Forms of Enterprise

Sole Proprietorship

Joint Family Firm

Partnership Firm

Cooperative Firm

Joint stock Firm

Sole Proprietorship

- A **sole trader** is a person who carries on a business exclusively on his own account and at his own risk

- "It is a form of business which is owned, managed and **controlled by an individual**. It is the simplest form of business, established with the limited resources, ability and capital of the individual known as **sole trader** "

– James Stephens

Features of Sole Proprietorship

- Single ownership
- No separate Entity
- Capital
- Formation
- Risk bearing
- Unlimited liability
- Management and Control
- Continuity

Merits of Sole Tradership

- Ease of Formation and closure
- Flexibility
- Quick Decision making
- Secrecy of Information
- Direct Incentive
- Sense of Accomplishment
- Personal Touch
- Low Overhead Costs
- Minimum Government Regulations
- Social Importance

Demerits Of Sole Proprietorship

- Limited capital
- Uncertain Life
- Unlimited Liability
- Limited Managerial Ability
- Unsound Business Decisions
- Non-availability of Economies of Large Scale

Partnership

"**Partnership** may be defined as the relation between persons who agree to share the profits of a business carried on by all or any of them acting for all."-***L.H. Haney***

Features of Partnership

- Has two or more members.
- Lawful Business
- Risk-bearing and Sharing of Profits
- Mutual agency
- Unlimited Liability
- Restriction on transfer of Share
- Agreement

Merits of Partnership

- ❖ Ease of Formation and Closure
- ❖ Large Financial Resources
- ❖ Better Management
- ❖ Better decision making
- ❖ Sharing of Risks
- ❖ Secrecy
- ❖ Flexibility.
- ❖ Impact of unlimited Liability.

Demerits of Partnership

- ❖ Less capital as compared to a company
- ❖ Unlimited liability
- ❖ Conflict between partners
- ❖ Slow decision making
- ❖ Non-trasnferability of interest
- ❖ Uncertain life of the firm
- ❖ Less public confidence

Types of Partnership

- Partnership at Will
- Partnership for a Fixed period
- Particular Partnership

Types of Partners

- Active Partners
- Dormant Partners
- Silent Partners
- Secret Partners
- Nominal Partner
- Estoppel
- Partner in Profits only

Formation of a Partnership

A partnership is formed on the basis of the following:

- **Partnership Deed**
- **Registration of Partnership**

Partnership Deed

- It is a written Agreement between the partners in a firm. It contains several clauses regarding name and address of partners, nature of business, capital, profit sharing ratio, etc.

Registration of Partnership

- ***Under law, it is not necessary to get the partnership firm registered***
- It is optional for the partners to get their firm registered but if they so desire, they can get their firm registered with **Registrar of Firms** of the relevant State.

Hindu Undivided Family Business

- The **Hindu Undivided Family Firm** is a form of business organisation in which the family possesses some inherited property and the "**Karta**", the head of the family manages its affairs.

Features of Hindu Undivided Family Firm

- Control by “Karta”
- Liability
- Continued existence
- Status of Minors
- Fluctuating Share

Merits of Hindu Undivided Family Firm

- Easy Formation
- Stable existence
- Limited Liability
- Effective decision making and control
- Secrecy
- Close relations with customers
- Close relations with Employees

Demerits of Hindu Undivided Family Firm

- Limited resources
- Unlimited liability of “Karta”
- Limited managerial ability
- Lack of relationship between Responsibility and reward
- Dominance of “Karta”
- Unstable form of organisation

Co-operative Firm

"Co-operative organisation is a society which has its objective for the **promotion of economic interest of its members** in accordance with cooperative principles."

Features of a Co-operative Society

- Voluntary association
- Open membership
- Separate legal Entity
- Limited liability
- Service Motive
- Disposal of Surplus
- Democratic form of society

Merits of a Co-operative Society

- Ease of formation
- Equality in voting rights
- Democratic functioning
- Limited liability
- Continued existence
- Government assistance
- Fair Dealings

Demerits of Co-operative Society

- Limited Capital
- Inefficiency in management
- Excessive government Regulation
- Lack of Secrecy
- Lack of Motivation
- Misuse of funds

Types of Co-operative Societies

- Consumers co-operative society
- Credit co-operative society
- Producers co-operative society
- Marketing co-operative society
- Farmers co-operative society
- Housing co operative society

Company (a.k.a. Joint stock Company)

"A company is a person, artificial, invisible, intangible and **existing only in the eyes of law**"

-Justice Marshal

Features of a company

- Artificial person
- Separate legal identity
- Perpetual existence
- Limited liability
- Control and management
- Separate Property
- Common seal
- Risk bearing

Merits of Joint Stock Company

- Vast financial resources
- Limited Liability
- Perpetual Existence
- Professional management
- Diffused risk
- Scope for Expansion
- Public Confidence

Demerits of Joint Stock Company

- Complex procedure of formation
- Government regulations
- Lack of Secrecy
- Slow decision making
- Management in the hands of few Shareholders(oligarchic management)
- Conflicts among shareholders

Types of Companies

- Private Company
- Public Company
- Government Company
- Foreign or Multinational Company.

Stages in formation of a company

- Promotion
- Incorporation/Registration
- Commencement of business

Function of Promoter

- Identification of business idea
- Detailed study of the project
- Making arrangement of capital, machinery, material, etc.
- Entering into arguments with bankers, underwriters, etc.
- Preparation of documents for filling with Registrar of Companies

Certificate of Incorporation

It is issued by the Registrar of Companies when all formalities concerned with the registration of a company have been fulfilled.

The moment this certificate is issued, the company acquires a legal status.

It is a conclusive proof that all legal formalities required for incorporation of a company have been duly fulfilled

2

Certificate of Commencement

It is issued by the Registrar of Companies to a public company after it has successfully raised capital and completed the necessary formalities .

This certificate entitles the public companies to start a business

Documents required for formation of company

1. Memorandum of association.

2. Articles of association

3. Prospectus

Considerations in starting a business

- Market analysis
- Choice of business
- Location of business
- Choice of ownership
- Financial planning
- Workforce
- Tax planning

Sources of finance

A company can raise capital from a variety of sources. Each source has distinct features that must be properly analyzed in order to choose the greatest accessible method of obtaining finances. For all organizations, there is no one optimum source of funding. A choice of the source to be used may be made depending on the situation, purpose, cost, and associated risk.

Different Sources of Finance

- Retained Earnings
- Trade Credit
- Factoring
- Financial Institutions
- Debentures
- Commercial Papers
- Lease Financing
- Public Deposits
- Commercial Banks
- Issue of Shares (Equity Shares & Preference Shares)

Retained Earnings:

In most cases, a company does not release all of its earnings or share its profits with its shareholders as dividends. A part of the net earnings may be retained in the company for future use. This is known as retained earnings.

Trade Credit:

Trade credit is credit given by one trader to another for the purchase of products and services. Trade credit facilitates the purchase of goods without the need for immediate payment. Such credit shows in the buyer of goods' records as 'sundry creditors' or 'accounts payable.' Business organizations frequently utilize trade credit as a form of short-term finance.

Factoring :

Factoring is a financial service in which the 'factor' provides a variety of services such as

Bill discounting (with or without recourse) and debt collection for the client: Under this, receivables from the sale of goods or services are sold to the factor at a certain discount.

- Factoring has basic two methods:
- **Recourse** -The customer is not safeguarded against the risk of bad debts while using recourse factoring.
- **Non-recourse**.-Non-recourse factoring, on the other hand, involves the factor assuming the complete credit risk, which means that the full amount of the invoice is reimbursed to the client if the debt goes bad.
- **Lease Financing:**

  The party who owns the assets is known as the 'lessor,' while the party who utilises the assets is known as the 'lessee.' The lessee pays the lessor a predetermined periodic sum known as lease rental in exchange for the usage of the asset. The lease contract includes the conditions and terms that regulate the lease arrangements. At the end of the lease agreement, the asset will be returned to the owner.
- **Public Deposits:**
- Public deposits are deposits gathered from the public by organizations. Interest rates on public deposits are often higher than those on bank deposits. Anyone who wants to make a monetary contribution to an organization can do so by filling a specified form.

- Commercial Papers:

A **Commercial Paper (CP)** is a short-period 90 to 364 day, unsecured promissory note that is issued by a company to raise funds (usually for the inventories, finance, and temporary liabilities). It is issued by one organization (Primary Dealers (PD) and All-India Financial Institutions (FIs) in India) to another organisation, insurance businesses, pension funds, and banks. The money raised by commercial paper is often huge. Due to the fact that this loan is entirely unsecured, the CP may only be issued by companies with a solid credit rating.

- Issue of Shares:

A share is the smallest unit of a company's capital. The firm's capital is split into small units and issued to the public as shares. The capital gained via the issuance of shares is referred to as 'Share Capital.' It's a kind of Owner's Fund.

There are two kinds of shares that can be issued:

- Equity Shares: These are shares that do not pay a fixed dividend, but do have ownership and voting rights. Owner of the firm refers to the company's equity shareholders. They do not get a set dividend, but are paid dependent on the company's profitability.
- Preference Shares: Preference shares are shares that have a slight preference over equity shares. Preference Shareholders get a set dividend rate and have the right to receive their capital before equity shareholders in case of liquidation. They do not, however, have any voting rights in the company's management.

- Debentures:

Debentures are an effective instrument for raising long-term debt capital. A firm can raise capital by issuing debentures with a fixed rate of interest. A firm's debenture is a recognition that the company has borrowed a specified amount of money, which it commits to repay at a later period. Debenture holders are part of the company as the company's creditors. Debenture holders get a definite stated amount of interest at predetermined periods, such as six months or a year.

Commercial Banks:

A commercial bank is a financial institution that provides services like accepting deposits, granting loans, bank overdrafts, offering certificates of deposits, and savings accounts to individuals and businesses. Commercial banks are considered to be an important component of the banking system.

These are the banks that perform banking services with the aim of earning profits. Commercial banks are generally famous because they provide funds for a different span of time: short-term & medium-term.

Common examples of commercial banks are the State Bank of India (SBI), Bank of Baroda, Punjab National Bank (PNB), Central Bank of India, Canara Bank, Bank of India, etc.

- Financial Institutions:

The government has established many financial institutions in the country to give financing to businesses.

These organizations are often known as 'Development Banks' since they aim to promote a country's industrial development.

Financial institutions provide funds for the expansion, reorganization and modernization of an enterprise.

Meaning - Short term finance

- Short term finance refers to financing needs for a small period normally less than a year. In businesses, it is also known as working capital financing. This type of financing is normally needed because of uneven flow of cash into the business, the seasonal pattern of business, etc.

Financial needs of the organization:-

- 1) Long term – for a period of 5 to 10 years.
- For acquiring fixed assets
- 2) Medium term – 1 to 5 years.
- Expenditure for publicity
- 3) Short term – 0 to 1 year. Known as
- working capital requirements.
- Investments in current assets like stock, debtors etc

Short term sources of fund

- ØTrade credit
- ØCommercial banks
- ØFixed deposits for a period of one year
- ØAdvance received from customers
- ØVarious short term provisions

Short-term financing

The main sources of short-term financing are

(1) trade credit,

(2) commercial bank loans,

(3) commercial paper, a specific type of promissory note, and

(4) secured loans.

PRESENTATION

OF

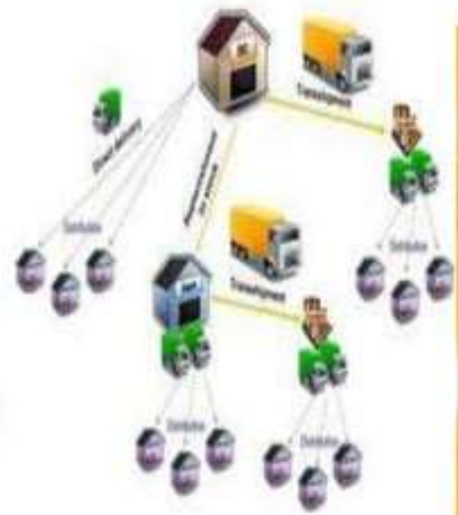
BUSINESS ECONOMICS

TOPIC

MACROECONOMICS
CONCEPT
&
MICROECONOMICS
V/S
MACROECONOMICS

ECONOMICS

Economics is the social science that seeks to describe the factors which determines the **production, distribution** and **consumption** of goods and services



MACROECONOMICS

. Macroeconomics is the study of the behavior and performance of the economy as a **whole.** It deals with :-

- the economy's total output of goods and services,
- the growth rate of output,
- the rates of inflation and unemployment,
- the balance of payments,
- exchange rates,
- booms and recessions,
- economic policies, etc.

MACROECONOMICS GOALS

- FULL EMPLOYEMENT

STABILITY

- GROWTH

NATURE OF MACROECONOMICS

- Macroeconomics is relatively a new branch of economics
- A full fledged macroeconomics appeared only after the publication of Keynes' *General Theory of Employment, Interest and Money* in 1936
- Macroeconomics is more normative by nature (unlike positive science)
- Macroeconomics is both a theoretical as well as policy science

EVOLUTION OF MACROECONOMICS

❑ Classical and Neo Classical School of Thought (1776-1930)

- An economy as a whole functions at the level of full employment
- Supply creates its own demand
- Flexibility of prices and wages
- Free Economy

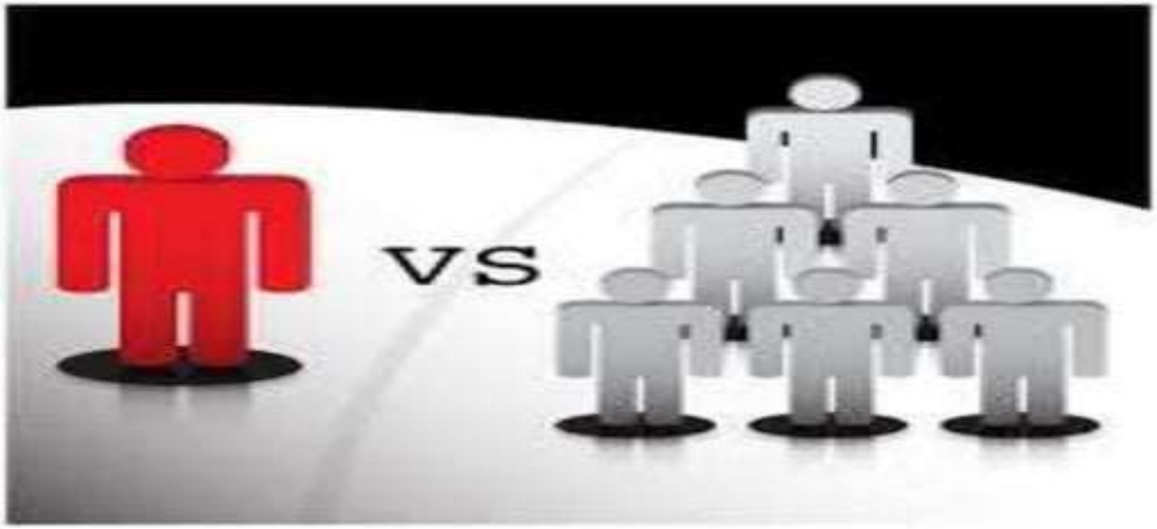
GREAT DEPRESSION PERIOD
1929 - 33

KEYNESIAN THEORY

- AN ECONOMY CAN BE IN EQUILIBRIUM AT LESS THAN FULL EMPLOYMENT
- DEMAND CREATES ITS OWN SUPPLY
- THERE IS GOVERNMENT INTERFERENCE
- KYNESIAN THEORY APPLY UNDER SHORT RUN AND PERFECT COMPETITION

DIFFERENCE

MICROECONOMICS



MACROECONOMICS

MICROECONOMICS

- THE BRANCH OF ECONOMICS THAT STUDIES BEHAVIOUR OF ***INDIVIDUAL,FAMILY,FIRM*** KNOWN AS MICROECONOMICS

IMPORTANCE OF MICROECONOMICS

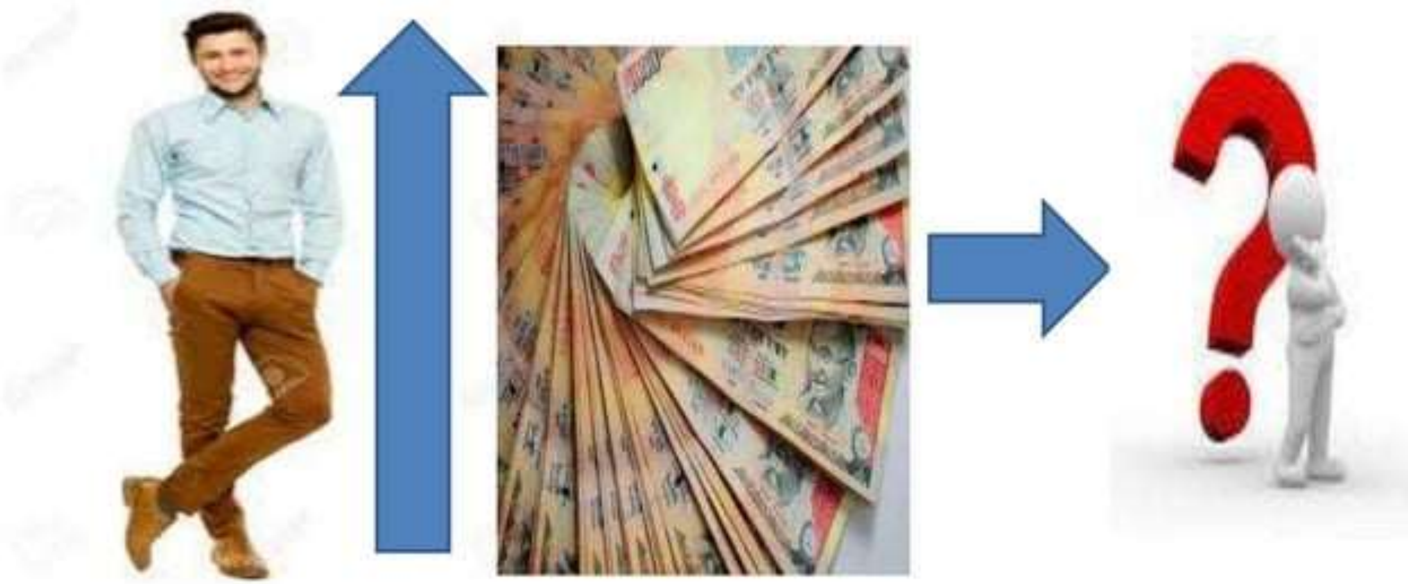
- INDIVIDUAL CONSUMER BEHAVIOUR
- INDIVIDUAL LABOUR MARKET
- SUPPLY AND DEMAND IN INDIVIDUAL MARKET
- PRICE DETERMINATION,RESOURCES ALLOCATION

LIMITATION OF MICROECONOMICS

- IT ONLY ANALYSIS THE **SMALL** PART OF ECONOMY

- IT IS BASED ON **UNREALISTIC** ASSUMPTION THAT THERE IS THE FULL EMPLOYMENT IN THE ECONOMY

FOR EXAMPLE



CHANGE IN CONSUMPTION HABIT

MACROECONOMICS

THE BRANCH OF ECONOMICS THAT STUDIES THE BEHAVIOUR OF THE WHOLE ECONOMY. IT LOOKS AT **AGGREGATE** VARIABLES,SUCH AS AGGREGRATE DEMAND,NATIONAL OUTPUT AND INFLATION.

IMPORTANCE OF MACROECONOMICS

- **MONETRY , FISCAL POLICY**

- ECONOMIC GROWTH
- GOVERNMENT BORRROWING
- INTERNATIONAL TRADE AND GLOBALISATION
- **INFLATION,UNEMPLOYMENT,DEFLATION**

BUSINESS CYCLE

The business cycle refers to the rhythmic fluctuations in aggregate

economic activities in the country over a period of time.

The business cycle is the periodic but irregular **up & downs** movements in economic activity, measured by fluctuations in real gross domestic product(GDP) & other macroeconomic variables.

How do we measure "up & down" movement in business activity?

- These are generally measured using rise & fall in real GDP (which includes output from the household & non profit sector and the govt. sector, as well as the business output.

DEFINITION

Prof. Keynes says : " *A business cycle is composed of periods of bad trade characterized by falling prices and high unemployment percentages while a period of good trade is characterized by rising prices and high employment, percentages.*"

In simple words, a ***business cycle*** *refers to fluctuations in economic activities specially in employment, output and income, prices, profits etc.*

CAUSES OF BUSINESS CYCLE

- Forces of Demand and Supply
- Capital goods and consumer goods
- Purchasing power
- Population expansion
- Human psychology
- Cyclical changes in weather

DIFFERENT PHASES OF BUSINESS CYCLE

PHASES OF BUSINESS CYCLE

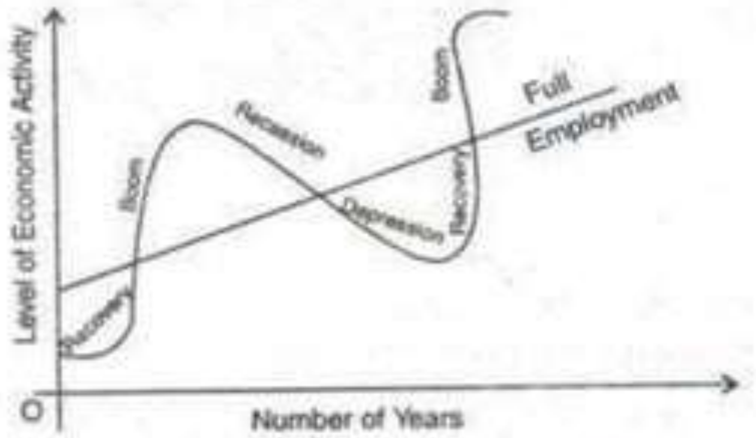


FIG. 2 : PHASES OF TRADE CYCLE

BOOM/ PEAK

This phase of business cycle represents the best stage of prosperity .

