

Business Economics

Course Title: Business Economics

Course No.: ECO 503

100 Nature of the Course: Core

Duration of the Course: 100 lecture hour

Duration of the Class: 60 minutes

Full Marks:

Pass Marks: 40

Course Objectives

This course aims to develop students' knowledge and skill in the tools and techniques of economic analysis applicable to managerial decision making and develop students' capacity to analyze the public policy environment in Nepal.

Course Description

This course is divided into two parts - Group A - Managerial Economics and Group B - Economic Policy Analysis, Managerial Economics course deals with introduction to managerial economics, theories of the firm, business and economic forecasting, production theory, pricing theories and practices and investment decision. Economic Policy Analysis course deals with the introduction to public policy analysis, role of government, macroeconomic concepts and policies, Nepalese economy, and public policies in Nepal.

Group "A" - Managerial Economics

Course Contents

Unit 1: Introduction to Managerial Economics LH 6

- a) Meaning, feature and scope of managerial economics.
- b) Survey of theories of the firm: Profit maximization; value maximization-, sales maximization-, theory of satisfying; Williamson's model of managerial discretion: Cyert and March's behavioral theory:
- c) Nature and functions of profit: business versus economic profit, functions of profit.

Unit 2: Business and Economic Forecasting LH 14

- a) Elasticity of demand: Computation of price, income, cross and advertising elasticity and their uses in managerial decision making;
- b) Concept and purpose of forecasting.
- c) Steps in demand forecasting.
- d) Forecasting techniques: survey techniques, market studies and experiment, time series analysis, regression analysis, barometric techniques, concept of input-output analysis.
- e) Limitations of forecasting

Unit 3: Production Theory LH 9

- a) Production function.
- b) Production with one variable input - optimal use of an input.
- c) Production with two variable inputs - optimal combination of inputs.
- d) Returns to scale.
- e) Economics of scope.

Unit 4: Pricing Theory and Practices LH 13

- a) Pricing under oligopoly: cartel I collusion arrangement, price leadership, kinked demand curve model.
- b) Strategic behavior and game theory: meaning and importance, payoff matrix, Nash equilibrium, prisoner's dilemma.
- c) Pricing practices: pricing under different objectives-, cost-plus pricing; incremental cost pricing; multiple product pricing; transfer pricing, peak-load pricing, and two-part tariff.

Unit 5: Investment Decision LH 8

- a) Meaning and factors influencing investment decisions.
- b) Risk Analysis: Risk and uncertainty in managerial decision making, measuring risk with probability distribution, utility theory and risk aversion.

Group "B" - Economic Policy Analysis

Unit 1: Introduction to Public Policy Analysis LH 4

- a) Meaning, characteristics and stages of public policy.
- b) Theory of public choice.
- c) Use of public policy in managerial decision making.

Unit 2: Role of Government in the Economy LH 9

- a) Regulatory and promotional roles: Rationale for regulation and role in promoting private business.
- b) Government response to market failure: Meaning, types and sources of market failure
- c) Regulatory response to structural failure:
 - (i) Public utility regulation,
 - (ii) Regulation of monopoly,
 - (iii) Antitrust policy
- d) Regulatory response to incentive failure;
 - (i) Patent System,
 - (ii) Subsidy,
 - (iii) Operating controls
 - (iv) Regulation of environmental pollution

Unit 3: Macroeconomic Concepts and Policies LH 13

- a) Keynesianism versus monetarism.
- b) Saving investment theory,
- c) Acc4ration theory.
- d) Super Multiplier.
- e) National income: concept, measurement and difficulties.
- f) Macroeconomic problems: Business cycle, Inflation (causes and effects).
- g) Macroeconomic policy: Policy goals and policy tools (Monetary policy, Fiscal policy, Incomes policy)

Unit 4: Nepalese Economy LH 14

- a) Overview of Nepalese economy.
- b) Economic Planning: Need of planning, Review of planning in Nepal. Appraisal of current plan.
- c) Economic liberalization and policy reforms.
- d) Privatization and entrepreneurial freedom.
- e) Globalization and its effects.
- f) Foreign capital: Role, defects and situation in Nepal.
- g) Government budget: components of budget, classification of expenditures of the government of Nepal, budgetary portion of the government of Nepal.

Unit 5: Public Policies in Nepal LH 10

- a) Industrial Policy
- b) Commercial policy
- c) Foreign investment policy
- d) Tourism policy
- e) Agricultural policy
- f) Environment policy
- g) Privatization policy
- h) Fiscal policy
- i) Monetary policy
- j) Employment policy

Basic References

Dunn, W.N. (1994). *Public Policy. Analysis: An introduction. N.J.*: Englewood Cliffs, Prentice Hall.

Peppas, J.L. and Hirschey, M. (1989). *Fundamentals of Managerial Economics*. New York: The Dryden Press. Salvatore, D. (1996). *Managerial Economics*. New York : McGraw Hill Inc.

Salvatore, D. (2004). Managerial Economics in a Global Economy. New York: Thomson Learning.

Shapiro, F. (1982), *Macroeconomic Analysis*. New York : Harcourt Brace Jovanovich, Inc. Supplementary Readings

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McCarthy, M.H. (2004) Managerial Economics with Applications. Illinois: Scott Foreman and Company.

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Petersen, H.C. and Lewis, W.C. (2008). **Managerial Economics.** New Delhi: Pearson Education Ltd. Inc.

Petersen, H.C. and Lewis, W.C. (1994). **Managerial Economics.** New York: Macmillan Publishing Company.

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