



Calicut University



COURSE

BBA



SEMESTER

1



SUBJECT

BUSINESS ECONOMICS



MODULE

1



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1 Business Environment: Meaning, Nature, Importance

Meaning

Business environment refers to all the conditions and forces that influence how a business operates. These factors may come from inside or outside the organization and affect decisions, growth, profits, and survival.

Examples include government policies, competition, technology, customer preferences, and economic conditions.

Nature

The business environment is constantly changing. A business that succeeds today may struggle tomorrow if it cannot adapt to changes in the market.

Different factors in the environment are connected with each other. For example, a technological change can affect production, employment, customer behavior, and competition at the same time.

The environment is also uncertain because future market conditions cannot be predicted with complete accuracy.

Importance

Understanding the business environment helps firms identify opportunities and avoid risks.

It improves planning and decision making.

Businesses that study environmental changes are usually better prepared for competition and long term survival.

2 Business Economics: Meaning, Nature, Importance

Meaning

Business economics applies economic theories and principles to business decisions. It helps firms solve practical problems related to pricing, production, cost, demand, and profit.

It acts as a bridge between economic theory and business practice.

Nature

Business economics is practical and decision focused. It is not limited to theory alone.

It combines ideas from microeconomics and macroeconomics to study both individual firms and the overall economy.

It also uses tools from statistics, mathematics, and finance to support business analysis.

Importance

Business economics helps firms make rational and efficient decisions.

It supports demand forecasting, pricing decisions, cost control, and profit planning.

It also helps businesses understand broader economic conditions such as inflation, taxation, and government policies.

3. Business Organizations: Nature and Types of firms, Internal Organization of the firm Structure of Industry, Structure– Conduct–Performance Paradigm

Nature and Types of firms

A business firm is an organization that produces goods or services with the objective of earning profit.

Sole Proprietorship

A sole proprietorship is owned and managed by a single individual.

It is simple to start and allows quick decision making, but the owner carries unlimited liability.

Partnership

A partnership is formed when two or more persons jointly own and manage a business.

Profits, responsibilities, and risks are shared among partners.

Company

A company is a separate legal entity owned by shareholders.

It can raise large amounts of capital and usually has a more formal management structure.

Cooperative Society

A cooperative society is formed to serve the common interests of its members.

The main objective is service rather than maximum profit.

Internal Organization of the firm

Internal organization refers to how responsibilities and authority are arranged within a business. Most firms divide work into departments such as production, marketing, finance, and human resources.

A clear organizational structure improves coordination, efficiency, and communication.

Structure of Industry

Industry structure describes the nature of competition within a market.

Perfect Competition

A market with many buyers and sellers where products are identical.

No individual firm has control over price.

Monopoly

A market controlled by a single seller with no close substitutes.

The firm has significant pricing power.

Monopolistic Competition

A market with many firms selling similar but differentiated products.

Competition is based on quality, branding, and customer preference.

Oligopoly

A market dominated by a few large firms.

The actions of one firm directly affect the others.

Structure–Conduct–Performance Paradigm

This model explains how market structure influences the behavior of firms and overall market performance.

Structure

Refers to the number of firms, market share distribution, and barriers to entry.

Conduct

Refers to business behavior such as pricing policies, advertising, and competitive strategies.

Performance

Refers to outcomes like efficiency, profitability, innovation, and consumer welfare.

4 Economics and World of Business: Problem of Scarcity, Demand and Supply

Problem of Scarcity

Scarcity exists because human wants are unlimited while resources are limited.

Since resources cannot satisfy every want, individuals and businesses must make choices regarding production and consumption.

Scarcity creates fundamental economic problems such as what to produce, how to produce, and for whom to produce.

Demand

Demand refers to the quantity of a product consumers are willing and able to purchase at different prices during a given period.

In general, demand decreases when price increases.

Supply

Supply refers to the quantity of a product producers are willing and able to sell at different prices during a given period.

In general, supply increases when price increases.