- Income or production is the maximum
- Traders and industrialists earn huge profits because at this stage production is the maximum.
- Reaches full employment & hence rise in prices and wages
- Price rise very high
- Expansion in bank credit
- All kinds of investments increase
- Rate of interest is high
- Optimistic behaviour in economy

RECESSION

Recession means a fall in the level of **real national output** i.e. a period when growth is negative, leading to a contraction in employment, incomes and profits.

- **Recession** can be defined as : "**significant decline in economic activity** lasting more than a few months, which is normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales".

- In Economics , the term **recession** generally describes the reduction of a country's Gross Domestic Product (GDP) for at least two quarters.

- Fall in economic activities
- Fall in investment sets in reverse motion of multiplier
- Fall in income & output
- Workers are rendered unemployed
- Wages fall due to unemployment
- Prices begin to fall & fall in profits also
- Contraction of bank credit
- Demand of the consumers for various goods fall
- Feeling of fear & doubt

DEPRESSION

A **slump** or a **depression** is a prolonged and deep recession leading to a significant fall in output and average living standards

- A depression is a state where real GDP falls by more than 10% from the peak of the cycle to the trough
- Level of output & income is low
- Unemployment increases
- Wages, interest & other costs decline
- Price level falls
- Volume of profit falls rapidly
- No demand for credit
- Overall decline in investment
- Pessimism feeling

RECOVERY

The upswing part of the cycle is recovery. The turning point from depression to expansion is termed as recovery.

- Replacement investment result into increase in income and output
- Employment increases
- Rise in demand
- More profits
- Cost increase relatively less
- Investment increases
- Demand for loan also increases
- Feeling of optimism

FEATURES OF DIFFERENT PHASES OF BUSINESS CYCLE

features	Boom / Peak	Recession	Depression	Recovery
Employment	Increases	Suddenly falls	Very low	Slowly rises
Output	Increases	Falls	Falls very low	Slowly rises
Wages	Rise	Fall	Fall very low	Begin to rise
Prices	Rise	Fall sharply	Fall very low	Begin to rise
Interest	High	Begin to fall	Very low	Begins to rises
Bank credit	Expands	Suddenly falls	Falls low	Begins to expand
Cost of production	Rises	Falls	Falls very	Begins to rise
Stocks	Large	Fall	Fall very low	Begin to rise
Feeling	Optimism	Doubt & fear	Pessimism	Optimism

- Meaning and Importance of National Income

- Concepts of National Income

- Measurement of National Income Methods and difficulties

- Circular flow of Income- two sector model

Needs or Importance for the study of National Income

- To measure Economic Welfare (Living Standard)
- To assess the effectiveness of macroeconomic policies.
- To trace the trend or speed of the economic growth in relation to previous years as well as to other countries.
- To know the structure and composition of the national income in terms of various sectors and the periodical variation in them.
- To help business firm in forecasting future demand for there product.

Simon Kuznets

Meaning

National Income is the flow of goods and services which became available to a nation during an accounting period generally one year.

National Income is the money value of all finale goods and services produced by a country during a period of one year.

- Goods are measured in different physical units like cloth in meters, milk in liters, wheat in kilo grams,
- For all these goods common measuring term is money

Definition

According Marshall

“National Income is the net aggregates of the commodities and services produced annually in a country. ”

According National Income committee of India

“A national income estimate measures the volume of commodities and services turned out during a given period, without duplication.”

Features of National Income

- National Income is the value of all final goods and services produced in a country.
- It refer to a the money income of a country.
- It presents the income of a country for a particular period of time (1 year)
- The value of intermediate goods are not included in the estimation of national income.
- There should be no duplication or double counting o the income produced.
- Depreciation should be deducted from national income

Concepts of National Income

- GDP - Gross Domestic Product
- NDP - Net Domestic Product
- GNP - Gross National Product
- NNP - Net National Product
- PCI - Per Capita Income
- Personal Income
- Disposable Personal Income


gross
G D P
product
domestic


9:29
GDP
है क्या
prime
ये जीडीपी होती क्या है?

GDP- Gross Domestic Product

GDP is the money value of all final goods and services produced in the domestic territory of a country during an accounting year.

- Territory lying within the political frontiers, including territorial waters of the country.

- Goods and services produced by resident as well as non-residents in the domestic territory but does not include net factor income earned from abroad.

GDP= C+I+G+(X-M)

C- Consumption I- Investment

G- Government expenditure (X-M)-Export- Imports

- GDP at Current Price

If the domestic product is estimated on the basis of the prevailing prices it is called gross domestic product at current price.

- GDP at Constant Price

If GDP is measured on the basis of some fixed price, that is prices prevailing at a point of time or in some base year it is known as GDP at constant prices or real gross domestic product.

- GDP at Market Price.

It includes the indirect taxes and subsidies. GDP at market price is arrived at by adding net indirect taxes to GDP at Factor cost.

$$GDP_{MP} = GNP_{MP} - \text{net factor income from abroad}$$

- GDP at Factor Cost

It includes only the compensation to the factors used in the production of goods.

$$GDP_{FC} = GDP_{MP} - \text{Indirect taxes} + \text{Subsidies.}$$

NDP- Net Domestic Product

$$NDP_{MP} = GDP_{MP} - \text{Depreciation Cost of fixed assets}$$

In the production of gross national product of a year, we consume or use up some fixed capital i.e., equipment, machinery, etc. The capital goods, like machinery, wear out or fall in values as result of its consumption or use in the production process. This consumption of fixed capital or fall in the value of fixed capital to wear and tear is called depreciation.

GNP is defined as the total money value of the final goods and services produced by the nation not only within the country but even outside the country.

$$GNP = C+I+G+(X-M)+(R-P)$$

- (R-P) – The net income earned in abroad by the nation i.e. difference between income received and income paid.

$$GNP_{MP} = GDP_{MP} + \text{Net Factor Income from Abroad(NFIA)}$$

NNP- Net National Product

It can be derived by subtracting depreciation allowance from GNP.

$$NNP_{MP} = GNP_{MP} - \text{Depreciation cost}$$

$$NNP_{FC} = NNP_{MP} - \text{Indirect taxes} + \text{Subsidies}$$

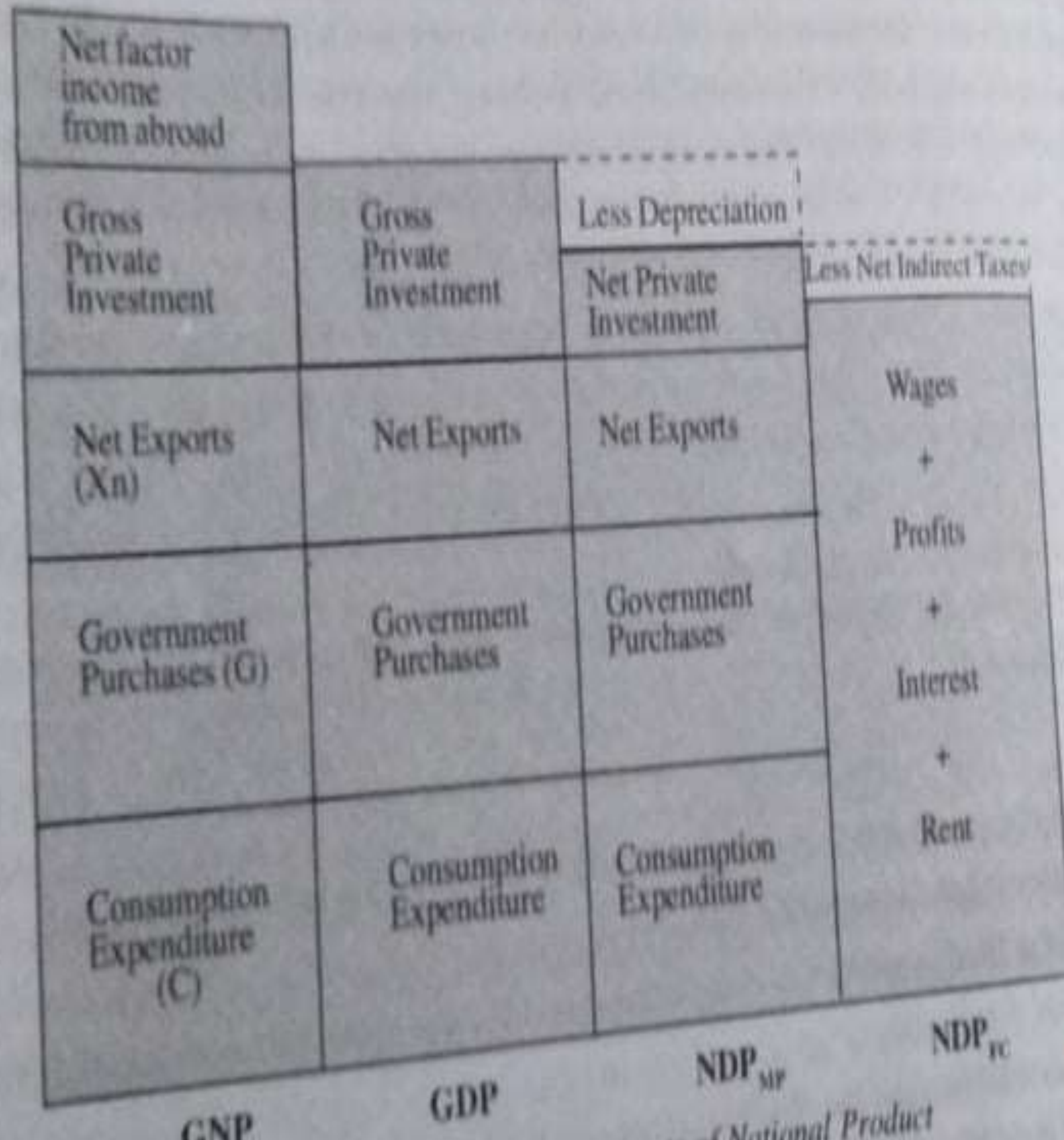


Fig. 2.5. *Various Concepts of National Product*

and NDP we get NN

PER CAPITA INCOME

Per capita income or average income measures the average income earned per person in a given area in a specified year. It is calculated by dividing the area's total income by its total population.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Total population}}$$

Per capita income can be used to determine the standard of living and quality of life of the population.

Personal Income (PI)

Personal Income is the sum of all incomes actually received by all individuals or households during a given year.

Personal Income= National income – Social Security Contributions – Corporate Income Taxes – Undistributed Corporate Profits + Transfer Payments.

- Social Security Contributions are payment made towards provident fund, insurance etc.

- Transfer Payments are old-age pensions, unemployment compensation relief payments, interest payments on the public debts etc.

DI - Disposable Income

Whole personal Income actually received by the people are not available to them for consumption. Because government impose some personal taxes such as income tax, person property taxes. After a part of personal income is paid to the government in the form of tax what ever remains of personal income is called disposable income. Which can be either saved or consumed.

Disposable Income = Personal Income – Personal Taxes

Disposable Income = Consumption + Savings

2019 Demand Analysis

01 Demand
Meaning – types – determinants

02 Law
Meaning - Concept – Assumptions – Schedule - Diagram

03 Forecasting
Meaning – methods – Features

04 Market Analysis
Forecasting of demand for new products

Introduction

Meaning, Concepts and Definitions

Demand: Definition

Demand

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service

Dictionary

an insistent and peremptory request, made as of right

Stonier and Hague

Demand in economics means demand backed up by enough money to pay for the good demanded

Benham

The demand for anything at a given price is the amount of it which will be sought per unit of time at that price

Bradley R. Schiller

The ability and willingness to buy specific quantities of a good at alternative prices in a given time period, ceteris paribus.

TYPES OF DEMAND

01

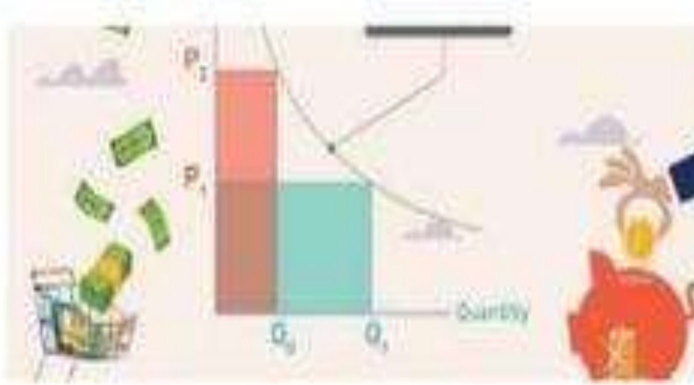
Price Demand

Change in the demand for a commodity due to change in its price

02

Income Demand

Change in the demand for a commodity due to change in income of a consumer



03

Cross Demand

Change in the demand for a commodity due to change in the price of another commodity

Price Demand

Meaning

Price demand refers to the different quantities of the commodity or service which consumers will purchase at a given time and at given prices, assuming other things remaining the same.

- price demand has inverse relation with the price
- the quantity demanded is the function of the price of the commodity
- income, taste, and prices of related goods remain the same

Price Demand

Income demand

Meaning

Income demand refers to the different quantities of a commodity or service which consumers will buy at different levels of income.

- the demand for a commodity increases as the income of a person increases unless the commodity happens to be an inferior product

- assuming that other things remaining constant.

Income Demand

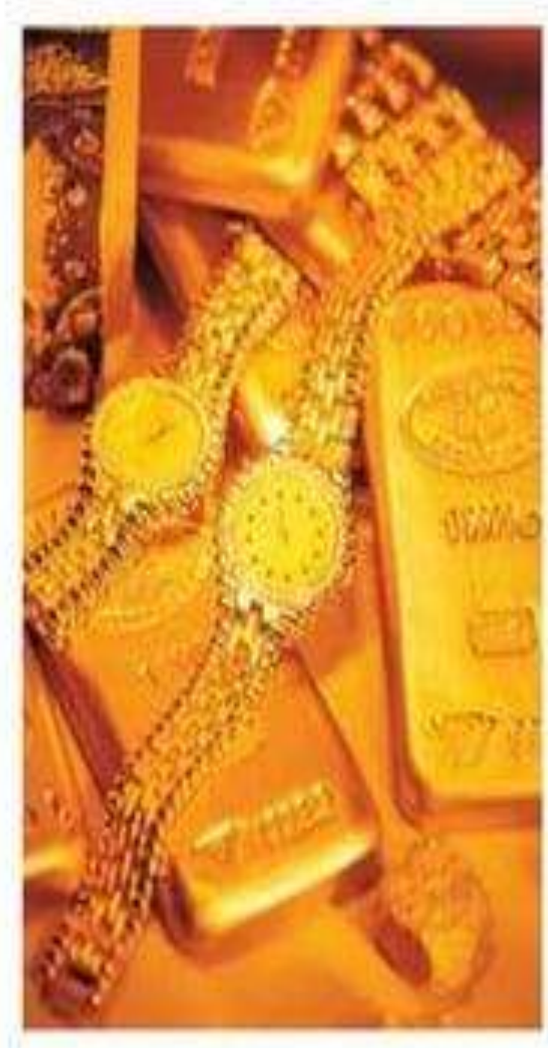
Income Demand

INFERIOR GOODS

The demand may fall when the income increases

SUPERIOR GOODS

Income increases, the demand increases and if income fall demand decreases



Cross demand

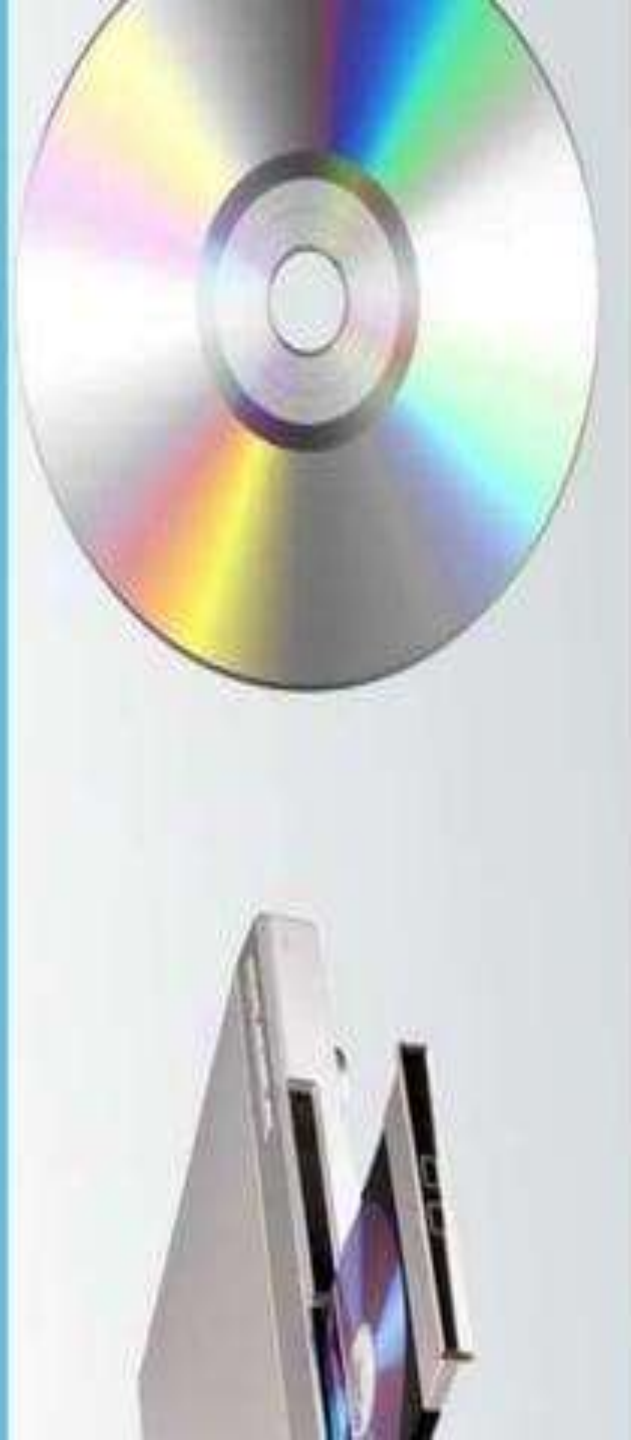
Meaning

When the demand for a commodity depends not on its price but on the price of other related commodities.

- closely connected or related goods which are substitutes for one another
- in case of substitutes, when the price of one related commodity rises, the demand of the other related commodity increases and vice-versa

Cross Demand

Complementary goods



Meaning

In the case of complementary goods other things remaining the same. The fall in the price of a commodity may increase the demand for other commodity and the rise in the price of a commodity

Complementary goods

Direct demand

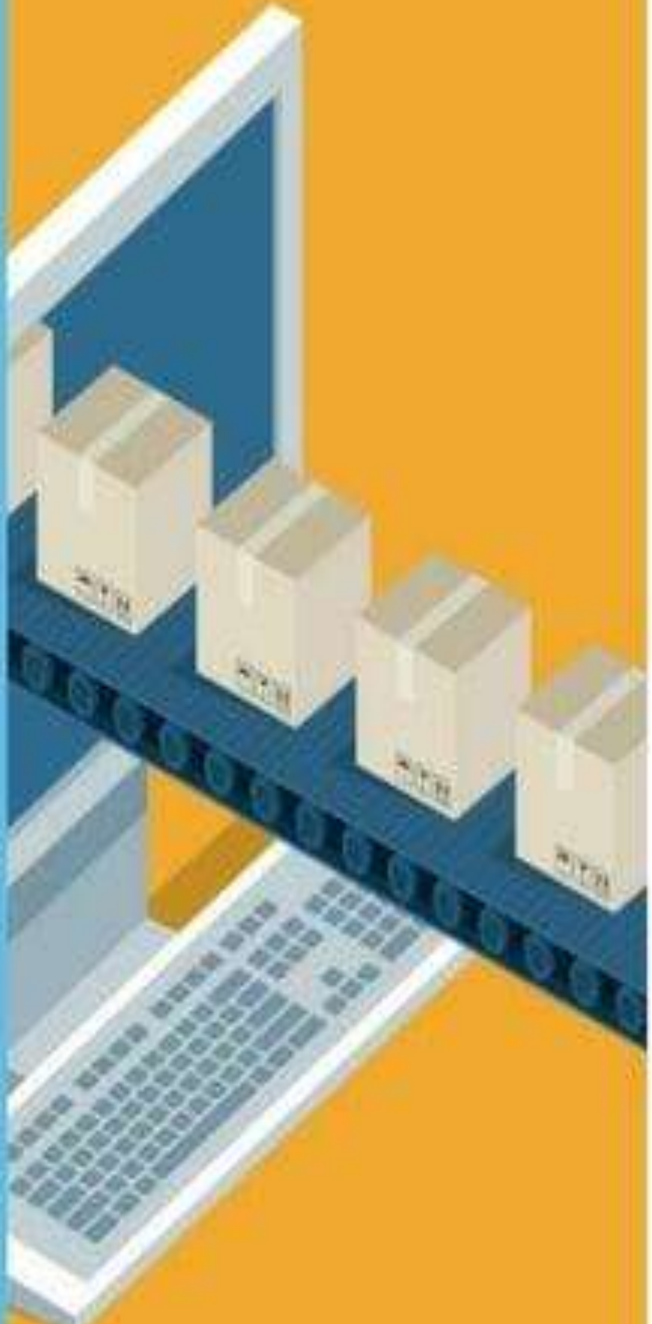
Meaning

Commodities or services which satisfy our wants directly are said to have direct demand.

