



**Subject Name: Business Economics and Financial Analysis**

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**Year and Sem, Department: B tech (CSE)**

**Unit-I: (Title) Introduction to Business and Economics**

**Important points / Definitions: (Minimum 15 to 20 points covering complete topics in that unit)**

1. The term **business** also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit.
2. The branch of knowledge concerned with the production, consumption, and transfer of wealth is called as economics
3. **Features:**
  - a. Deals with Goods and services
  - b. Profit is the main motive
  - c. Exchange of goods and services
  - d. Numerous transactions
  - e. Customer satisfaction

### **Structure of Business firm**

#### **Theory of firm**

A **firm** is an organization which sells or produces something or which provides a service..

The **theory** of the **firm** is the microeconomic concept founded in neoclassical economics that states that a **firm** exists and make decisions to maximize profits. The **theory** holds that the overall nature of companies is to maximize profits meaning to create as much of a gap between revenue and cost

- a. Profit Maximization
- b. Production
- c. Productive efficiency
- d. Revenue maximization
- e. Market structure
- f. Short run
- g. Long run

#### **Types of business Entities**

To get the most out of your business, choose the right structure. Selecting the right type of company for your new business helps maximize your chances of financial and operational success.

- a. Sole proprietorship
- b. Partnership
- c. Limited partnership
- d. Limited liability
- e. Joint stock company
- f. Cooperation



## Limited liability company

It is a private company whose owners are legally responsible for its debts only to the extent of the amount of capital they invested.

It is a type of business structure that combines traits of both a sole-proprietorship and a corporation. ...

## Advantages of LLC

- i. **Fewer corporate formalities.** Corporations must hold regular meetings of the board of directors and shareholders, keep written corporate minutes and file annual reports with the state.
- ii. **No ownership restrictions.** S-corporations cannot have more than 100 stockholders, and each stockholder must be a natural person
- iii. **Ability to use the cash method of accounting.** Unlike a C-corporation, which often must use the accrual method of accounting, most limited liability companies can use the cash method of accounting. This means that income is not earned until it is received.
- iv. **Ability to place membership interests in a living trust.** Members of an LLC are free to place their membership interests in a living trust. It is difficult to place shares of an S-corporation into a living trust.

## Disadvantages of LLC

- I. Profits subject to social security and medicare taxes.
- II. Owners must immediately recognize profits
- III. Fewer fringe benefits.

## Sources of Capital for a company

- a. Debt
- b. Equity
- c. Trade Credit
- d. Internally Generated fund

## Non conventional sources of fund

### Significance of Economics

- a. Study of Economics helps to conquer poverty
- b. Economics teaches the knowledge of economic systems
- c. Economics teaches modern methods of production
- d. Study of Economics helps in proper budgeting
- e. Study of Economics helps to increase national wealth
- f. Study of Economics helps to formulate budget

## Micro and Macro Economics Concepts

**Microeconomics is a branch of economics that studies the behavior of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms.**

**Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation.**

## Concept and Importance of National Income

National Income is total amount of goods and services produced within the nation during the given period say, 1 year. It is the total of factor income i.e. wages, interest, rent,



profit, received by factors of production i.e. labour, capital, land and entrepreneurship of a nation.

- $GDP = (P \times Q)$
- Where,
- GDP = gross domestic product.
- P = Price of goods and services.
- Q = Quantity of goods and services.
- $GDP = C + I + G + (X - M)$  Where, C=Consumption. I=Investment. G=Government expenditure. (X - M) =Export minus import.
- $GNP = GDP + NFIA$  or,

**National income** statistics enable us to have a correct idea about the structure of the economy. It enables us to know the relative **importance** of the various sectors of the economy and their contribution towards **national income**.

- Economic policy:
- Economy's structure:
- Economic planning:
- Inflationary and deflationary gaps:
- National expenditure:

### **Inflation**

In economics, **inflation** is a sustained increase in the general price level of goods and services in an economy over a period of time

### **TYPES**

- Demand pull inflation
- Cost push
- Stagflation
- Deflation

### **Money Supply In Inflation**

- The link between Money Supply and Inflation. ... Increasing the money supply faster than the growth in real output will cause inflation.  
There are three measures of money supply M1, M2, and M3. M1 includes all currency in circulation, traveler's checks, demand deposits at commercial banks held by the public, and other checkable deposits.

