Positively Sloped?	27
2.3.8 Change in Quantity Supplied and Change in Supply	28
2.3.9 Concept of Market Supply	29
2.3.10 Market Supply Schedule	
2.3.11 Market Supply Curve	30
2.3.12 Derivation of Market Supply Curve from Firms'	_ :
Supply Curves	
2.4 Equilibrium in the Market	
2.4.1 Meaning of Equilibrium	
2.4.2 Market Equilibrium	31
2.4.3 Effects of Shifts in the Demand Curve on Market Equilibrium	32
2.4.4 Effects of Shifts in the Supply Curve on Market Equilibrium	33
2.5.1 Definition	
2.5.2 Price Elasticity of Demand	
2.5.3 Different Values of e and the second 4.5.5	
P	-

2.5.4	Arc and Point Elasticity of Demand	3´
2.5.5	Measuring Arc Elasticity of Demand	37
2.5.6	Measuring Point Elasticity of Demand	37
2.5.7	Income Elasticity of Demand	39
2.5.8	Income Elasticity and Nature of the Commodity	39
2.5.9	Cross Price Elasticity of Demand	4(
	Revenue	
2.6.1	Concept of Revenue	41
2.6.2	Total Revenue	4]
2.6.4	Marginal Revenue	44
2.6.5		
	Price Elasticity	
	Short Questions	
	Descriptive Questions	49
Consu	mer Optimisation	50
3.1	Satisfaction and Utility	5(
3.2	Indifference Curve	51
3.2.1	What is an Indifference Curve?	52
3.2.2	Indifference Map	53
3.2.3	Characteristics of Indifference Curve	53
3.3.1	Budget Line or Consumption Possibility Frontier	56
3.3.2	Shift of the Budget Line	59
3.4	Consumer's Equilibrium	59
3.4.1	To maximise U when E is given	60
3.4.2	To Minimise E when U is given	63
3.5	Income Consumption Curve (ICC)	64
3.6.1	Price Consumption Curve (PCC)	66
3.6.2	Different Shapes of Price Consumption Curve	68
	Explanation to the Law of Demand	
3.7.1	Price Effect	
3.7.2	Substitution Effect	70
373	Income Effect (of a Price Change)	70

3.

6.	Market Structures and Optimisation of	- (
	FIRM AND INDUSTRY	26
	6(A) PERFECT COMPETITION	
	6 (A) 1. Perfectly Competitive Market	127
	6 (A) 2. Determination of Price	128
	6(A) 2.1 Market Demand	128
	6 (A) 2.2 Market Supply	129
	6 (A) 2.3. Equilibrium Price	129
	6 (A) 3.1 Revenue of a Firm	130
	6 (A)3.2 Average Revenue (AR)	130
	6 (A) 3.3 Marginal Revenue (MR)	131
	6 (A) 3.4 Relationship among MR, AR, e _n (Coefficient	
	of Price Elasticity of Demand)	131
	6 (A) 4 Short Run Equilibrium	131
	6 (A) 4.1 Profit Maximisation	
	6 (A) 4.2 Non-Shut-Down Condition	
	6 (A) 4.3 Short Run Equilibrium Under Perfect Competition	
	6 (A) 5. Shut-Down Point of a Perfectly Competitive Firm	- 135
	6 (A).6. Supply Curve of a Firm Operating Under Perfect Competition	135
	6 (A) 6.1 Supply Curve of Industry or Market	
	6 (A) 7 Long Run Equilibrium of a Perfectly Competitive Firm	
	6 (A) 8 Long Run Industry Supply Curve	
	6 (A) 8.1 Increasing Cost Industry	
	6 (A) 8.2 Decreasing Cost Industry	
	6 (A) 8.3 Constant Cost Industry	
	Questions Sec. 'A'	
	Descriptive Questions	141
	6 (B) MONOPOLY	
	6(B) 1. What is a Monopoly Market?	142
	6(B) 2. Short Run Equilibrium	

6(B) 2.1 Revenue	- 143
6(B) 2.2 Cost Curves	- 145
6(B) 2.3. Equilibrium Situation	- 145
6(B) 3. Shut-Down Point of a Monopolist	- 145
6(B) 4. Supply Curve of a Monopolist	- 146
6(B) 5. Monopolist does not Produce at an Inelastic Range of her Demand Curve	- 147
6(B) 6. Monopoly Price and Quantity Vs. Perfectly Competitive Price and Quantity	- 147
6(B) 7. Long Run Equilibrium of a Monopolist	
6(B) 8. Price Discrimination	- 148
6(B) 8.1 Different Type of Price Discrimination	- 149
6(B) 8.2 When is Price Discrimination Profitable?	- 149
6(B) 8.3 Equilibrium of a Discriminating Monopolist	- 150
6(B) 8.4 Monopoly Power	- 151
Short Questions	
Descriptive Questions	- 153
6(C) MONOPOLISTIC COMPETITION	
6(C) 1. Product Differentiation	- 154
6(C) 2. Selling Cost	154
6(C) 2.1 Optimal Selling Costs	155
6(C) 3. Equilibrium of a Firm under Monopolistic Competition	
6(C) 4. Long Run Equilibrium	157
Short Questions	
Descriptive Questions	- 158
6(D) OLIGOPOLY	
6(D) 1. Characteristic Features of Oligopoly	- 159
6(D) 2. Sweezy's Kinked Demand Curve Model	- 159
6(D) 3. Cournot Model	
Short Questions	- 164
Descriptive Question	- 164

