

BUSINESS ECONOMICS-I

Course No.: MGT 203

Nature of the Course: Compulsory

Course Objectives

This course of Business Economics-I aims to enhance understanding of the microeconomic theories and develop skills of students in using these theories in business decision making.

Course Description

This course of Business Economics-I consists of the introduction to microeconomics, theory of demand, supply and equilibrium price, elasticity of demand and supply, theory of consumers behavior, theory of production, cost and revenue curves, theory of product pricing and factor pricing.

Contents

Unit 1: Introduction

LH 5

- a) Concept of business (managerial) economics
- b) Relation of business economics with traditional economics
- c) Meaning, scope, use and limitations of microeconomics

Unit 2: Theory of Demand and Supply and Equilibrium Price

LH 20

- a) Demand function, determinants of demand, movement and shift in demand curve
- b) Supply function, determinants of supply, movement and shift in supply curve
- c) Market equilibrium
- d) Change in equilibrium due to shift in demand curve and supply curve

(Numerical exercise)

Unit 3: Elasticity of demand and supply

LH 20

- a) Concept and types of price, income and cross elasticity of demand
- b) Measurement of price, income and cross elasticity of demand: Total outlay, point and arc method
- c) Uses of price, income and cross elasticity
- d) Concept of elasticity of supply
- e) Measurement of elasticity of supply **(Numerical exercise)**

Unit 4: Theory of Consumer Behavior

LH 20

- Concept of cardinal and ordinal utility analysis
- Cardinal approach: Assumptions, consumer's equilibrium, criticisms and derivation of demand curve (cardinal approach)
- Ordinal approach: Indifference curve: Concept, properties, marginal rate of substitution, price line and consumer's equilibrium
- Price effect: Derivation of PCC
- Income effect: Derivation of ICC
- Substitution effect: Hicksian approach
- Decomposition of price effect into income and substitution effect: Hicksian approach
- Derivation of demand curve: (ordinal approach)

(Numerical exercise)

Unit 5: Theory of Production

LH 16

- Production function: Meaning, long run and short run production function and concept of Cobb- Douglas production function
- Concept of total product, average and marginal product
- Law of variable proportions
- Isoquant: Meaning and properties
- Marginal rate of technical substitution
- Iso-cost curve
- Optimal combination of inputs
- Laws of return to scale **(Numerical exercise)**

Unit 6: Cost and Revenue Curves

LH 17

- a) Concept of cost: Actual cost and opportunity cost, implicit cost and explicit cost, accounting and economic cost, historical cost and replacement cost, separable cost and common cost

- b) Derivation of short run cost curves
- c) Reason for the 'U' shape of short run average cost curve
- d) Derivation of long run cost curves
- e) Relationship between short run and long run AC and MC curve
- f) Shape of the long run average cost curve: Theoretical reason and empirical evidence
- g) Concept of economies of scale and economies of scope
- h) Concept of revenue: Total revenue, average revenue, and marginal revenue. Revenue curves under perfect and imperfect competition
- i) Relation between average and marginal revenue curves
- j) Relationship between price elasticity and marginal revenue and total revenue

(Numerical exercise)

Unit 7: Theory of Product Pricing

LH 30

- Perfect competition: Meaning and characteristic of perfect competition; Pricing under perfect competition: Equilibrium of firm and industry in short run and long run (TR-TC approach and MC-MR approach); Derivation of short run and long run supply curve of a firm and industry
- Monopoly: Meaning and characteristic of monopoly; Pricing under monopoly: Equilibrium of firm in short run and long run (TR-TC approach and MC-MR approach); Price discrimination: Degree of price discrimination and price and output determination under discrimination; Dumping
- Monopolistic competition: Meaning and characteristics of monopolistic competition; Pricing under monopolistic competition: equilibrium of firm in short run and long run; equilibrium of firm under product variation and selling expenses
- **Oligopoly**: Meaning and characteristic of oligopoly; Pricing under cartel (aiming at joint profit maximization)

(Numerical exercise)

Unit 8: Theory of Factor Pricing

LH 22

- a) Pricing of inputs in perfect competition and imperfect competition market
- b) Rent: Modern theory of rent
- c) Wages: Marginal productivity theory of wages, Concept of collective bargaining and minimum wages fixation,
- d) Interest: Loanable fund theory and Liquidity Preference Theory of interest
- e) Profit: Economic and Business Profit, Dynamic Theory and Innovation Theory of Profit

(Numerical exercise)

Basic Books

Salvatore, Dominic. (2009). *Principles of Microeconomics*. Publish in India Oxford University Press, New Delhi

Pindyck, Robert S. and Daniel, Rubinfeld. (2001). *Microeconomics*. New Delhi: Prentice Hall of India

Mankiw, N. Gregory. (2009). *Principles of Microeconomics*. Centage Learning India Private Limited, New Delhi (4th edition)

Gilespi, Andrew. (2010). *Business Economics*: Oxford University Press

Koutsoyianis, A. (1991). *Modern Microeconomics*. Hongkong: ELBS

Reference Books

Joshi, Shyam. (2012). *Business Economics*. Kathmandu: Taleju Prakashan

Dwivedi, D.N. (2001). *Microeconomic Theory and Application*. Tata McGraw-Hill Publishing Company Limited, New Delhi

Ahuja, H.L. (2004). *Advance Economic Theory*. New Delhi: S. Chand and Company

Gould, J.P. and E.P. Lazer. (2003). *Microeconomic Theory*. New Delhi: All India Travelers Book Sellers

Browning, E.K. and Browning, J.M. (2001). *Microeconomic Theory and Application*. New Delhi: Kalyani Publishers