### **Business Cycle**

The **business cycle**, also known as the economic **cycle** or trade **cycle**, is the downward and upward movement of gross domestic product (GDP) around its long-term growth trend. The length of a **business cycle** is the period of time containing a single boom and contraction in sequence

### **Features Of Business Cycle**

- Occur Periodically
- All Sectors are Affected
- They are Synchronic
- Complex Phenomenon
- International in Character
- Affect all Departments



## Phases of Business cycle

- Expansion.
- Peak.
- Contraction, recession, or depression.
- Trough.

## Nature and Scope of business Economics

- a. It is based on Micro Economics
- b. Business Economics is a Science
- c. It is an Art
- d. Incorporates Elements of Macro Analysis
- e. Use of Theory of Markets and Private Enterprises
- f. Pragmatic in Approach
- g. Interdisciplinary
- h. Normative

### Scope

- a. Analyzing Demand and Forecasting
- b. Inventory Management
- c. Production and Cost Analysis
- d. Market Structure and Pricing Policies
- e. Resource Allocation
- f. ProRisk and Uncertainty Analysis

## Role of Business Economist

The basic job of **business economist** is to identify various problems that are uplifting a company, find out various reasons behind these problems, analyze their effects on the functioning of the company and finally suggest rational alternative and corrective measures to be taken by the management.

- a. Study of the Business environment
- b. Business plan and forecasting
- c. Study of business operations
- d. Economic Intelligence
- e. Specific functions

## .Multidisciplinary nature of business economics

**Multidisciplinary economics** deliberately uses the insights and approaches of other disciplines and examines what consequences their contributions have for existing **economic** methods, theories and solutions to **economic** problems.

### Short Questions (minimum 10 previous JNTUH Questions – Year to be mentioned)

- 1) Theory of a firm (april 2018)



- 2) Micro and Macro economics(april 2018)
- 3) Business( Nov 2018)
- 4) National income(Nov 2018)
- 5) Non- conventional sources of Finance(may 2019)
- 6) Business cycle and its phases (may 2019)

**Long Questions (minimum 10 previous JNTUH Questions – Year to be mentioned)**

- 1) What is business cycle ? Discuss the phases of business cycle and list out the measures to be taken for protecting the interest of business ? (apr 2018)
- 2) What is “Joint Stock Company”? Discuss the sources of capital required by a Joint stock company (apr 2018)
- 3) What are the various sources of capital for a company? Explain(nov 2018)
- 4) Elucidate the significance of business economics(nov 2018)
- 5) Describe the various stages of business cycle.(nov 2018)
- 6) Narrate the nature of business economics (nov 2018)
- 7) Explain different sources of capital needed for a Joint Stock Company (may 2019)
- 8) Explain different kinds of Business Entities (may 2019)
- 9) Discuss the nature and scope of Business Economics. (may 2019)
- 10) Define the term „Inflation and explain its impact on the economics.(may 2019)

**Fill in the Blanks / Choose the Best: (Minimum 10 to 15 with Answers)**

**Fill in the Blanks**

- 1) The branch of knowledge concerned with the production, consumption, and transfer of wealth is called as **Economics**
- 2) A **business** is an organization which sells or produces something or which provides a service
- 3) **Limited Liability Company** is a type of business structure that combines traits of both a sole-proprietorship and a **corporation**.
- 4) The basic job of **firm** is to identify various problems that are uplifting a company.
- 5) The **business cycle**, also known as the **economic cycle** or **trade cycle**

**Choose the best**

- 1) Micro economics is also known as  
a)price theory b) process theory c) product theory d) projection theory.  
**(A)**
- 2) which branch of economics studies about unemployment, illiteracy, National income tax?  
a)Micro economics b) Wealth economics c) Macro economics d) fiscal  
**(C)**
- 3) Micro economics is also known as  
a)price theory b) process theory c) product theory d) projection theory.  
**(A)**
- 4) Economics is neutral between ends is said by  
a)Adam smith b) lionel robbins c) Alfred Marshall d) samuelson.  
**(B)**



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