- all consumer goods satisfy our wants directly

Direct Demand

Derived demand



Meaning

Commodities or services demanded for producing goods which satisfy our wants directly are said to have derived demand

- Derived demand is a market demand for a good or service that results from a demand for a related good or service.
- Distinct components: raw materials, processed materials, and labor.
- Together, these three components create the chain of derived demand.

Derived Demand

Joint demand

Meaning

In finished products as in case of bread, there is need for so many things—the services of the flour mill, oven, fuel, etc. The demand for them is called joint demand

- the construction of a house we require land, labor, capital, organization and materials like cement, bricks, lime, etc. The demand for them is, thus, called a 'joint demand

Joint Demand

Composite demand

Meaning

A commodity is said to have a composite demand when its use is made in more than one purpose

- the demand for coal is composite demand as coal has many uses—as fuel for a boiler of a factory, for domestic fuel, for oven for steam-making in railways engine, etc

Composite Demand

Individual demand

Meaning

the quantity of a commodity that a consumer is willing and able to buy, at each possible price during a given period of time

- marginal valuation = price

- The individual demand for a good or a service comes from the interactions of desires with the budget set

Individual Demand

Market demand

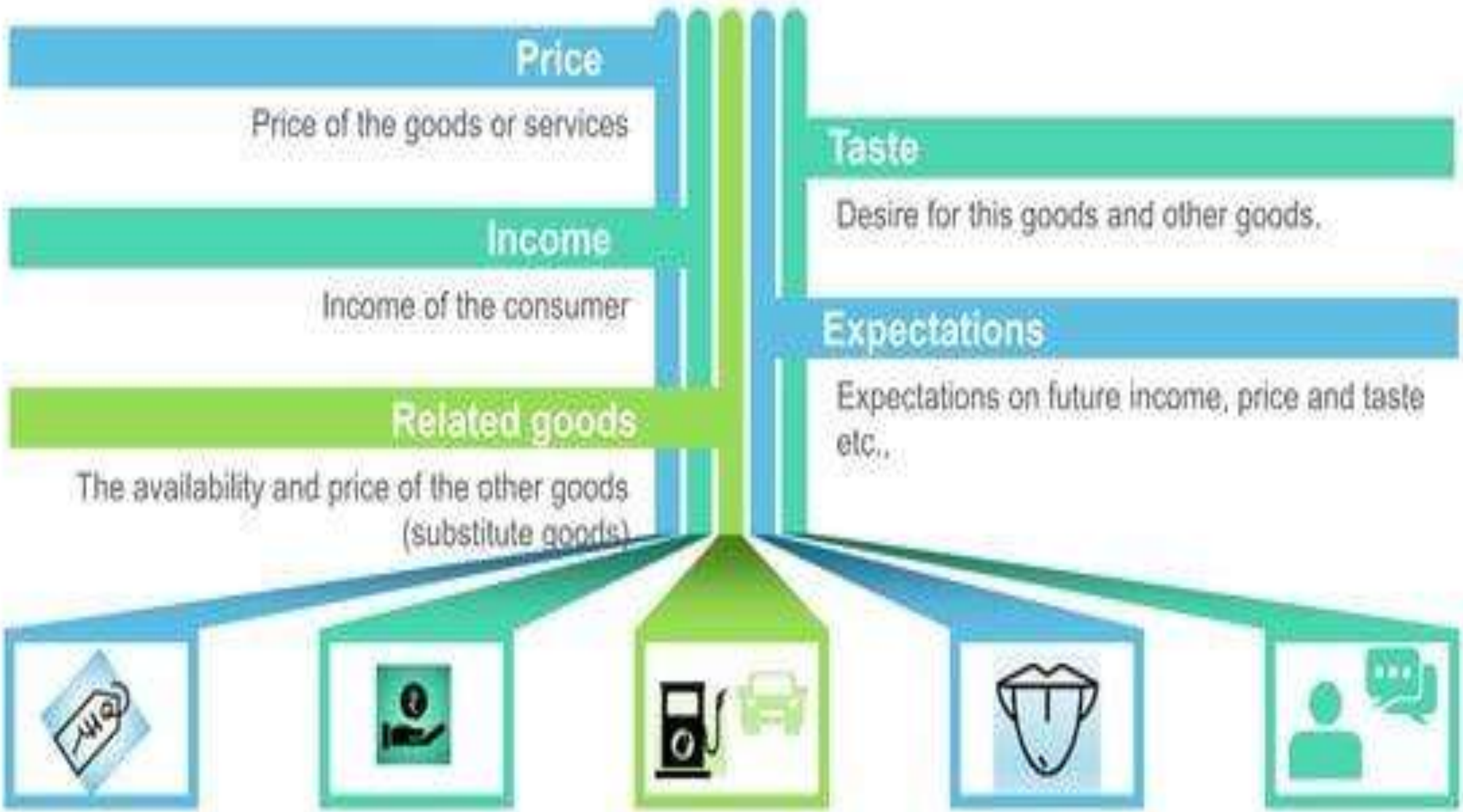
Meaning

the quantity of a commodity that all consumers are willing **and** able to buy, at each possible price during a given period of time

- the sum of the individual demand for a product from buyers in the market

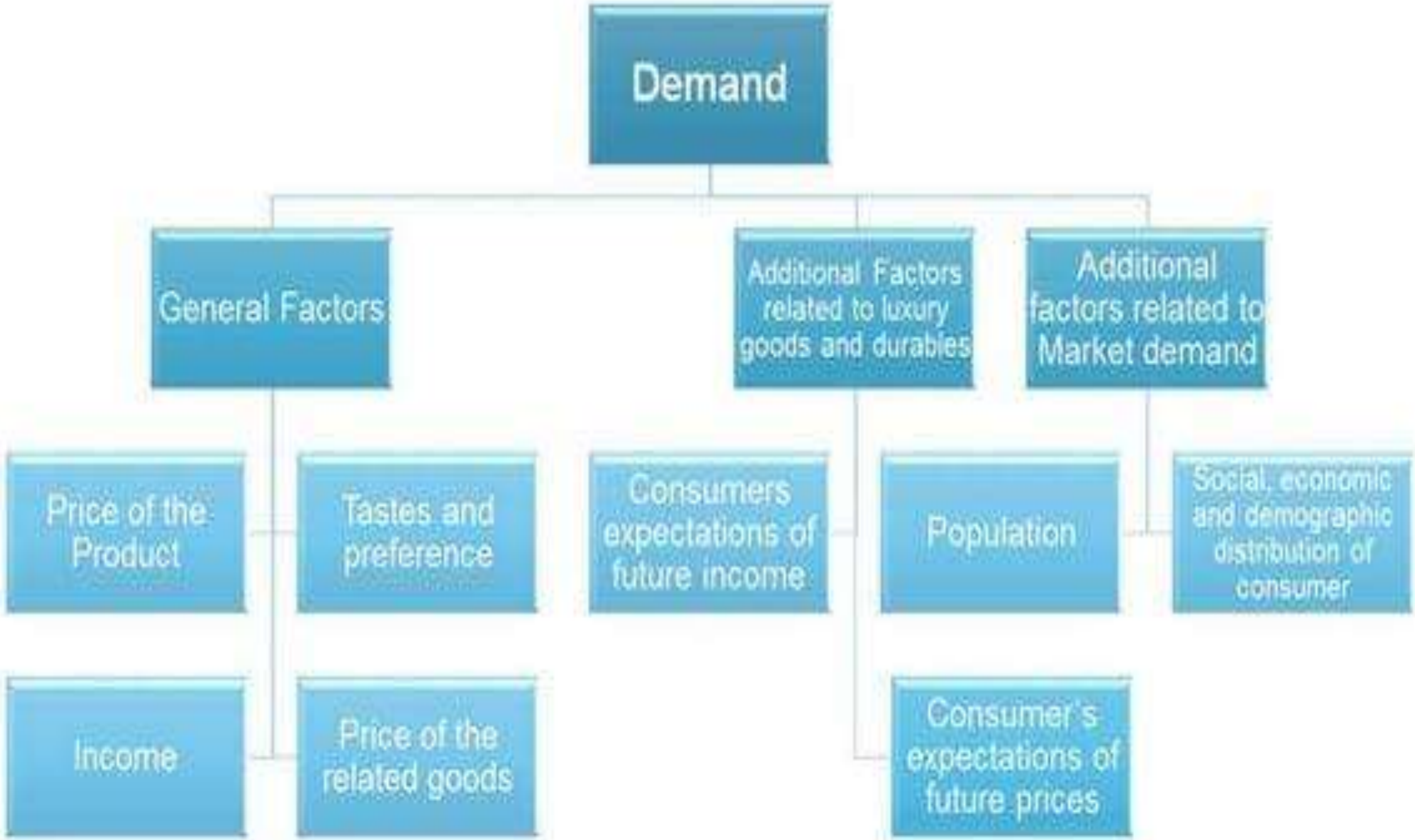
Market Demand

Determinants of Individual Demand

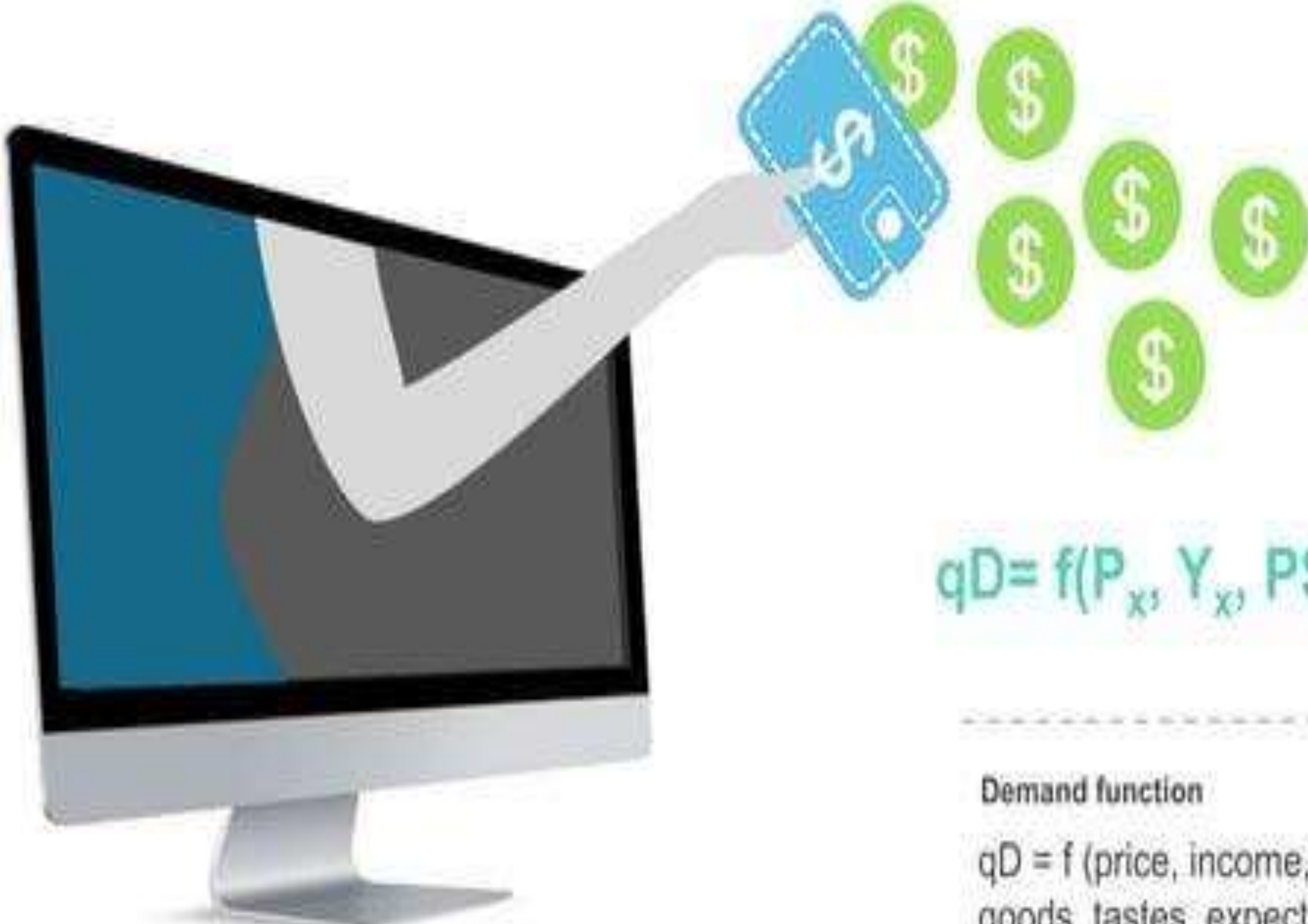


Determinants of Market Demand

Factors determining demand



Demand function: Individual

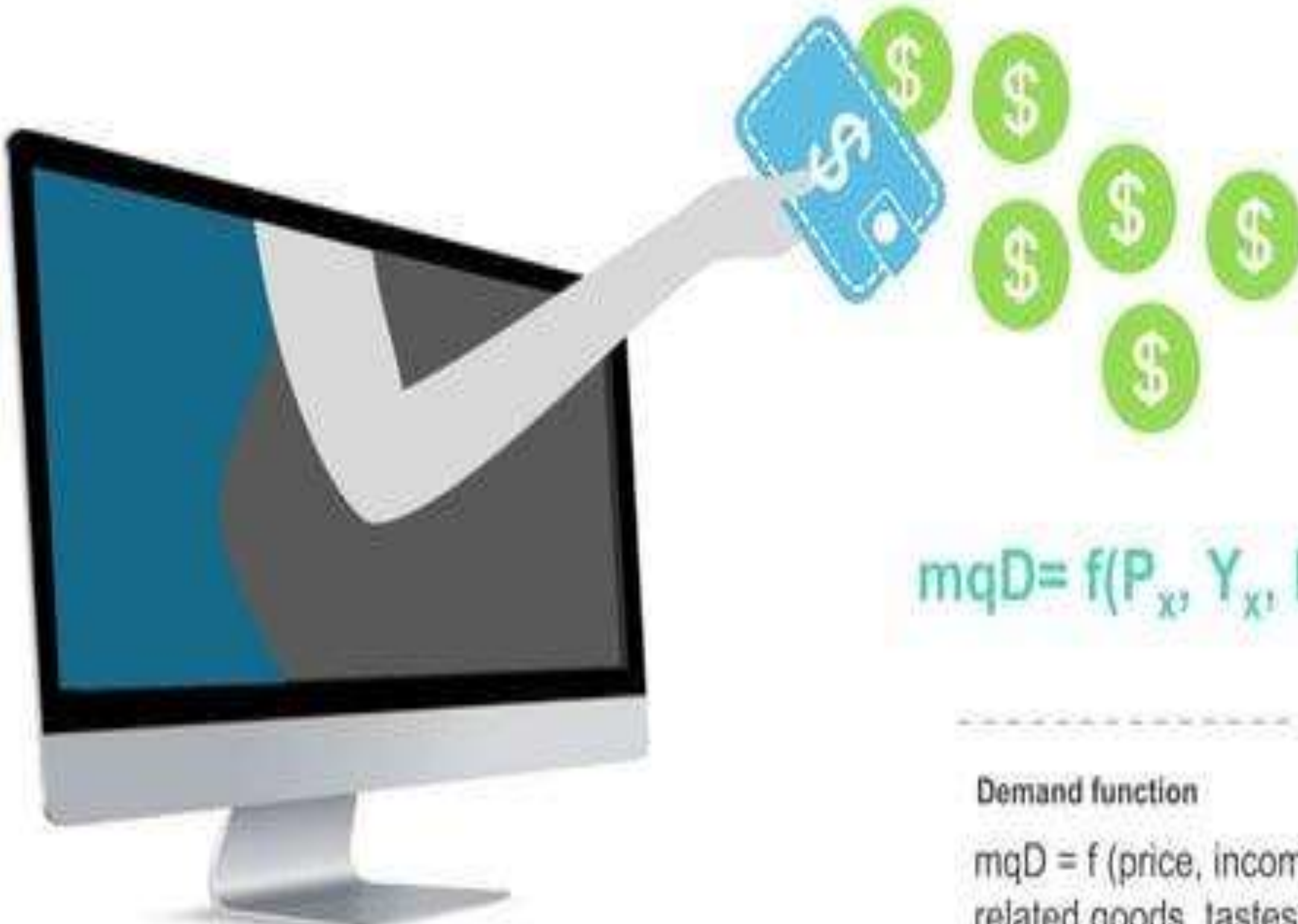


$$qD = f(P_x, Y_x, PS_x, T_x, E_x \ldots u)$$

Demand function

qD = f (price, income, prices of related goods, tastes, expectations)

Demand function: Market



$$mqD= f(P_x, Y_x, PS_x, T_x, E_x \ldots u)$$

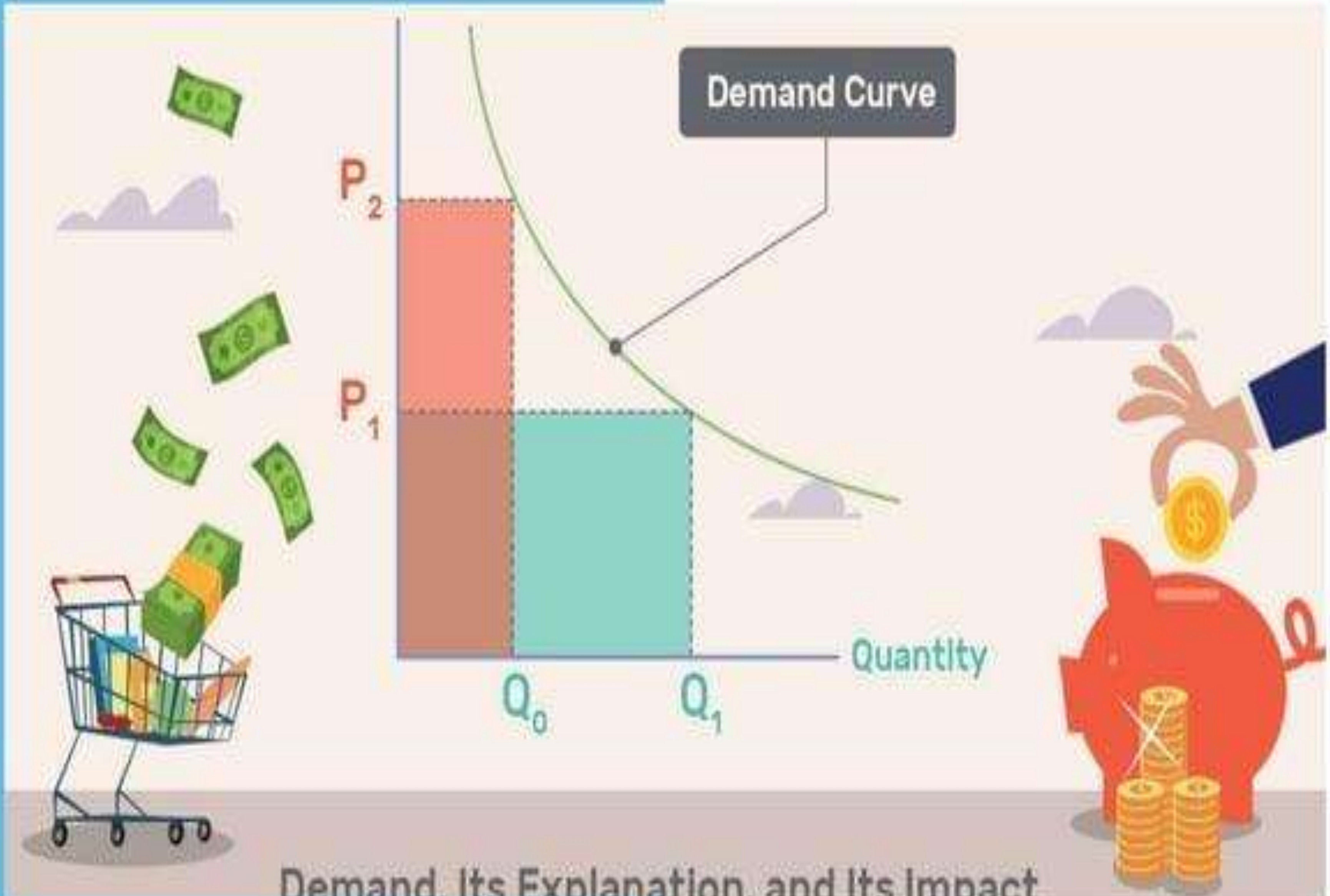
Demand function

mqD = f (price, income, prices of related goods, tastes, expectations)

2019

Law of Demand

Meaning–Concept–Assumptions–Schedule–Diagram


Demand Curve
P_2
P_1
Quantity
Q_0
Q_1
Demand, Its Explanation, and Its Impact

Law of Demand

Law of demand explains consumer choice behavior when the price changes. In the market, assuming other factors affecting demand being constant, when the price of a good rises, it leads to a fall in the demand of that good

The law of demand states that other factors being constant (*cetris peribus*), price and quantity demand of any good and service are inversely related to each other. When the price of a product increases, the demand for the same product will fall

Definition

Alfred Marshall

The Marginalist

amount demanded increases with a fall in price vice versa

Ronald Ferguson

Economists

Quantity demanded varies inversely

Paul Samuelson

Father of Modern Econ omics

Buy more at lowest price

Lee Benham

Economist

Larger quanity demanded at lower price than a higher price

Law of Demand

Definition

The greater the amount to be sold the smaller must be the price

Samuelson

people will buy more at lower prices and buy less at higher prices, if other things remaining the same.

