Calicut University

COURSE
BBA

SEMESTER
1

SUBJECT
BUSINESS ECONOMICS

MODULE
4

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Business in the Factor Market

19 Labour Markets, Wages, and Industrial Relations: Market-determined wage rates and employment

Labour Market
The labour market is the market where workers offer their labour and employers demand labour services.
Wages are determined through the interaction of labour demand and labour supply.

Demand for Labour
Firms demand labour because workers contribute to production.
The demand for labour depends on productivity, business demand, technology, and wage rates.
If workers contribute more to output, firms are generally willing to pay higher wages.

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Supply of Labour
Supply of labour refers to the number of workers willing and able to work at different wage levels.
Labour supply is influenced by population, education, skills, working conditions, and migration.

Market-determined Wage Rates
In competitive labour markets, wages are determined by demand and supply.
When labour demand is high and supply is limited, wages tend to rise.
When labour supply is high and demand is weak, wages may fall.

Employment
Employment refers to the use of labour in productive activities.
Economic growth usually increases employment opportunities, while economic slowdown may reduce employment.

Industrial Relations
Industrial relations refer to the relationship between employers, employees, and trade unions.
Healthy industrial relations improve productivity, workplace stability, and employee satisfaction.
Conflicts between workers and management may lead to strikes, lockouts, or reduced efficiency.

20 Power in the labour market, Low Pay and Discrimination

Power in the Labour Market

Power in the labour market refers to the ability of employers or workers to influence wages and working conditions.
Large firms may have stronger bargaining power when employment opportunities are limited.
Trade unions increase the bargaining power of workers through collective action.

Low Pay

Low pay occurs when workers receive wages that are insufficient to maintain a reasonable standard of living.
Causes of low pay include unemployment, low skills, weak bargaining power, and excess labour supply.
Low pay can reduce living standards and increase poverty.

Discrimination

Discrimination occurs when workers are treated unfairly based on factors unrelated to productivity or ability.
Discrimination may occur based on gender, caste, religion, age, ethnicity, or disability.
It can affect hiring, wages, promotions, and working conditions.

Effects of Discrimination

Discrimination reduces equal opportunities and may lower economic efficiency.
Talented individuals may not receive fair employment opportunities, reducing overall productivity.
Governments often introduce labour laws and equal opportunity policies to reduce discrimination.

21 Investment and the employment of capital: The pricing of Capital Services, The demand for and supply of capital services

Investment and Capital

Investment refers to spending on capital goods such as machinery, buildings, and equipment that help produce future output.
Capital increases production capacity and supports economic growth.

Employment of Capital

Firms employ capital to improve efficiency, productivity, and output.
The choice between labour and capital depends on production costs and technology.

Pricing of Capital Services

Capital services have a price just like labour services.
The price of capital includes interest, depreciation, maintenance costs, and expected returns.
Firms compare the cost of capital with expected profits before making investment decisions.

Demand for Capital Services

Demand for capital depends on expected profitability, interest rates, technology, and business confidence.
Lower interest rates generally encourage investment because borrowing becomes cheaper.

Supply of Capital Services

Supply of capital comes from savings, financial institutions, and investors.
Banks and financial markets play an important role in providing capital to businesses.
A strong financial system improves the availability of capital for investment.

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22 Reasons for government intervention in the market: Markets and the role of government

Government Intervention in Markets

Governments intervene in markets when free markets fail to allocate resources efficiently or fairly.
The objective is to improve economic stability, consumer welfare, and social welfare.

Market Failure

Market failure occurs when markets fail to achieve efficient outcomes.
Common causes include externalities, monopolies, public goods, and information failure.

Externalities

Externalities are effects of economic activities on third parties.
Pollution is a negative externality because it harms society.
Education is a positive externality because it benefits society beyond the individual.

Public Goods

Public goods are goods that are non rival and non excludable.
Examples include national defense and street lighting.
Private firms may not provide these goods efficiently because profit opportunities are limited.

Monopoly Power

Governments regulate monopolies to prevent excessive pricing and exploitation of consumers.
Income Inequality
Governments intervene to reduce extreme inequality through taxation, subsidies, and welfare programs.

Role of Government

The government acts as regulator, producer, and policy maker in the economy.
It provides public services, maintains law and order, controls inflation, and supports economic development.