XVI • Business Economics and Business Environment

7. Factor Pricing	165
7.1 Marginal Productivity Theory	166
7.1 Marginal Productivity 1 neory (MPP)	166
7.1.1 Marginal Physical Productivity of Labour (MPP ₁)	- 166
7.1.2 Value of Marginal Product of Labour (VMP ₁)	- 166
7.1.3 Marginal Revenue Product (MRP _L)	- 167
7.1.4 Average Physical Productivity (APP)	- 167
7.1.5 Average Revenue Product (ARP ₁)	- 168
7.1.6 Assumptions of Marginal Productivity Theory	169
7.1.7 Marginal Productivity Theory	160
7.1.8 Criticisms of Marginal Productivity Theory	107
7.1.9 Marginal Productivity Theory when there exists Imperfect Competition in the Product Market	171
7.1.10 Marginal Productivity Theory Under Imperfect	171
Competitions in Both the Markets	[/]
Short Questions	1/2
Descriptive Questions	1/2
7(A) WAGE DETERMINATION	
7(A) 1. Wage Determination in a Perfectly Competitive	
Labour Market	
7(A) 1.1 Supply Curve of Labour	173
7(A) 1.2 Demand Curve for Labour	
7(A) 1.3 Determination of Equilibrium Wage Rate	175
7(A) 1.4 Determination of Equilibrium Wage in an Imperfectly	
Competitive Labour Market	
7(A) 2. Exploitation of Labour	
7(A) 3. Collective Bargaining and Wage Determination	
7(A) 4. Limits to Bargaining Power of Trade Union	178
Short Questions	
Descriptive Questions	179
en en en grotte kraj en en jo	
7(B) RENT Republication (Contraction of the Contraction of the Contrac	
7(B) 1. Ricardian Theory of Rent	179
7(B) 1.2 Scarcity Rent	190

7(B) 1.3 Differential Rent	180
7(B) 1.4 Criticism of Ricardian Theory	182
7(B) 2. Modern Theory of Rent	182
7(B) 3. Rent and Price	184
7(B) 4. Quasi-Rent	185
7(B)5. Element of Rent in Other Factors of Production	186
Short Questions	186
Descriptive Questions	187
7(C) INTEREST	
7(C) 1. Gross Interest and Net Interest	187
7(C) 2. Reasons for Different Rates of Interest	187
7(C) 3. Theories of Interest	188
7(C) 3.1 Abstinence Theory or Waiting Theory	
7(C) 3.2 Time Preference Theory	188
7(C) 3.3 Marginal Productivity Theory of Interest	189
7(C) 3.4 Classical Theory of Interest: Demand-Supply Theory	189
7(C) 3.5 Criticisms	190
7(C) 3.6 Neoclassical Theory: Loanable Fund Theory	190
7(C) 3.7 Criticisms of the Loanable Fund Theory	
7(C) 3.8 Liquidity Preference Theory	192
7(C) 3.9 Criticisms of Liquidity Preference Theory	196
7(C) 4. Justification of Interest	196
7(C) 5. Can Interest Rate be Zero?	
Short Questions	197
Descriptive Questions	197
7(D) PROFIT	
7(D) 1. Components of Profit	199
7(D) 2. Theories of Profit	
7(D) 2.1 Dynamic Theory	200
Criticisms	200
7(D) 2.2 Risk-hearing Theory	201

XX . Business Economics and Business Environment

6.	Intern	ational Environment284
	6.1	An Overview of International Trading Environment 284
	6.2	Trends in World Trade and the Problems of Developing Countries285
	6.3	Foreign Trade and Economic Growth 286
	6.4	International Economic Institutions 287
	6.5	General Agreement on Tariffs and Trade (GATT)288
	6.6	World Trade Organisation 289
	6.7	WTO Agreements292
	6.8	Developing Countries and WTO294
	6.9	International Monetary Fund (IMF)294
	6.10	World Bank 296
		Short Answer Type Questions299
		Long Answer Type Questions299