Marshall

amount demanded increases with a fall in price and diminishes when price increases.

Ferguson

the quantity demanded varies inversely with price

Benham

Usually a larger quantity of commodity will demanded at lower price than a higher price

Law of Demand

Assumption

A thing that is accepted as true or as certain to happen, without proof

- No change in price of related commodities
- No change in income of the consumer
- No change in taste and preferences, customs, habit and fashion of the consumer.
- No substitutes of the commodity.
- No change in size of population.
- No expectation regarding future change in price

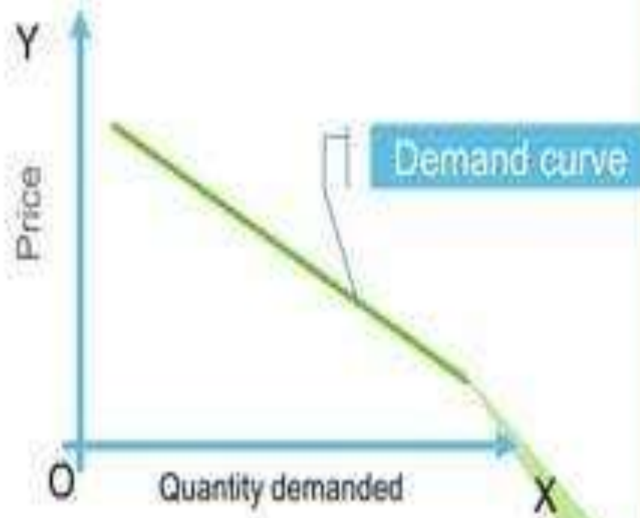
Assumptions

Graphic presentation

Demand Schedule

A table showing the quantities of a good a consumer is willing and able to buy at alternative prices in a given time period, ceteris paribus. .

A tabular statement of quantity demanded at different prices



Price / kg (in Rs.)	Quantity Demanded (in kg.)
1	600
2	400
3	300
4	200
5	100

Demand Schedule

Demand Curve

A curve describing the quantities of a good a consumer is willing and able to buy at alternative prices in a given time period, ceteris paribus

The graphical representation of quantity demanded at different prices

Individual Demand

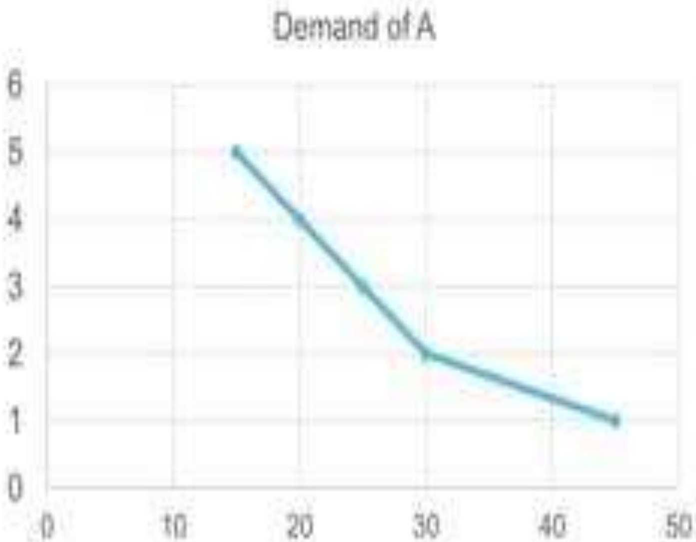
Individual Demand

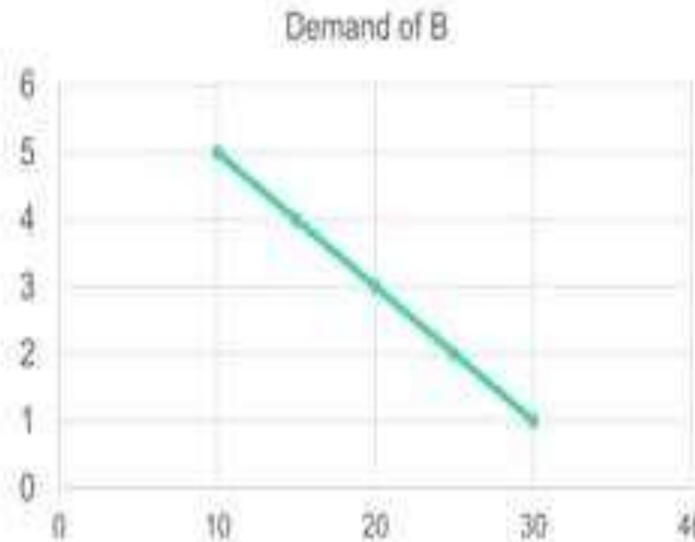
The different quantities of a commodity purchased by a person at a different prices.

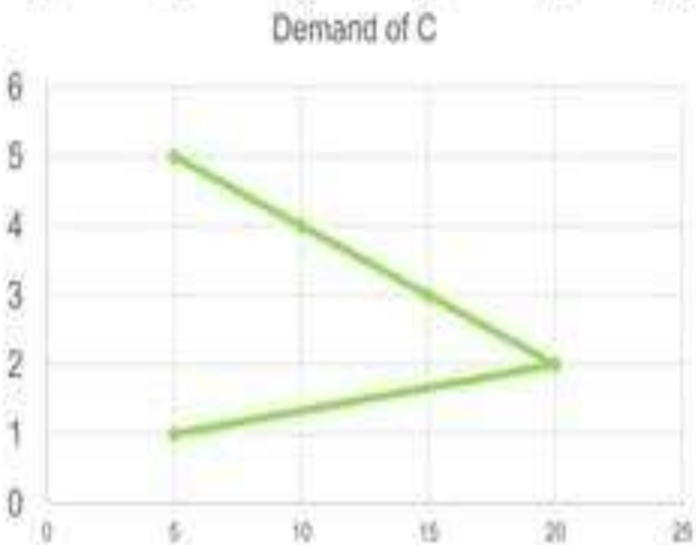
Demand Schedule

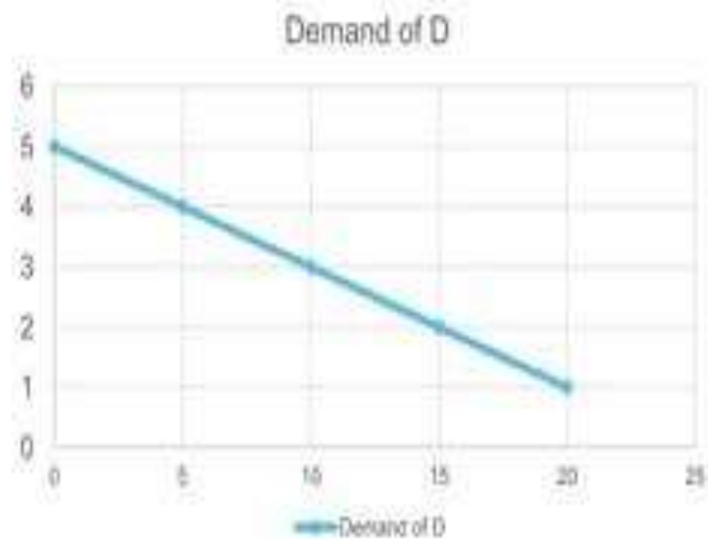
Price / kg (in Rs.)	Quantity Demanded (in kg.)
1	600
2	400
3	300
4	200
5	100

Market Demand









Market Demand

Market Demand

The total quantity of a commodity purchased by all the people in the market at different prices.

Market Demand

Market Demand

Price	A	B	C	D	E	Total
1	45	30	5	20	15	115
2	30	25	20	15	10	100
3	25	20	15	10	5	75
4	20	15	10	5	0	50
5	15	10	5	0	0	30

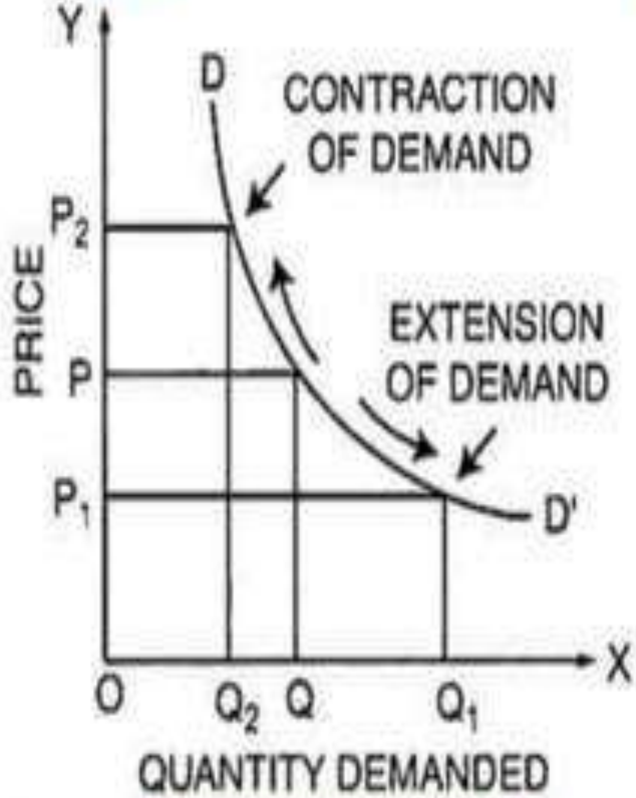
Changes in Demand

Changes in quantity demanded

Shifts

Shifts of the demand curve occur when the determinants of demand changed

Demand curve due to changes in tastes, income, other goods or expectation



Shift vs Movement

Movements

Movements along a demand curve are a response to price changes for that good.

Movements along a given demand curve, in response to price changes of that goods.

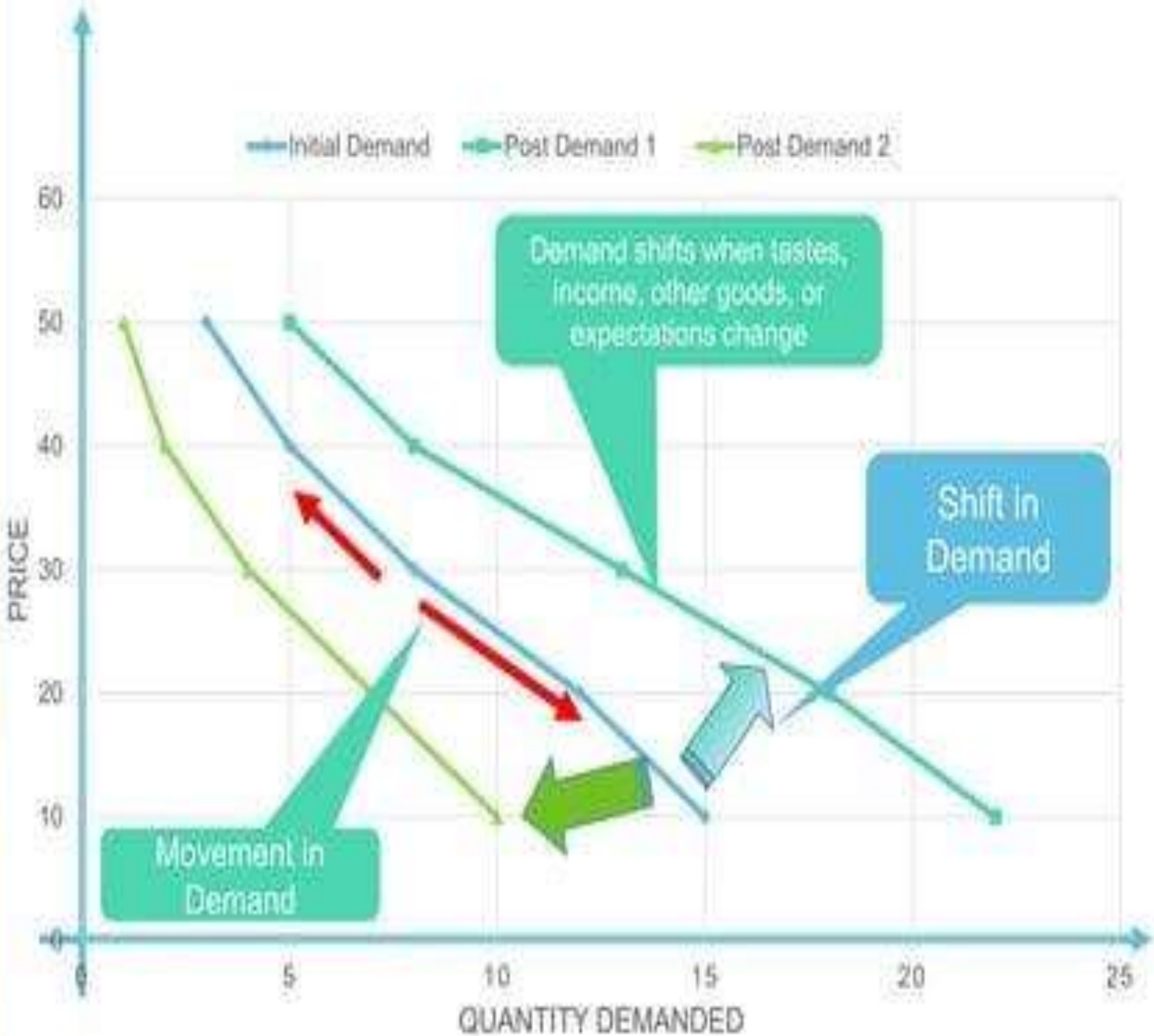
Shifts vs Movements

Market Demand

The total quantity of a commodity purchased by all the people in the market at different prices.

Shift vs Movement

Price	Initial Demand	Post Demand 1	Post Demand 2
10	15	22	10
20	12	18	7
30	8	13	4
40	5	8	2
50	3	5	1



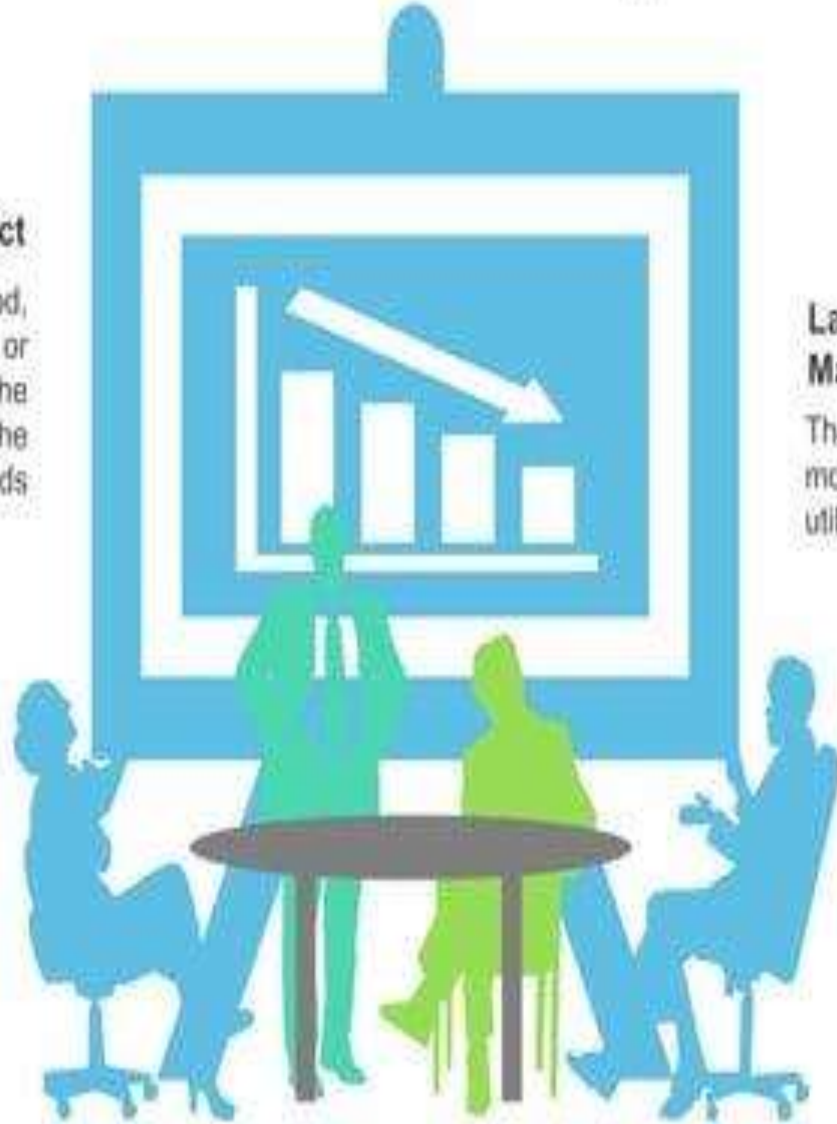
Why does demand curve slopes downwards?

Income Effect

Fall in the price of a good, consumers real income or purchasing power rises, so he demands more units of the goods

Law of Diminishing Marginal Utility

The consumer has more and more of a good, its marginal utility to him goes on declining



New Consumers

New consumers afford the commodity, when the price of the commodity falls in the market.

Substitution Effect

When the price of a good rises, consumer buys more of substitute goods

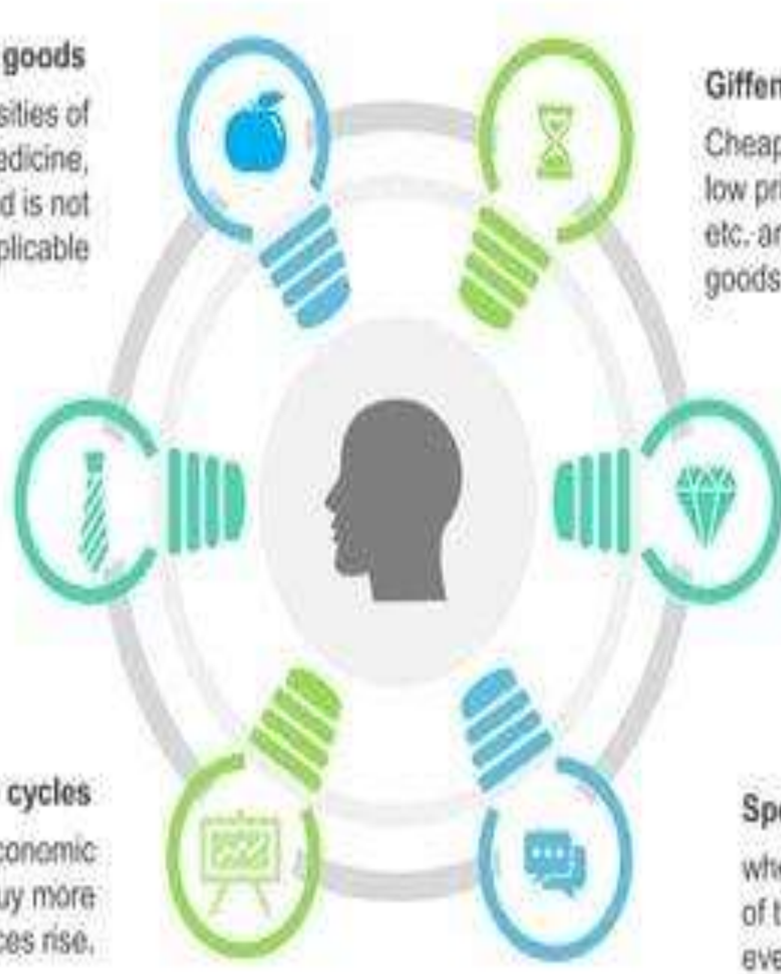
Exceptions

Necessaries goods

In case of basic necessities of life such as salt, rice, medicine, etc. the law of demand is not applicable

Giffen Goods

Cheaper varieties of goods like low priced rice, low priced bread, etc. are some examples of Giffen goods



Change in fashion

If the commodity goes out of fashion, people do not buy more even if the price falls

Veblen goods

The higher the price of the diamond the higher the prestige value of it. Few goods like diamond can be purchased only by rich people

Trade cycles

During the periods of economic prosperity, people buy more even when the prices rise.

Speculation / Price expectation

when they expect further rise in price of the commodity, they will buy more even if the price is higher

Demand Forecasting

Meaning – methods – Features

Demand
Analysis

Demand Forecasting

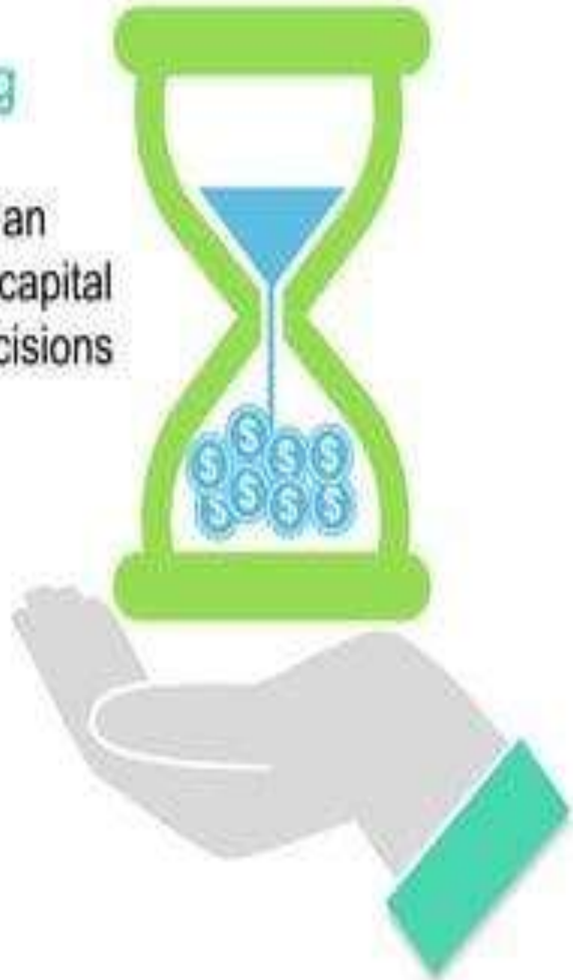
Demand forecasting is an "objective assessment of the future course of demand"

Demand Forecasting

Objectives of Forecasting

Objectives and purposes of forecasting

Demand forecasting provides an insight into the organization's capital investment and expansion decisions



Short term forecasting

Refer to the forecasts that are generally for one year and based upon the judgment of the experienced staff

Long term forecasting

Refer to the forecasts that are for a period of 5-10 years and based on scientific analysis and statistical methods

Very Long period forecasting

Refer to the forecasts that are for a period of more than 10 years

Objectives

Long term Objectives

(a) Planning of new unit or expansion and modernization of an existing unit.