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23 Government interventions in Market, Firm and Social Responsibility

Government Intervention in Markets

Governments use policies and regulations to influence market activities.
These interventions aim to protect consumers, workers, and the environment.

Types of Government Intervention

Price Controls

Governments may fix maximum or minimum prices for certain products.
Minimum wage laws are an example of price intervention in labour markets.

Taxes and Subsidies

Taxes may discourage harmful activities, while subsidies encourage beneficial activities.
Example:
Taxes on tobacco and subsidies for agriculture.

Regulation

Governments regulate business practices to ensure fair competition and consumer protection.

Government and Firms

Firms are expected to follow laws related to taxation, labour, safety, and environmental standards.
Failure to comply may lead to legal penalties.

Social Responsibility

Social responsibility means businesses should consider the impact of their actions on society.
Firms are expected to act ethically and contribute positively to communities.

Corporate Social Responsibility

Corporate social responsibility includes activities such as environmental protection, employee welfare, education support, and charitable initiatives.
Responsible business practices improve public trust and long term sustainability.

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24 Liberalization, Privatization, and Globalization: Indian Economy before and after LPG

Indian Economy before LPG

Before 1991, the Indian economy followed a highly regulated economic system.
The government controlled many industries, imports, pricing, and investment decisions.
Private sector growth was restricted by licensing systems and heavy regulations.
Economic growth remained relatively slow during this period.

Liberalization

Liberalization refers to reducing government restrictions and allowing greater freedom for businesses.
It includes reducing licensing requirements, lowering import restrictions, and encouraging private investment.

Privatization

Privatization means transferring ownership or control of businesses from the public sector to the private sector.
The objective is to improve efficiency and reduce government burden.

Globalization

Globalization refers to increasing economic integration between countries through trade, investment, and technology.
Indian businesses gained access to international markets after globalization reforms.

Indian Economy after LPG

The LPG reforms were introduced in 1991 to address economic crisis and improve growth.

After LPG reforms:

Foreign investment increased
Competition increased
Exports expanded
Technology adoption improved
Private sector participation grew rapidly
The Indian economy became more connected with the global economy.

25 Macroeconomics Policies: Fiscal Policy, Monetary Policy

Macroeconomic Policies

Macroeconomic policies are government measures used to influence economic growth, inflation, employment, and stability.
The two major macroeconomic policies are fiscal policy and monetary policy.

Fiscal Policy

Fiscal policy refers to government decisions related to taxation and public expenditure.
The government uses fiscal policy to influence aggregate demand and economic activity.

Expansionary Fiscal Policy

The government increases spending or reduces taxes to stimulate economic growth and employment.

Contractionary Fiscal Policy

The government reduces spending or increases taxes to control inflation.

Monetary Policy

Monetary policy refers to actions taken by the central bank to control money supply and interest rates.
In India, the Reserve Bank of India manages monetary policy.

Expansionary Monetary Policy

Interest rates are reduced and money supply is increased to encourage borrowing and investment.

Contractionary Monetary Policy

Interest rates are increased and money supply is reduced to control inflation.

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26 Quantitative Easing, Balance of Payments and Exchange Rates, GDP

Quantitative Easing

Quantitative easing is a monetary policy where the central bank purchases financial assets to increase money supply and support economic activity.
It is usually used during economic slowdown or financial crisis.
The objective is to encourage lending, investment, and spending.

Balance of Payments

Balance of payments is a record of all economic transactions between a country and the rest of the world during a given period.
It includes exports, imports, investments, and financial transfers.

Components of Balance of Payments

Current Account

Includes trade in goods and services, income, and transfers.

Capital Account

Includes capital transfers and financial transactions.

Exchange Rates

Exchange rate refers to the value of one currency in terms of another currency.

Exchange rates affect international trade, investment, imports, and exports.

A weaker domestic currency may increase exports but make imports more expensive.

Gross Domestic Product (GDP)

GDP is the total monetary value of final goods and services produced within a country during a specific period.

It is a major indicator of economic performance.

Types of GDP

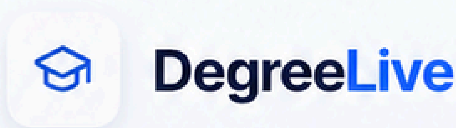
Nominal GDP

Measured using current market prices.

Real GDP

Adjusted for inflation and reflects actual production growth.

Higher GDP growth usually indicates economic expansion and increased business activity.



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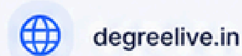

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