Importance in Business

Businesses study demand and supply to estimate market conditions, set prices, and decide production levels.

5 Macroeconomic and Microeconomics Environment, Choices: Choice, Opportunity Cost, Rational Choice

Macroeconomic Environment

Macroeconomics studies the economy as a whole.

It includes concepts such as inflation, unemployment, national income, economic growth, and government policies.

Changes in the macroeconomic environment affect all businesses in the economy.

Microeconomics Environment

Microeconomics studies individual consumers, firms, and specific markets. It focuses on pricing, production, consumer behavior, and resource allocation.

Choice

Choice arises because resources are limited.

Individuals and firms must select between alternative uses of resources.

Opportunity Cost

Opportunity cost is the value of the next best alternative that is sacrificed when a choice is made.

For example, if a firm spends money on advertising instead of machinery, the benefits from machinery become the opportunity cost.

Rational Choice

Rational choice means selecting the option that gives the greatest benefit with available resources.

Consumers try to maximize satisfaction while firms try to maximize profits.

6 The Working of Competitive Markets: Business in a Competitive Market

Competitive Market

A competitive market is one where many buyers and sellers interact freely.

No single participant can significantly influence market price.

Features

There are large numbers of buyers and sellers.

Firms can freely enter or leave the market.

Market information is widely available.

Products are often identical in perfectly competitive markets.

Business in a Competitive Market

Businesses must improve efficiency and control costs to remain competitive.

Competition encourages better quality, innovation, and customer service.

Consumers benefit through lower prices and wider choices.

7 Price Mechanism Demand and Supply – Determinants, Schedules, Curves, Movements and Changes, and Laws

Price Mechanism

The price mechanism is the process through which prices are determined by demand and supply in a market.

It helps allocate resources efficiently.

Demand

Determinants of Demand

Demand is influenced by consumer income, prices of related goods, tastes and preferences, population, and future expectations.

Demand Schedule

A demand schedule is a table showing quantities demanded at different prices.

Demand Curve

A demand curve graphically represents the relationship between price and quantity demanded. The curve generally slopes downward.

Movement in Demand

Movement in demand occurs because of a change in the product's own price.

A fall in price increases quantity demanded, while a rise in price decreases quantity demanded.

Change in Demand

Change in demand occurs because of factors other than price.

An increase in demand shifts the curve to the right, while a decrease shifts it to the left.

Law of Demand

Other factors remaining constant, quantity demanded falls when price rises and rises when price falls.

Supply

Determinants of Supply

Supply is affected by production cost, technology, taxes, government policy, and future expectations.

Supply Schedule

A supply schedule shows quantities supplied at different prices.

Supply Curve

A supply curve shows the relationship between price and quantity supplied.

The curve usually slopes upward.

Movement in Supply

Movement in supply occurs because of a change in price.

Higher prices increase quantity supplied, while lower prices reduce quantity supplied.

Change in Supply

Change in supply occurs because of factors other than price.

An increase in supply shifts the curve rightward, while a decrease shifts it leftward.

Law of Supply

Other things remaining constant, quantity supplied rises when price rises and falls when price falls.

8 Price & Output Determination – Equilibrium and New Equilibrium

Equilibrium

Market equilibrium occurs when quantity demanded equals quantity supplied.

At this point, there is no pressure for price to rise or fall.

The equilibrium price is often called the market clearing price.

Excess Demand

When demand exceeds supply, a shortage occurs.

This usually pushes prices upward until equilibrium is restored.

Excess Supply

When supply exceeds demand, a surplus occurs.

This generally causes prices to fall until equilibrium is reached again.

New Equilibrium

A new equilibrium is formed whenever demand or supply changes.

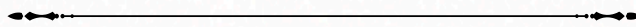
An increase in demand raises both equilibrium price and quantity.

A decrease in demand lowers equilibrium price and quantity.

An increase in supply lowers equilibrium price but increases quantity.

A decrease in supply raises equilibrium price but reduces quantity.

Understanding equilibrium helps businesses make better pricing and production decisions.



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