(b) Assessing long-term financial needs

(c) Arranging manpower, trained and skilled labour and business executives.

Demand forecasting

Short term objectives

(a) To have efficient management of inventories, ie., purchasing raw material and the lowest price

(b) To have correct scheduling of production to avoid overproduction and under production

(c) To have profitable prize strategies

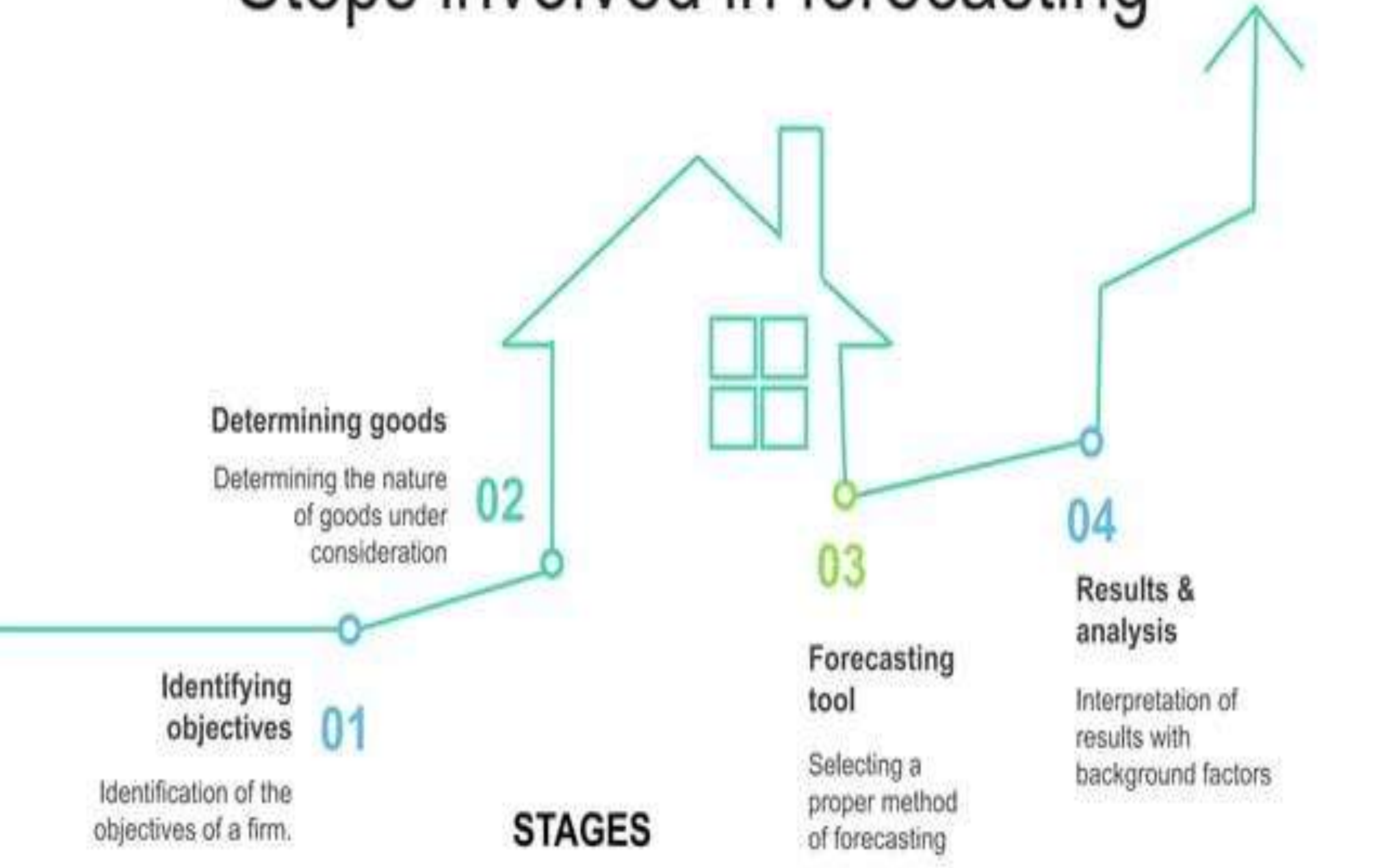
(d)

(e) To have effective sales strategies

(f) to have accurate financial strategies to meet financial requirements.

(g) Evolving a competent advertising and promotion programme

Steps involved in forecasting



Determinants of Demand Forecasting

Proactive process

Demand forecasting is a proactive process that helps in determining what products are needed where, when, and in what quantities

Factors Influencing Demand Forecasting

Types of Consumer Goods

Durable Consumer goods

goods are those which can be consumed more than once, over a period of time.

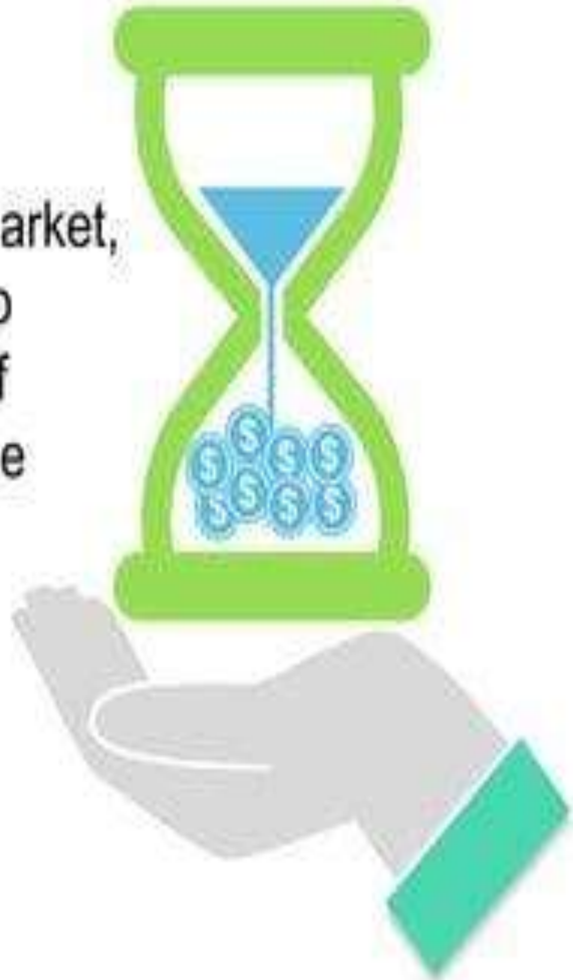
Non-durable Consumer Goods

goods are those which are used for production of other goods

Determinants of Forecasting

Competition Level

In a highly competitive market, demand for products also depend on the number of competitors existing in the market



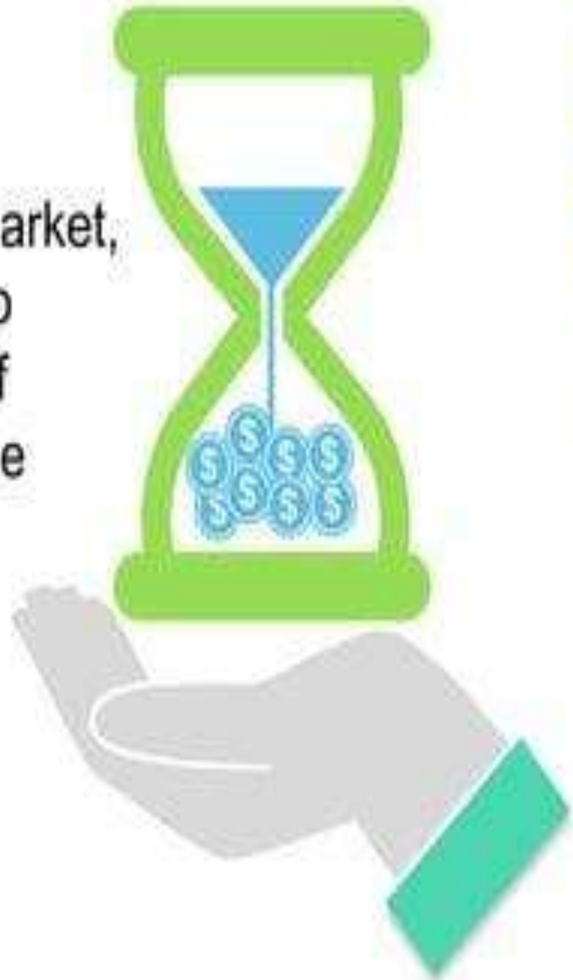
Risk

In such a scenario, it is difficult to estimate the exact demand of products

Determinants of Forecasting

Price of Goods

In a highly competitive market, demand for products also depend on the number of competitors existing in the market



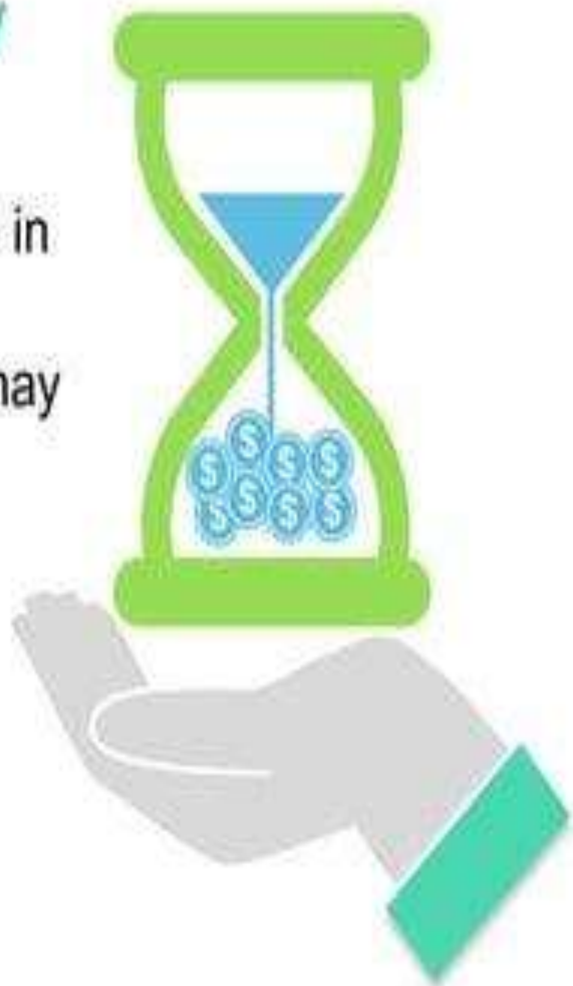
Demand Estimation

it is difficult to estimate the exact demand of products

Determinants of Forecasting

Level of Technology

If there is a rapid change in technology, the existing technology or products may become obsolete



For example

there is a high decline in the demand of floppy disks with the introduction of compact disks (CDs) and pen drives for saving data in computer.

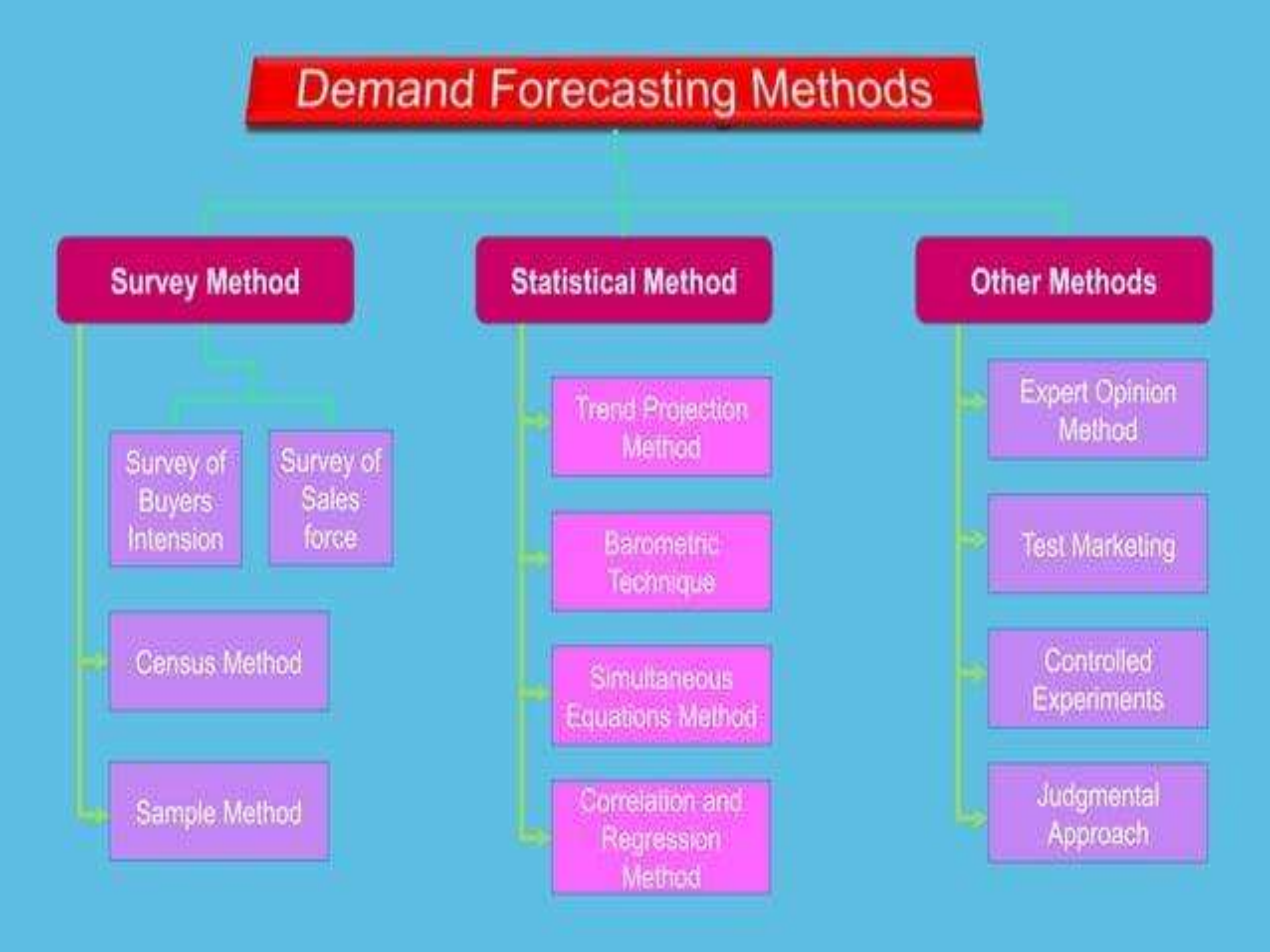
Determinants of Forecasting

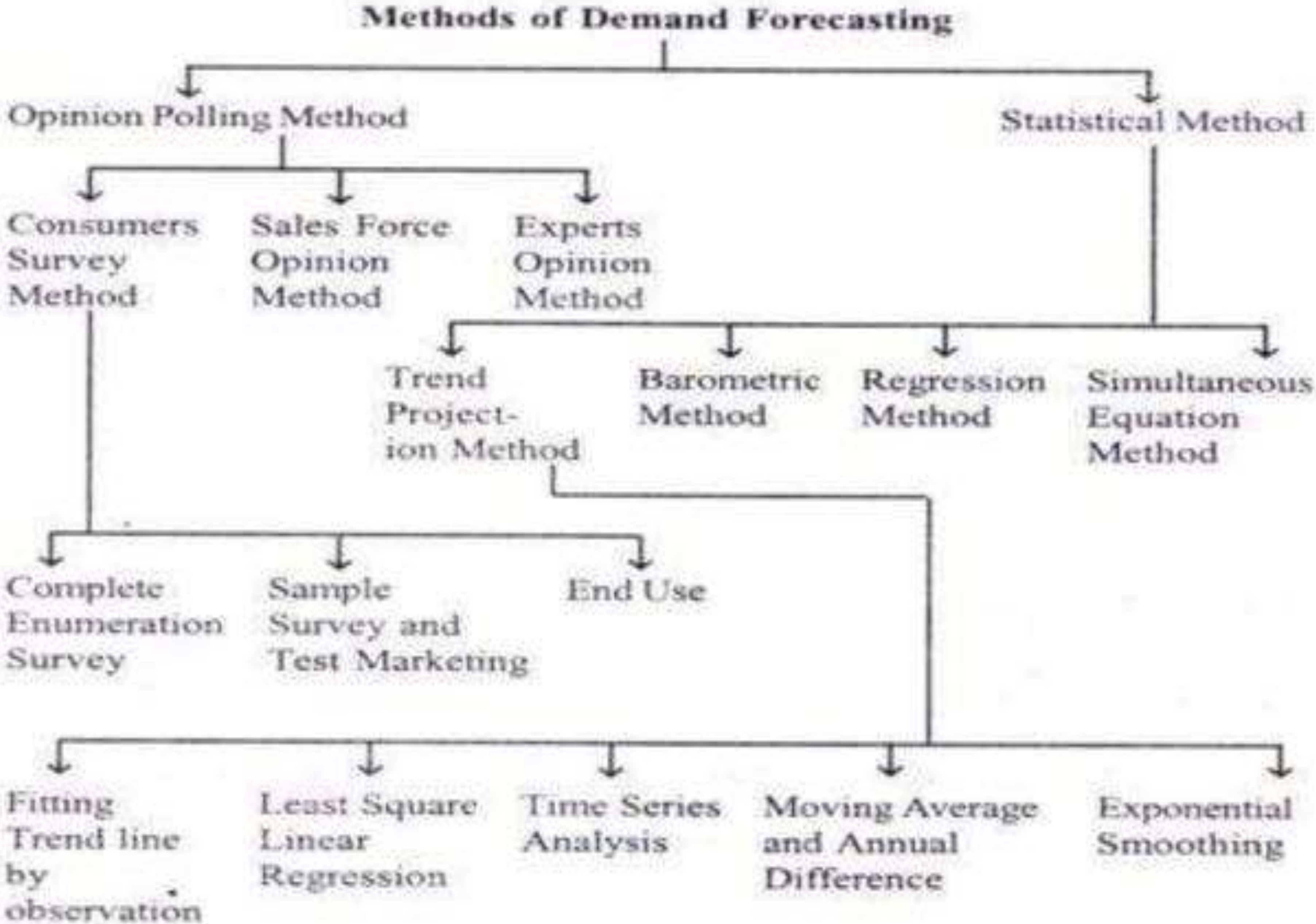
Economic Viewpoint

Play a crucial role in obtaining demand forecasts

For example

if there is a positive development in an economy, such as globalization and high level of investment, the demand forecasts of organizations would also be positive


Demand Forecasting Methods
Survey Method
Statistical Method
Other Methods
Survey of Buyers Intension
Survey of Sales force
Census Method
Sample Method
Trend Projection Method
Barometric Technique
Simultaneous Equations Method
Correlation and Regression Method
Expert Opinion Method
Test Marketing
Controlled Experiments
Judgmental Approach


Methods of Demand Forecasting
Opinion Polling Method
Statistical Method
Consumers Survey Method
Sales Force Opinion Method
Experts Opinion Method
Trend Project-ion Method
Barometric Method
Regression Method
Simultaneous Equation Method
Complete Enumeration Survey
Sample Survey and Test Marketing
End Use
Fitting Trend line by observation
Least Square Linear Regression
Time Series Analysis
Moving Average and Annual Difference
Exponential Smoothing

Demand Forecasting

Trend Analysis

Secular Trend
Refers to the changes that occur as a result of general tendency

Seasonal variations

Refers to the changes resulting from change in climate, weather conditions or from changes in the wake of festival.

Cyclical variation

Refers to the changes arising out of booms and depressions

Random variations
Random factors are those which are generally unpredictable such as famine floods, earthquake etc..


Demand Forecasting to predict
future demand of Products

Forecasting a new product (Methods)

Vicarious Approach

the consumers' reactions for a new product are found out indirectly through the specialised dealers who are able to judge the consumers' needs, tastes and preferences

The Evolutionary Approach

It consists of projecting the demand for a new product as an outgrowth and evolution of an existing old product

Sales Experience Approach

the demand for the new product is estimated by offering the new product for sale in a sample market

Substitute Approach

the new product is treated as a substitute for the existing product or service

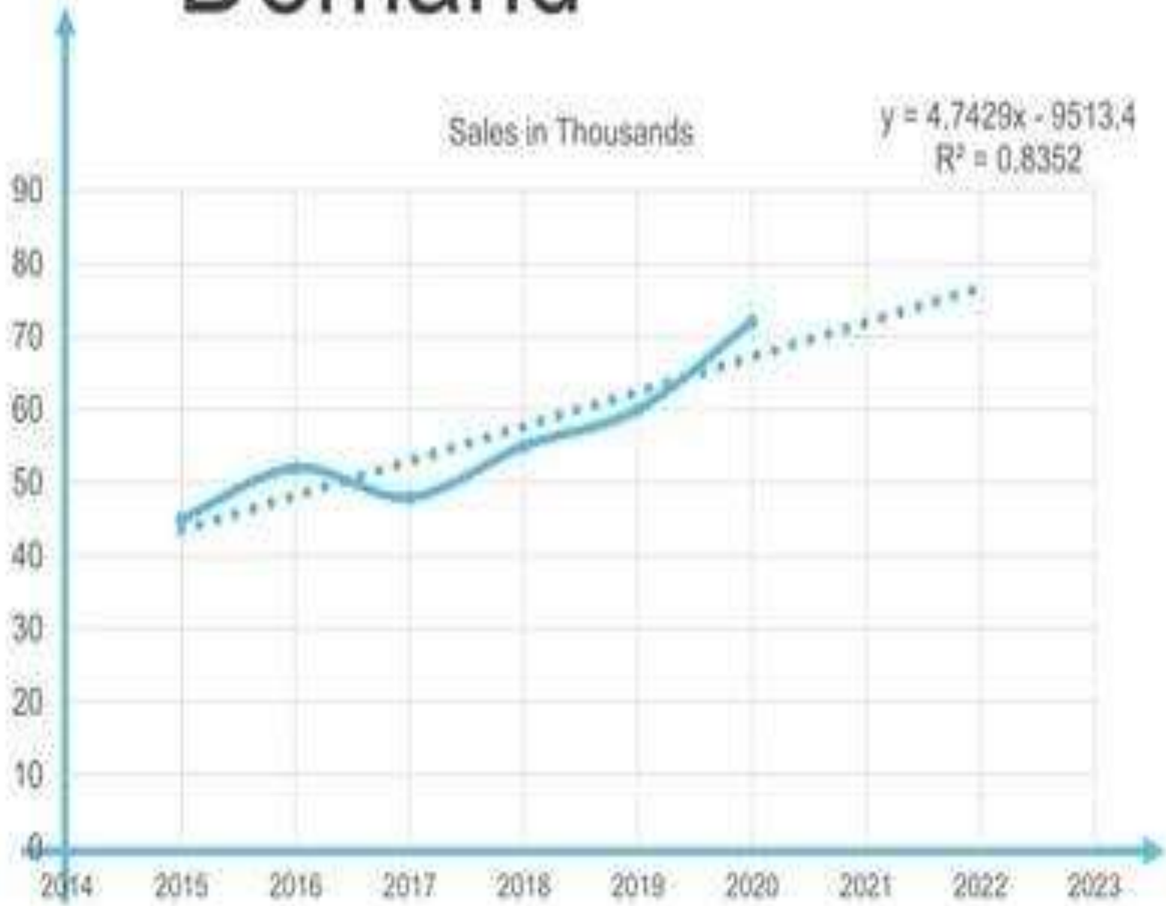
Opinion-Poll Approach

the demand is estimated by direct enquiries from the ultimate consumers.

Growth Curve Approach

It estimates the rate of growth and potential demand for the new product as the basis of some growth pattern of an established product

Forecasting Demand



Features of a Good Demand Forecasting

Demand Forecasting

Since the future is uncertain, these forecasts may not be hundred percent correct. But every firm tries to obtain the forecasts as precisely as possible

01 Plausibility

It should give accurate result

02 Simplicity

Should be very simple and understandable

03 Economy

Less cost and economy one

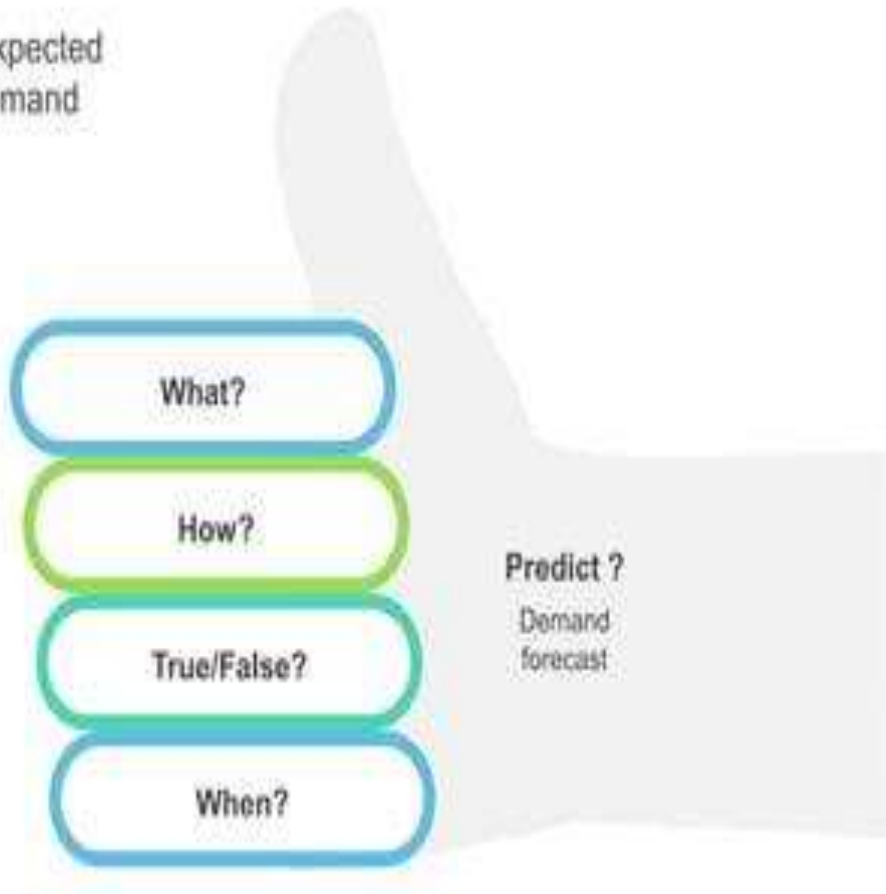
04 Availability

Data must be easily available

Features of a Good Demand Forecasting

Demand Forecasting

A demand forecast is said to be good or efficient when the expected market demand is very near or equal to the actual market demand



05 Sharpness

It Stands for accuracy in demand prediction

06 comprehensiveness

Forecast should be comprehensive

07 Validity

Size of admissible hypothesis

08 Timeline

Forecast with the upcoming trends

Unit-3

Production, cost ,Market structures &Pricing

Theory of Production

- Production is a process that create/adds value or utility
- It is the process in which the inputs are converted in to outputs.

Inputs	• The factors of production such as Land, Labour, Capital, Technology ,etc
Outputs	• The goods and service produced such as Soap, Omni Car ,etc

Production Function

- Production function means the functional relationship between inputs and outputs in the process of production.

- It is a technical relation which connects factors inputs used in the production function and the level of outputs

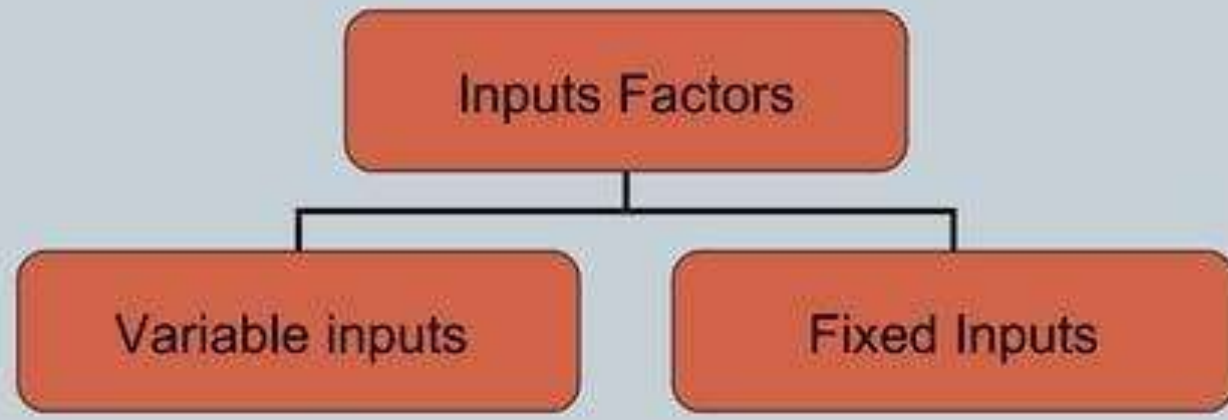
Q = f (Land, Labour, Capital, Organization, Technology, etc)

Factors of Production

Land	• Natural resources such as surface, mineral , air, rivers, sea, etc • Free gift of nature, fixed
Labour	• Mental or physical effort done by a man with the view of
Capital	• Man made goods used in the production process • Most mobile factor
Organization	• Entrepreneur or coordinator of all other factors of production

Inputs : Fixed inputs and Variable inputs

- The factors of production that is carry out the production is called inputs.
- Land, Labour, Capital, Organizer, Technology, are the example of inputs



Inputs : Fixed inputs and Variable inputs

Fixed inputs

- Remain the same in the short period .
- At any level of out put, the amount is remain the same.
- The cost of these inputs are called Fixed Cost
- Examples:- Building, Land etc
- (In the long run fixed inputs are become varies)

Variable inputs

- In the long run all factors of production are varies according to the volume of outputs.
- The cost of variable inputs is called Variable Cost
- Example:- Raw materials, labour, etc

Various concept of production

Total Product

Average Product- Ratio of Total Product and one variable inputs

Marginal Product – The rate of change of out put as a result changes in one variable input

Law of Production Function

- **Laws of Variable proportion**- Law of Diminishing Return (Short run production function with at least one input is variable)

- **Laws of Return scales** – Long run production function with all inputs factors are variable.

• Law of variable proportion: Short run Production Function

- Explain short run production function
- Production function with at least one variable factor keeping the quantities of others inputs as a Fixed.
- Show the input-out put relation when one inputs is variable

"If one of the variable factor of production used more and more unit,keeping other inputs fixed, the total product(TP) will increase at an increase rate in the first stage, and in the second stage TP continuously increase but at diminishing rate and eventually TP decrease."

Short run Production Function with Labour as Variable factor

Labour (L)	Land	Capital (K)	Total Output (TP)	Average Product (AP)	Marginal Product (MP)	
0	10	10	0	-		
1	10	10	10	10	10	First Stage
2	10	10	30	15	20	
3	10	10	60	20	30	
4	10	10	80	20	20	
5	10	10	95	19	15	Second Stage
6	10	10	108	18	13	
7	10	10	112	16	4	
8	10	10	112	14	0	
9	10	10	108	12	-4	Third Stage
10	10	10	100	10	-8	

Stages in Law of variable proportion

First Stage: Increasing return

- TP increase at increasing rate till the end of the stage.
- AP also increase and reaches at highest point at the end of the stage.
- MP also increase at it become equal to AP at the end of the stage.
- MP>AP

Second Stage: Diminishing return

- TP increase but at diminishing rate and it reach at highest at the end of the stage.
- AP and MP are decreasing but both are positive.
- MP become zero when TP is at Maximum, at the end of the stage
- MP<AP.

Third Stage: Negative return

- TP decrease and TP Curve slopes downward
- As TP is decrease MP is negative. AP is decreasing but positive.

2. Law of return to scales: Long run Production Function

- Explain long run production function when the inputs are changed in the same proportion.
- Production function with all factors of productions are variable..
- Show the input-out put relation in the long run with all inputs are variable.

"Return to scale refers to the relationship between changes of outputs and proportionate changes in the in all factors of production "

Law of return to scales: Long run Production Function

Labour	Capital	TP	MP	
2	1	8	8	
4	2	18	10	Increasing returns to scale
6	3	30	12	
8	4	40	10	
10	5	50	10	Constant returns to scale
12	6	60	10	
14	7	68	8	
16	8	74	6	Decreasing returns to scale
18	9	78	4	

- **Law of return to scales: Long run Production Function**

Inputs 10% increase – Outputs 15% increase — Increasing returns to scale

Inputs 10% increase – Outputs 10% increase — Constant returns to scale

Inputs 10% increase – Outputs 5% increase — Decreasing returns to scale

Homogeneous production function

In the long run all inputs are variable. The production function is homogeneous if all inputs factors are increased in the same proportions in order to change the outputs.

A Production function Q = f (L, K)
An increase in Q> Q^ = f (L+L.10%, K+K.10%)-
Inputs increased same proportion

Increasing returns to scale	Inputs increased 10% => output increased 15%
Constant returns to scale	Inputs increased 10% => output increased 10%
Decreasing returns to scale	Inputs increased 10% => output increased 8%

Homogeneous production function

In the long run all inputs are variable. The production function is homogeneous if all inputs factors are increased in the same proportions in order to change the outputs.

A Production function Q = f (L, K)
An increase in Q> Q^ = f (L+L.10%, K+K.10%)-
Inputs increased same proportion

Increasing returns to scale Inputs increased 10% => output increased 15%

Constant returns to scale Inputs increased 10% => output increased 10%

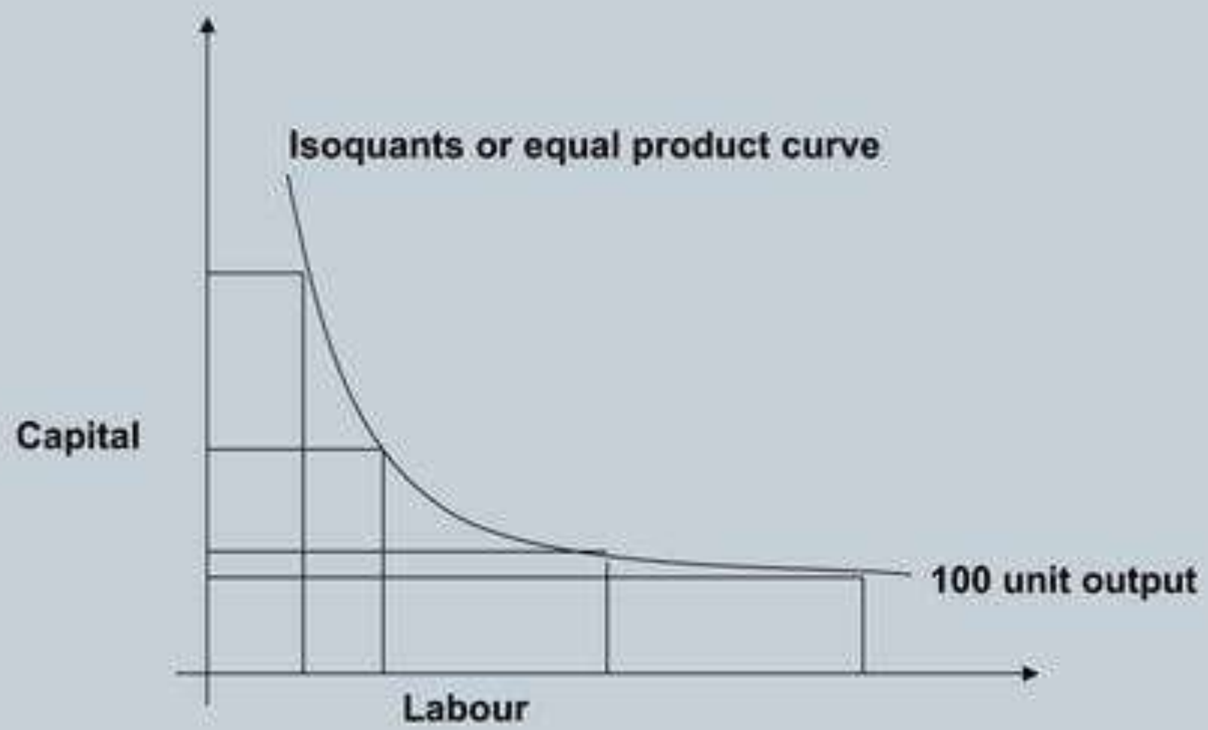
Decreasing returns to scale Inputs increased 10% => output increased 8%

Iosquants

Combination	Labour	Capital	Output level
A	20	1	100 unit
B	18	2	100 unit
C	12	3	100 unit
D	9	4	100 unit
E	6	5	100 unit
F	4	6	100 unit

An isoquants represent all those possible combination of two inputs (labour and capital), which is capable to produce an equal level of output .

Iosquants



An isoquants represent all those possible combination of two inputs (Labour and Capital), which is capable to produce an equal level of output.

A
Presentation on
Cost analysis

COST CONCEPT

ECONOMIC COST

- This cost includes explicit and implicit cost both. In other words, economic cost includes both recorded and unrecorded cost.

➢ **EXPLICIT COST** is the actual money expenditure on inputs or payments made to the outsiders for hiring the factor services.

Example – wages paid to employees, payment for raw materials etc.

- IMPLICIT COST is the cost of self supplied factors .

Example- Interest on own capital ,Rent of own land etc.

The sum of explicit cost and implicit cost is the total cost of production of a commodity.

ACCOUNTING COST

- Accounting cost is the cost based upon accounting records in the book of accounts.
- They are recorded in the book of accounts when they are actually incurred . Its based on Accrual concept.
- Accounting costs are explicit cost and must be paid.

PRIVATE COST & SOCIAL COST

- Private costs are those which are actually incurred by a firm on the purchase of goods and services from the market. For a firm, all actual costs both explicit and Implicit are private costs.

- Social Costs refers to the total cost borne by the society due to production of a commodity

Incremental and Sunk Costs

- Incremental costs are closely related to marginal costs, incremental costs refers to the total additional cost associated with the expand in output.

- Sunk Costs are those which cannot be altered, increased or decreased by varying the rate of output.

Short Run and long run costs

- Short run costs are costs that vary with variation in output. Short run costs are the same as variable costs

- Long run costs are costs that are incurred on fixed assets like plant, machinery, etc

DIRECT AND INDIRECT COST

- Direct cost are the costs that have direct relationship with a unit of operation. This includes items such as software, equipment, labor and raw materials.

- Indirect cost are those cost whose cost can't be easily traced to a product such as electricity , stationary and other office expenses.

TOTAL COST

Total cost is the actual money spends to produce a particular quantity of output.

It is the summation of fixed and variable costs

$$TC = TFC + TVC$$

- TFC(Total Fixed Cost):

Total fixed costs, i.e the cost of plant, building, equipment etc. remain fixed with a change in output.

- TVC(Total Variable Cost):

The total variable cost i.e the cost of labour, raw material etc varies with the variation in output.

MARGINAL COST

- Marginal cost is the additional to total cost when one more unit of output is produced .

- It can be arrived by dividing the change in total cost by the change in total output.

$$\text{MC} = \left(\frac{\Delta TC}{\Delta Q}\right)$$

Determinants of Costs

Factors determining the cost are

(a) Size of plant: There is an inverse relationship between size of plant and cost. As size of plant increases, cost falls and vice versa.

(b) Level of Output: There is a direct relationship between output level and cost. More the level of output, more is the cost (i. e., total cost) and vice Versa.

(c) Price of Inputs: There is a relationship between price of inputs and cost. As the price of inputs rises, cost ruses and vice versa.

(d) State of technology: More modern and upgraded the technology implies lesser cost and vice versa.

(e) Management and administrative efficiency: Efficiency and cost are inversely related. More the efficiency in management and administration better will be the product and less will be the cost. Cost will case of inefficiencies in management and administration.

Market Structure

Engineering Economics

Market

Market

- **In economics, market means a social system through which the sellers and purchasers of a Commodity or a service** (or a group of commodities and services)can interact with each other.

Market

Market

- **In common language, market means a place where goods are purchased.**
- However, in economics, **market means an arrangement which establish effective relationship between buyers and seller of a commodity. Hence, each commodity has its own market.**

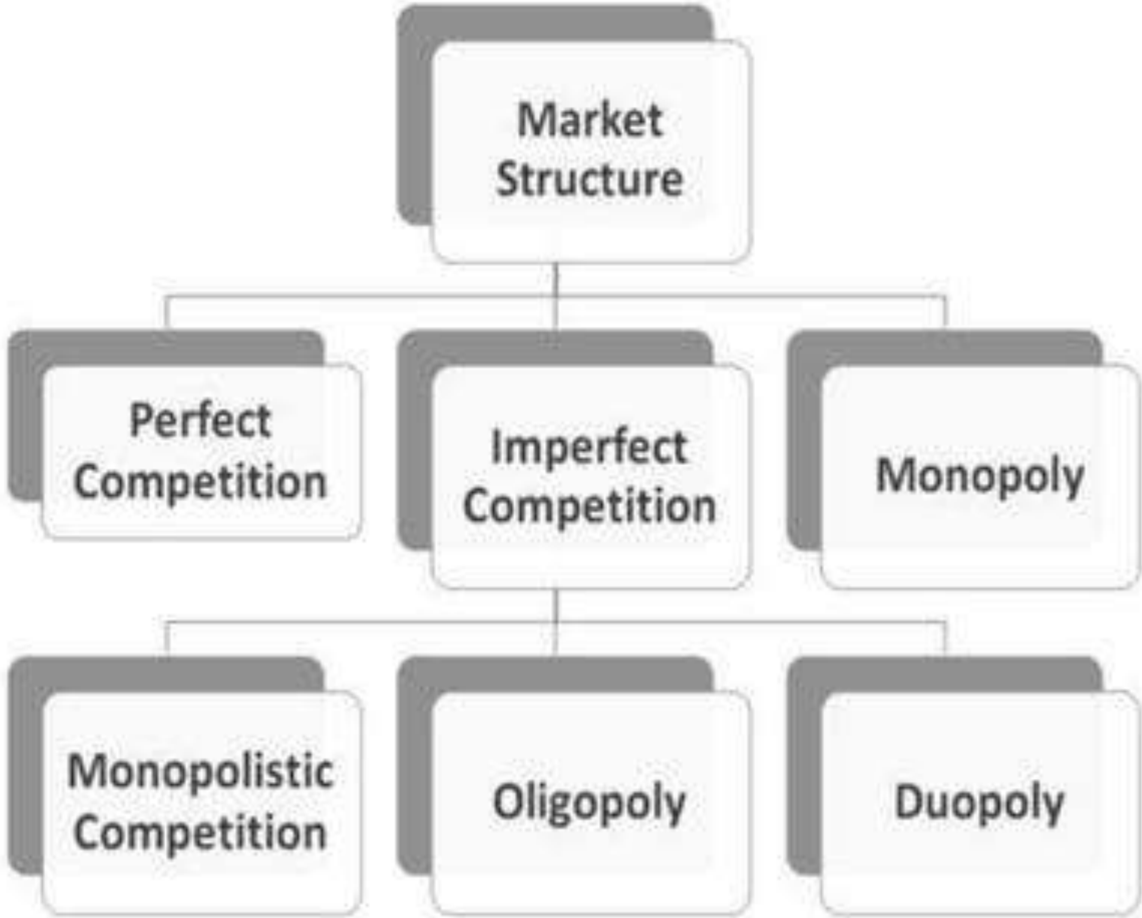
Market

- *They can participate in sale and purchase.*
- *Market does not refer to a particular place or location.*
- *It refers to an institutional relationship between purchasers and sellers.*
- *Market is an arrangement which links buyers and sellers.*
- *A market can be of different types.*

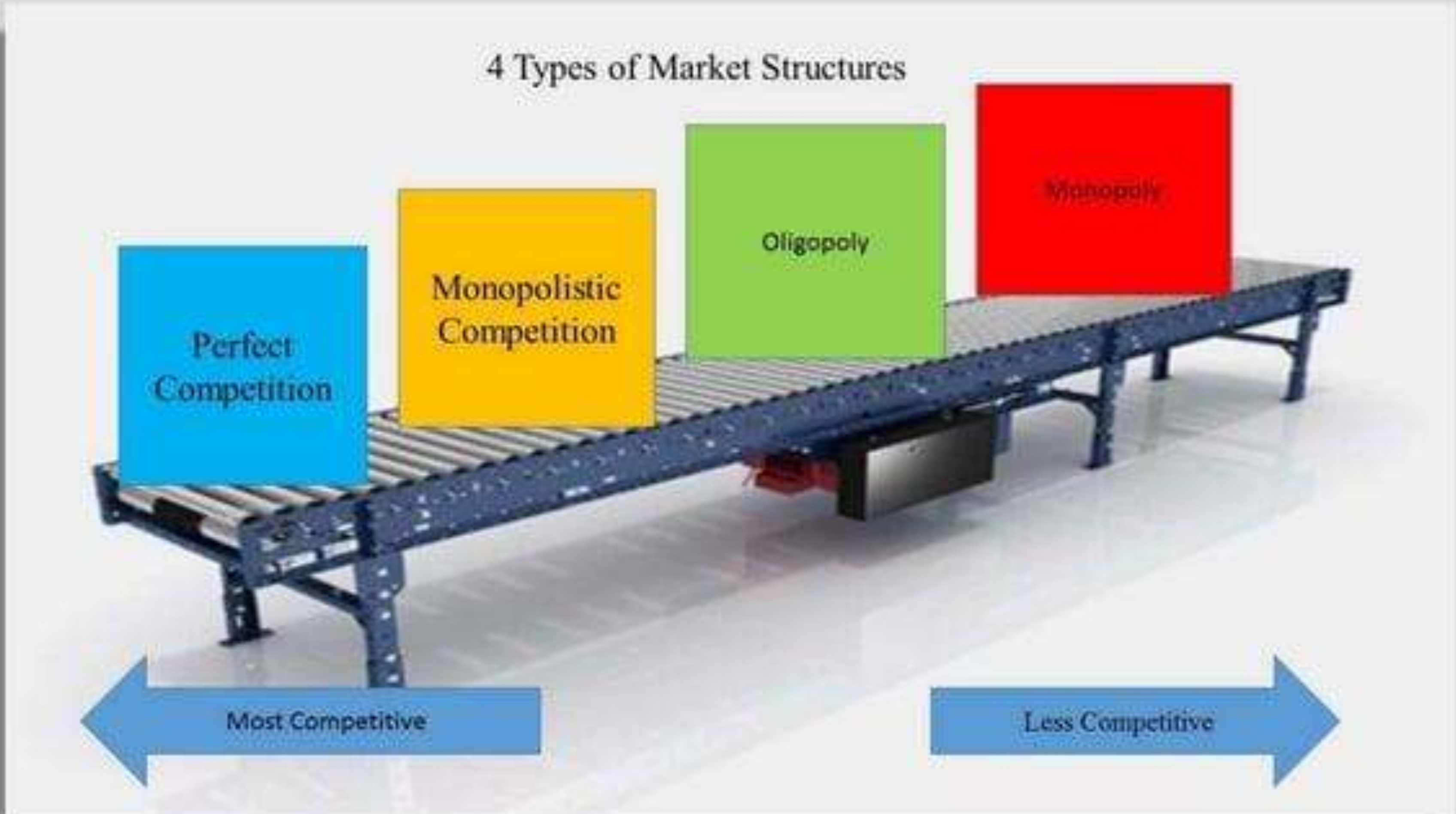
The market differ from one another due to differences in the number of buyers, number of sellers, Nature of the product, influence over price, availability of information, conditions of supply etc.

- **Economists discuss four broad categories of market structures:**
    - Perfect Completion
    - Monopoly
    - Monopolistic Competition
    - Oligopoly

Market Structure



Market Structure



Perfect Competition

Perfect Competition

A market where infinite number of sellers sell homogeneous good to infinite number of buyers and buyers, and sellers have perfect knowledge of market conditions

- Features
  - Presence of large number of buyers and sellers
  - Homogeneous product
  - Freedom of entry and exit
  - Perfect knowledge
  - Perfectly elastic demand curve
  - Perfect mobility of factors of production
  - No governmental intervention
  - Firm is a price taker

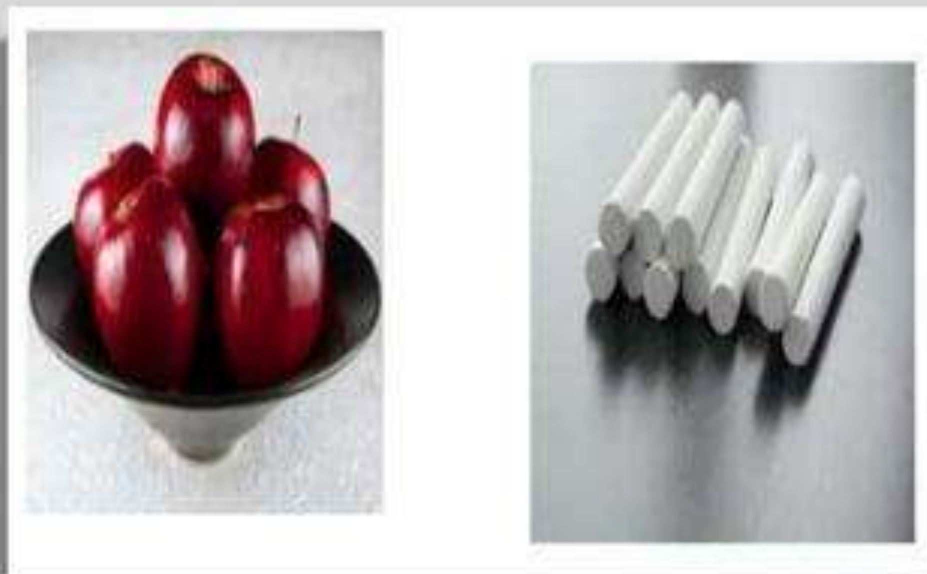
Perfect Competition

- A market is said to be **Perfectly Competitive** if it satisfies the following features:-
- **(i) Large number of buyers and sellers : Under perfect competition, there exists a large number of sellers and the share of an individual seller** is too small in the total market output.
- **As a result a single firm cannot influence the market price so that a firm under perfect competition is a price taker and not a price maker.** Similarly, there are a large number of buyers and an individual buyer buys only a small portion of the total output available.
- **(ii) Homogenous goods : Under perfect competition all firms sell homogenous goods which are** identical in quantity, shape, size, colour, packaging etc. So the products are perfect substitutes of each other.

Large Number Of Buyers And Sellers

Perfect Competition

HOMOGENOUS Products : Identical Or Perfect Substitutes



Perfect Competition

- **Differentiated Products:** Similar But Not Identical Or Different But Close Substitutes

Perfect Competition

(iii) Price is uniform: as **the products of the different sellers in the market are homogenous.**

The price is determined forces of demand(buyer's bidding) and supply (sellers bidding) in the market and accepted by the all sellers are price takers in market.

Hence firms under perfect competition are called price-takers.

Price-Takers

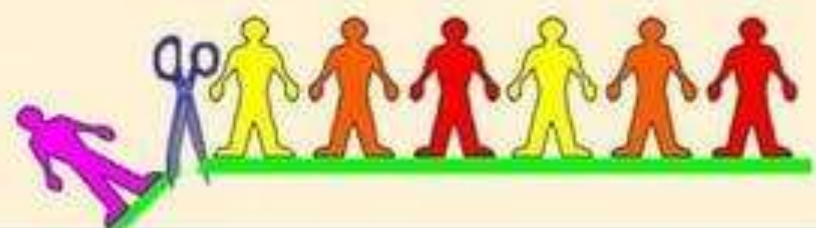
Price takers	Have no option but to charge the ruling market price
Price makers	Able to fix their own price
Price leaders	Market leaders whose price changes are followed by rivals
Price followers	Follow the price-changing lead of the market leader

Perfect Competition

- **(iv) Free Entry And Free Exit : Any firm can enter or leave the industry whenever it wishes.**
- **The condition of free entry and free exit ensures that all the firms under perfect competition will earn normal profits in the long run**.
- **If the existing firms are earning supernormal profits, new firms would be attracted to enter the industry and increases the total supply.** This will reduce the market price and the supernormal profit will not sustain. On the other hand if the existing firm incur supernormal loss then firms would leave the industry, thus reducing the supply. As a result, price will again rise and the loss will be wiped out.

Perfect Competition

- Free Entry or Exit
- Firms can enter or exit the market without restriction.
- The number of firms in the market adjusts until economic profits are zero.



Perfect Competition

(v) Profit Maximization :- The goal of all firms is maximization of profit.

(vi) No Government Regulation :- There is no Government intervention in the market.

(vii) Perfect Mobility Of Factors :- Resources can move freely from one firm to another without any restriction. The labours are not unionized and they can move between jobs and skills.

(viii) Perfect Knowledge :- Individual buyer and seller have perfect knowledge about market and information is given free of cost. Each firm knows the price prevailing in the market and would not sell the commodity which is higher or lower than the market price.

Similarly, each buyer knows the prevailing market price and he is not allowed to pay a higher price than that. The firm also has a perfect knowledge about the techniques of productions. Each firm is able to make use of the best techniques of production.

Perfect Competition

(ix) Absence Of Transport Cost

- **Transport cost is zero. price of the product is not affected by the cost of transportation.**

(x) Perfectly Elastic Demand Curve

- **Demand curve reflected by AR curve facing firm under perfect competition is perfectly elastic meaning that the firm can sell as much as it want at the ruling market price .** Since price is uniform and given under perfect competition, both AR(price) and MR become equal. Thus, AR and MR curves coincide and become parallel to output axis.

Perfect Competition

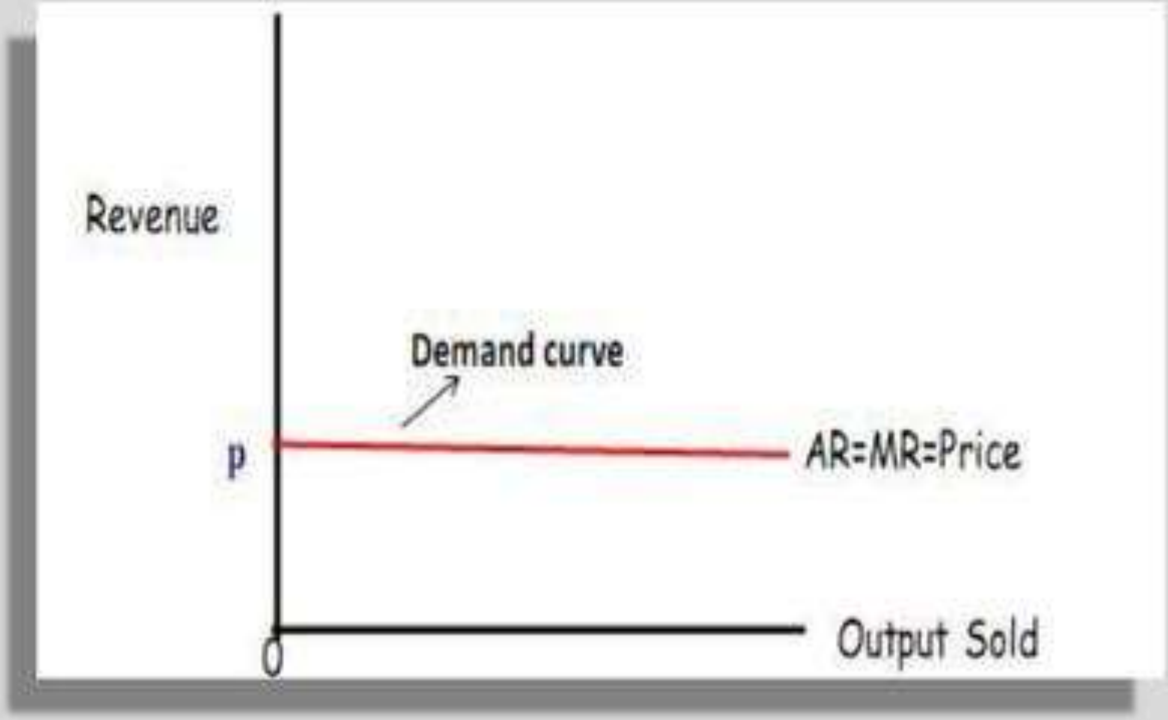
Absence or Transport Costs Element

- Under perfect competition transport, cost does not exist.
- Since commodities have, the same price it logically follows that there will be no transport cost.
- Transport cost occurs when there is no perfect knowledge of the market conditions on the part of buyers and sellers.

PERFECT KNOWLEDGE OF MARKET CONDITIONS

- All buyers and sellers must posses perfect knowledge about market price,qualities and sources of supply.
- Perfect knowledge ensures transactions at a uniform price.

Perfectly elastic demand curve



Imperfect Competition

- **Imperfectly competitive markets may be classified as : (i) Monopoly, (ii) Monopolistic Competition, (iii) Oligopoly and (iv) Duopoly**

Imperfect Competition

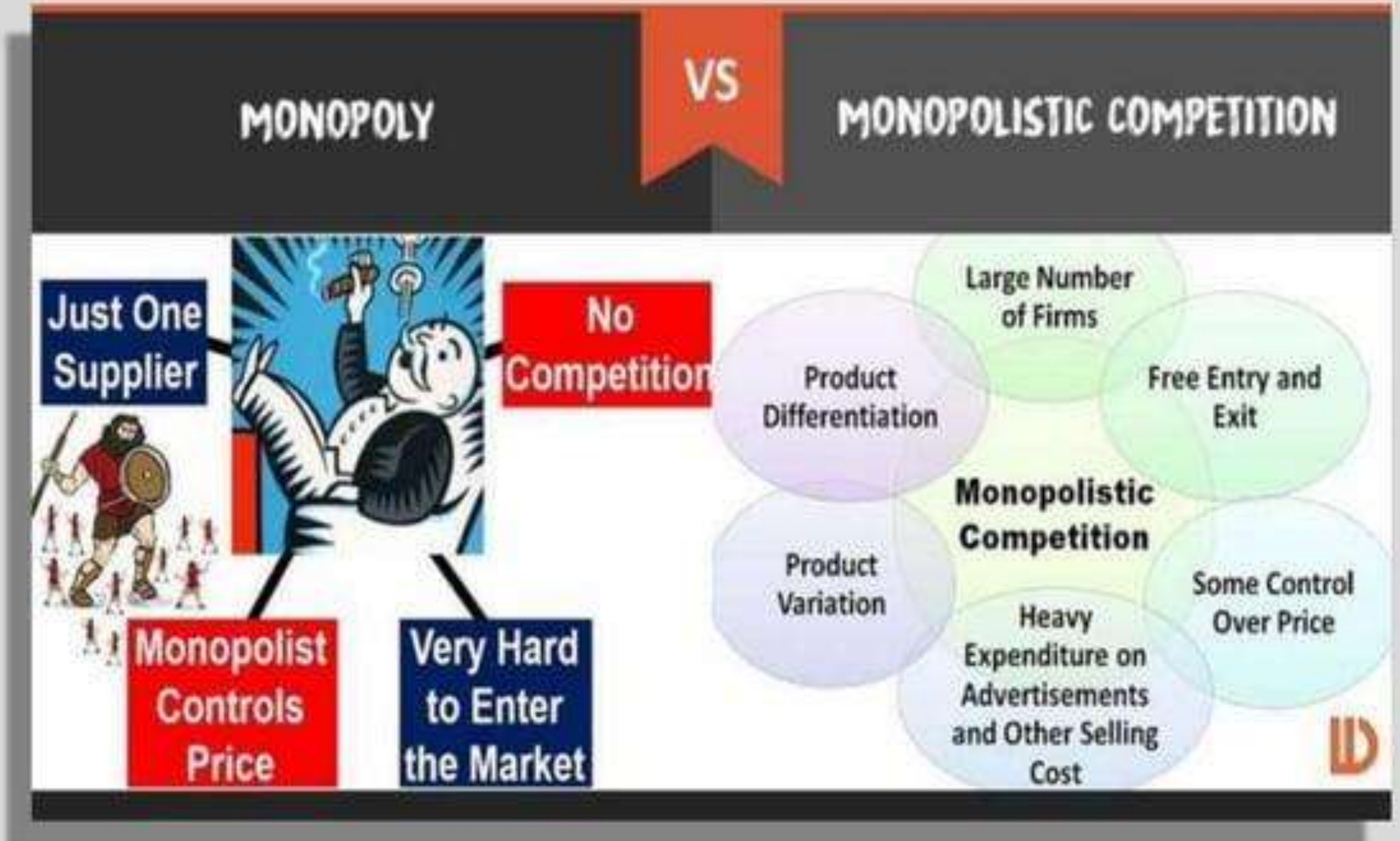
- Imperfect competition is between the extremes of monopoly and perfect competition.
- A **monopoly** firm is one that produces the entire market supply of a particular good or service.
  - e.g. NZ Post for postal services.
- In **duopoly** only two firms supply a particular product.
  - e.g. Vodafone and Telecom
- In **oligopoly** a few large firms supply all or most of a particular product.
  - e.g. petrol, banks, supermarket chains
- In **monopolistic competition** many firms supply essentially the same product but each has brand loyalty.

Monopoly

(1) Monopoly

- **Monopoly refers to the market situation where there is one seller and there is no close substitute to the commodities sold by the seller.** The seller has full control over the supply of that commodity.
- **Since there is only one seller, so a monopoly firm and an industry are the same.**
- **Monopoly is a form of market structure where there is a single seller producing a commodity having no close substitute.**
- **The word monopoly is derived from two Greek words- Mono and Poly.** Mono means single and Poly means 'seller'. Thus monopoly means single seller.

Monopoly


MONOPOLY
VS
MONOPOLISTIC COMPETITION
Just One Supplier
No Competition
Monopolist Controls Price
Very Hard to Enter the Market
Large Number of Firms
Product Differentiation
Free Entry and Exit
Monopolistic Competition
Product Variation
Some Control Over Price
Heavy Expenditure on Advertisements and Other Selling Cost

Monopoly

Features :

- **(i) Single seller and large number of buyers : Under monopoly there is one seller and therefore** a firm faces no competition from other firms. Though there are large numbers of buyers, no single buyer can influence the monopoly price by his action.
- **(ii) No close substitute : Under monopoly there is no close substitute for the product sold by the** monopolist. According to Prof. Boulding, a pure monopolist is therefore a firm producing a product which has no substitute among the products of any other firms.
- **(iii) Restriction on the entry of new firms : Under monopoly new firms cannot enter the industry.**

Monopoly

Characteristics of Monopoly

1. Monopolies can maintain super-normal profits in the long run.
2. With no close substitutes, the monopolist can derive super-normal profits
3. A monopolist with no substitutes would be able to derive the greatest monopoly power.

The advantages of monopolies

- Avoid the wasteful duplication of infrastructure that would happen if new firms were encouraged to build their own infrastructure.
- Domestic monopolies can become dominant in their own territory and then penetrate overseas markets, earning a country valuable export revenues.

The disadvantages of monopoly to the consumer

- Restricting output onto the market.
- Charging a higher price than in a more competitive market.
- Reducing consumers surplus and economic welfare.
- Restricting choice for consumers.
- Reducing consumer sovereignty.

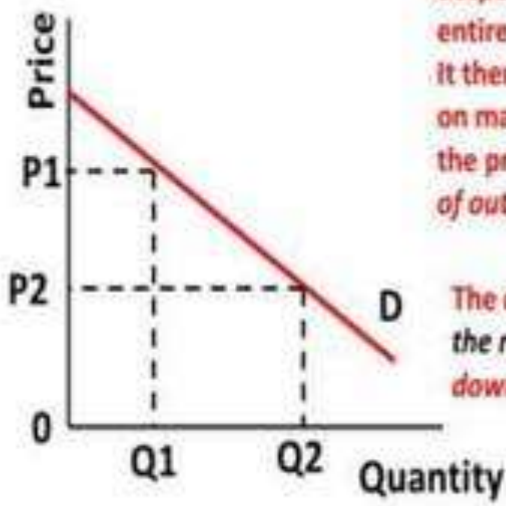
Monopoly

- **(iv) Price maker :- A monopoly firm has full control over the supply of its products and hence it** has full control over its price also. A monopoly firm can influence the market price by varying it supply, for e.g., It can make the price of its product by supplying less of it.
- **(v) Possibility of Price Discrimination : Price discrimination is defined as that market situation where** a single seller sell the same commodity at two different prices in two different markets at the same time, depending upon the elasticity of demand on the two goods in their respective market.
- Under such circumstances a monopolist can incur supernormal loss then firms would leave the industry, thus reducing the supply. As a result, price will again rise and the loss will wiped out.

Monopoly

A monopoly is a ***price maker***.

What does this mean?
Because the firm is the entire industry, it decides output levels for the entire market.
It then sets price based on market demand for the product *at that level of output*.



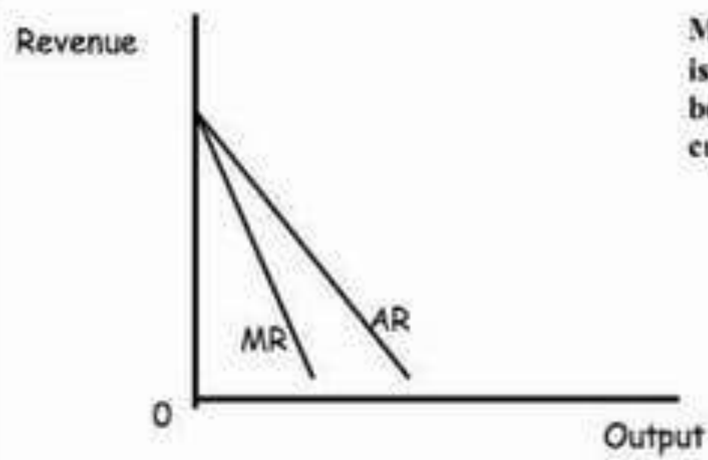
The demand curve, *for the monopoly* is *downward sloping*.

Monopoly

Price discrimination occurs when a business charges a different price to different groups of consumers for the same good or service, for reasons not associated with costs.

Monopoly

- **Downward sloping inelastic demand curve of a monopoly firm Demand curve of a firm reflected by its AR curve under monopoly is downward sloping** meaning that the monopoly firm can sell more at a lower price and less at a higher price. The demand curve of the monopoly firm is highly inelastic. This is because the product does not have any close substitute.



MR curve of the monopoly firm is also downward sloping and lies bellow MR curve lies below AR curve.

Monopolistic Competition

(2) Monopolistic Competition

- **It is that form of market in which there are large numbers of sellers selling differentiated products which are similar in nature but not homogenous**, for e.g.., the different brands of soap.
- **This are closely related goods with a little difference in odour, size and shape.** We separate them from ach other.
- **The concept of monopolistic competition was developed by an American economist "Chamberline". It is a combination of perfect competition and monopoly.**

Monopolistic Competition

Monopolistic Competition

- **Monopolistic competition is a market situation in which both monopoly and competitive elements are present.**
- The most distinguished features of monopolistic competition which makes it a blending of competition and monopoly is product differentiation.
- **Product differentiation refers to the actively created differences in products with respect to brand, trademark, design, packing, colour, size, measurement, weight such that though the products are similar, they are not identical or in other words the products are different but closely related.**

Monopolistic Competition

Features :

- **(i) Large number of sellers and buyers : In monopolistic competition the number of sellers is large** and each other act independently without any mutual dependence. Here the action of an individual firm regarding change in price has no effect on the market price. The firms under monopolistic competition are not price takers.
- **(ii) Product Differentiation : Most of the firms under monopolistic sale products which are not homogenous in nature but are close substitutes.** Products are differentiated from each other in the following ways:
- (a) **Real Differentiation : These types of product differentiation arises due to differences in the** quality of inputs used in making these products, differences in location of firms and their sales service.
- (b) **Artificial Differentiation : It is made by the sellers in the minds of the buyers of those** products through advertisements, attractive packing, etc.

Monopolistic Competition

Product Differentiation

- In economics and marketing, **product differentiation** is the process of distinguishing a product or service from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' products as well as a firm's own products.
- Apple differentiates its products from those of its competitors by having more innovative technology, premium prices, design quality and simplicity.

Monopolistic Competition

- **(iii) Non-price Competition : In this case, different firms may compete with each other by spending** a huge sum of money on advertisements keeping the product prices unchanged.
- **(iv) Selling Cost : Expenditure incurred on advertisements and sales promotion by a firm to promote** the sale of its product is called selling cost. They are made to persuade a particular product in preference to other products. Some advertisements have become so popular that people use a brand name to describe the product, for e.g.., brand name is used to describe all types of washing powder.

Non-Price Competition

Monopolistic Competition

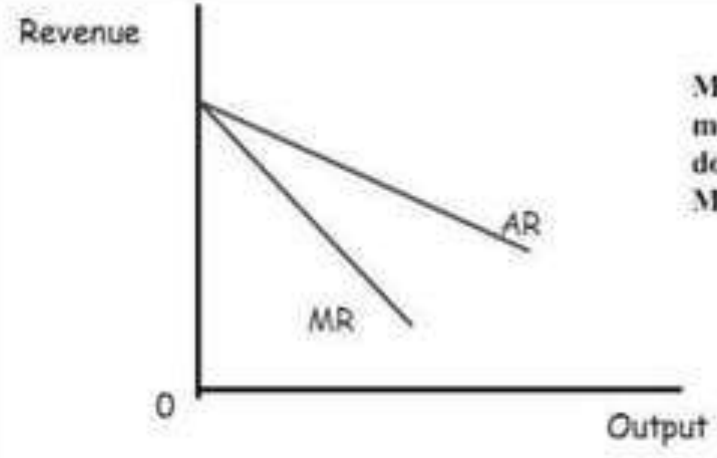
- (**Selling costs are the expenses incurred on advertisement, publicity, salesmanship etc**. Selling costs are incurred by the firms to make aware of the product, to attract new customers, to create customer base and loyalty).

Monopolistic Competition

- **(v) Free Entry And Free Exit : There are no restrictions on the entry of new firms and the firms** decide to leave the industry.
- **Every firm under monopolistic competition earns only normal profits in the long run and there arises no supernormal profit nor loss.**
- **(vi) Independent price policy : A firm under monopolistic competition can influence the price of** the commodity to some extent and hence they face an inverse relationship between price and quantity. **In this case the price elasticity of demand would be relatively elastic because of the existence of many substitutes.**

Monopolistic Competition

- **Downward sloping highly elastic demand curve of a firm under monopolistic competition**
- **Demand curve of a firm reflected by its AR curve under monopolistic competition is downward sloping. The demand curve is highly elastic.** This is because differentiated products under monopolistic competition has more close substitutes.



MR curve of a firm under monopolistic competition is also downward sloping and lies bellow MR curve lies below AR curve.

Oligopoly

(3) Oligopoly

- **Oligopoly is a market situation in which there are few firms producing either differential goods or closely differential goods.** The number of firms is so small that every seller is affected by the activities of the others.

Oligopoly

- **Oligopoly is a market situations in which there are few (more than two) sellers** of a commodity such that actions of every seller **has predictable effect on the other sellers/rivals.**
- Hence, oligopoly is also called competition amongst the few.
  - *Oligopoly may be of two types can two forms:*
  - *pure oligopoly or oligopoly without product differentiation.*
  - *differentiated oligopoly or oligopoly with product differentiation.*

Oligopoly

Characteristics of Oligopoly

1. Few Sellers
2. Control over supply
3. Inter-dependence of firms
4. Conflicting attitudes of firms.
5. Lack of uniformity of size of firm
6. Group behavior
7. Advertising and selling costs
8. Price rigidity
9. Intense Competition
10. Indeterminateness of demand curve

Oligopoly

Features :

- **(i) Few Sellers : There are few sellers in oligopoly market, such that number of sellers is small that** each and every seller is affected by the activities of the others.
- **(ii) Interdependence : Interdependence among firms is the most important characteristic under** Oligopoly. The number of sellers is so less in the market that each of these firms contribute a significant portion of the total output. As a result, when any one of them undertakes any measure to promote sales, it directly affect other firms and they also immediately react.
- **Hence every firm decides its policy after taking into consideration the possible reaction of the rival firm.** Thus every firm is affected by the activities of the other firms and this is called interdependence of firm.
- **(iii) Nature of Product : A firm under oligopoly may produce homogenous goods which is called** oligopoly without product differentiation for e.g.. **Cooking gas supplied by Indian Oil & HP.**

Oligopoly

- **Oligopoly may also produce differential products which is called oligopoly** with product differentiation for **e.g.. Automobile Industry.**
- **(iv) Barrier to Entry : The existence of oligopoly in the long run requires the existence of barrier to** the entry of the new firms. **Several factors such as unlimited size of the market, requirement of huge initial investment etc.** creates such barrier upon the entry of new firms.

Oligopoly

Oligopoly

- A few large firms
- Standardized or differentiated products
- Significant barriers to entry
- Market power
  - Interdependent
- Examples
  - Steel, Oil
  - Automobiles

Duopoly

Duopoly

- **It is a specific type of oligopoly where only two producers exist in one market. In reality, this definition is generally used where only two firms have dominant control over a market.**
- **Duopoly provides a simplified model for showing the main principles of the theory of oligopoly: the conclusions drawn from analysing the problem of two sellers can be extended to cover situations in which there are three or more sellers.** If there are only two sellers producing a commodity a change in the price or output of one will affect the other; and his reactions in turn will affect the first. **In other words, in duopolies there are two variables of interest: the prices set by each firm and the quantity produced by each firm.**

Duopoly


REAL WORLD EXAMPLES OF DUOPOLY:
coles
WOOLWORTHS
AMD
intel
SHARE OF HANDSET PROFIT
at&t
vs.
verizon
MasterCard
VISA
BSNL
MTNL
Moody's
Standard & Poor's

COMPARISON AMONG THE MARKETS

BASIS OF DIFFERENCE	Perfect competition	Monopoly market	Monopolistic competition	Oligopoly
1.NUMBER OF SELLERS	Very large number of sellers	Single seller	Large number of sellers	Few big sellers
2.NATURE OF PRODUCT	Homogenous products	No substitute products(product is unique)	Closely related but differentiated products	Products are homogenous under pure oligopoly and differentiated under differentiated oligopoly
3.DEGREE OF PRICE CONTROL	A firm is a price taker, no control over the price	A firm is a price maker. Has control over price	A firm has partial control over the price. An individual firm is able to influence the price by creating a	It follow the policy of price rigidity to avoid price wars

BASIS OF DIFFERENCE	Perfect competition	Monopoly market	Monopolistic competition	Oligopoly
4.BARRIERS TO ENTRY AND EXIT	Freedom of entry and exit	Entry of new firm is restricted and exit of old firm is restricted	Freedom of entry and exit	Restriction on entry of new firms
5.LEVEL OF KNOWLEDGE OF MARKET	Perfect knowledge about market conditions	Imperfect knowledge about market conditions	Imperfect knowledge about market conditions	Imperfect knowledge about market conditions
6.COMPETITIO N	Highly intensive	No competition	High competition	High competition
7.GOVERMEN T INTERVENTIO N	No goverment intervention	Goverment intervention is present	No goverment intervention	There is less goverment intervention

What is Accounting ?

"*Accounting is the art of* ***recording, classifying and summarizing*** *in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character and interpreting the results thereof.*"

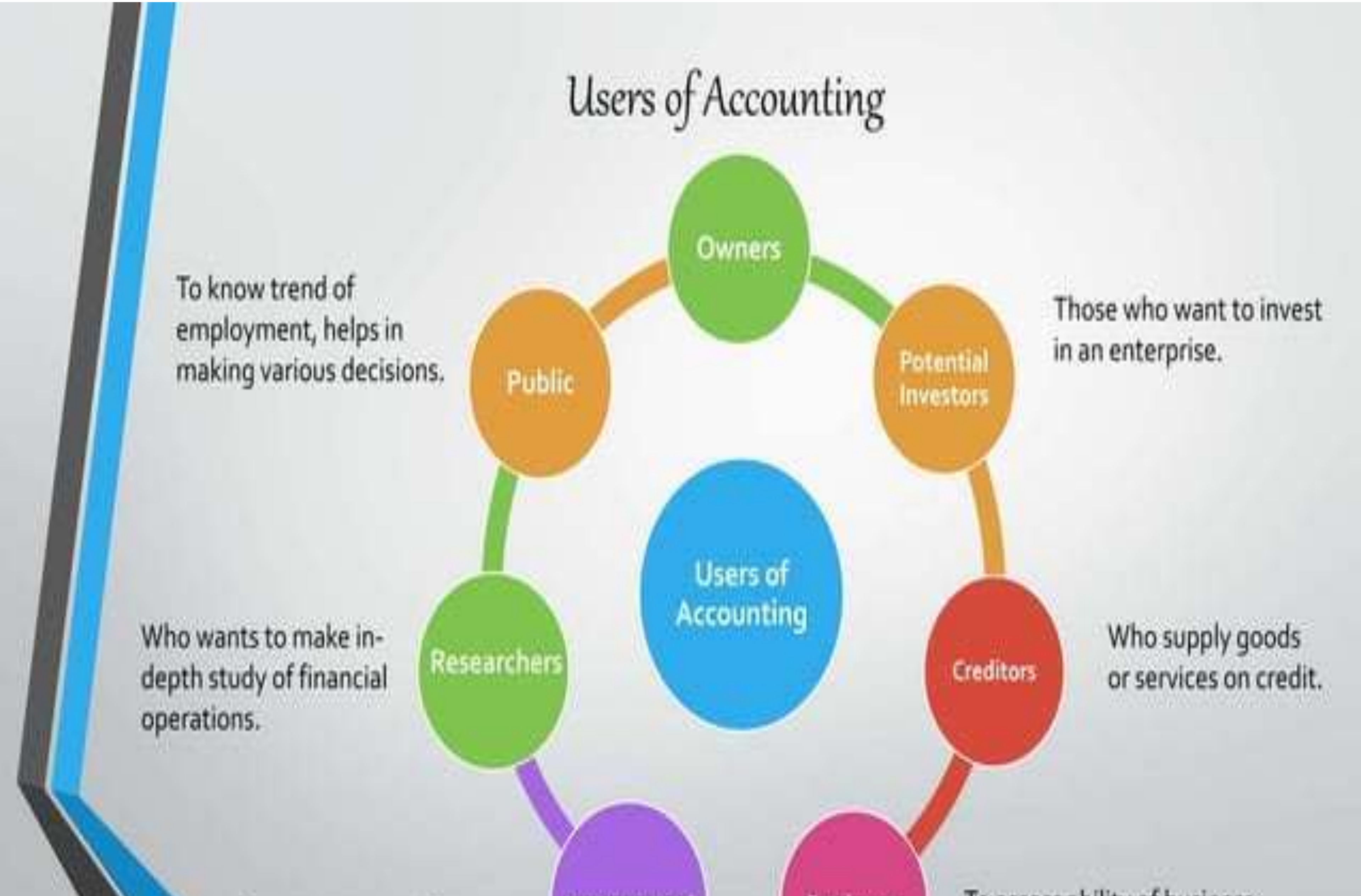
American Institute of Certified Public Accountants (AICPA)

Need For Accounting !

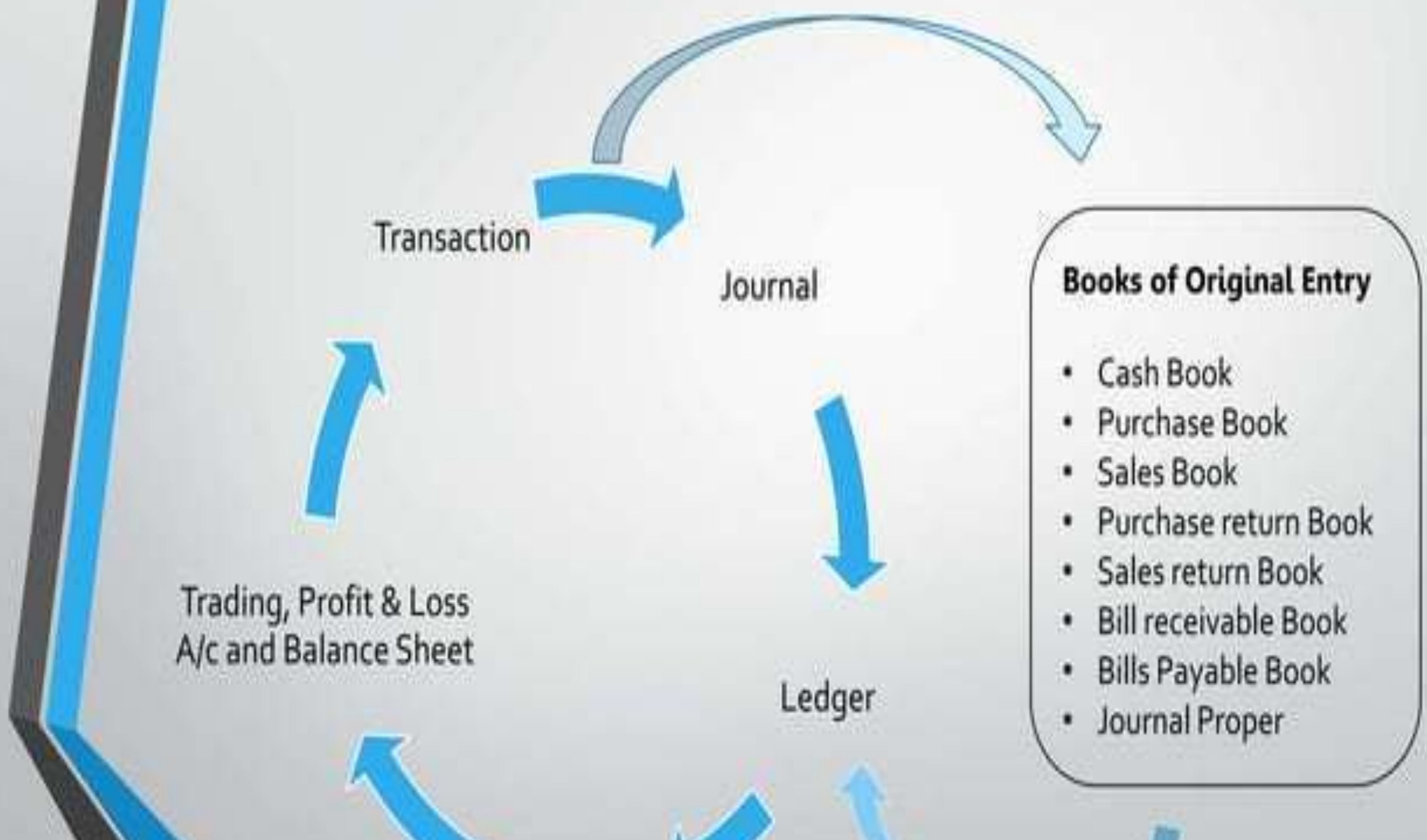
- We need accounting because it is the **backbone of business finances.** It was created in response to the development of trade in medieval times. The first recorded source of accounting entries was in Italy in 1494 by Luca Pacioli, a Franciscan monk.

- It is simply not for providing information to tax authorities and government agencies but to **identify and record all the activities that impact an organization** in a financial manner.

- It is also **useful for the employees and customers** in order to know the condition of the business entity.


Users of Accounting
Owners
Public
Potential Investors
Users of Accounting
Researchers
Creditors
To know trend of employment, helps in making various decisions.
Those who want to invest in an enterprise.
Who wants to make in-depth study of financial operations.
Who supply goods or services on credit.

Accounting Cycle



Characteristics of Accounting

- **Accounting is an art as well as a science.**

- Accounting is an **art** of **recording, classifying and summarising** financial transactions. It helps us in achieving our objective of maintaining proper accounts, i.e. , to know the profitability and financial position of the business.

- Any organised knowledge is based on certain basic principles in a '**science**'. Accounting is also a science. It is an organised knowledge based on certain basic principles.

❑ Recording of Financial transactions only

- Only those transactions and events are recorded which are of a financial character.
- There are a lot of transactions in the business which are very important for business but which cant be measured and expressed in terms of money.

❑ Recording in Terms of Money

- Each transaction is recorded in the books in the terms of money only.

❑ Communicating

- Includes the communication of financial data to the users who analyse them.

❑ Classifying

- Classification is concerned with the systematic analysis of the recorded data, with a view to group transactions or entries of one nature at one place. The work of classification is done in the book termed as "Ledger".

❑ Summarizing

(1) Trial Balance,
(2) Income statement
(3) Balance sheet.

What Are the Objectives of Accounting ?

To keep systematic records :	• In the absence of accounting there would have been terrific burden on human memory which in most cases would have been impossible to bear.
To ascertain the financial position of business :	• The profit and loss account gives the amount of profit or loss made by the business during a particular period?
To Provide Information to the Users :	• The officers and staff of an enterprise need useful and timely information for making different types of business decisions.

Some other Objectives

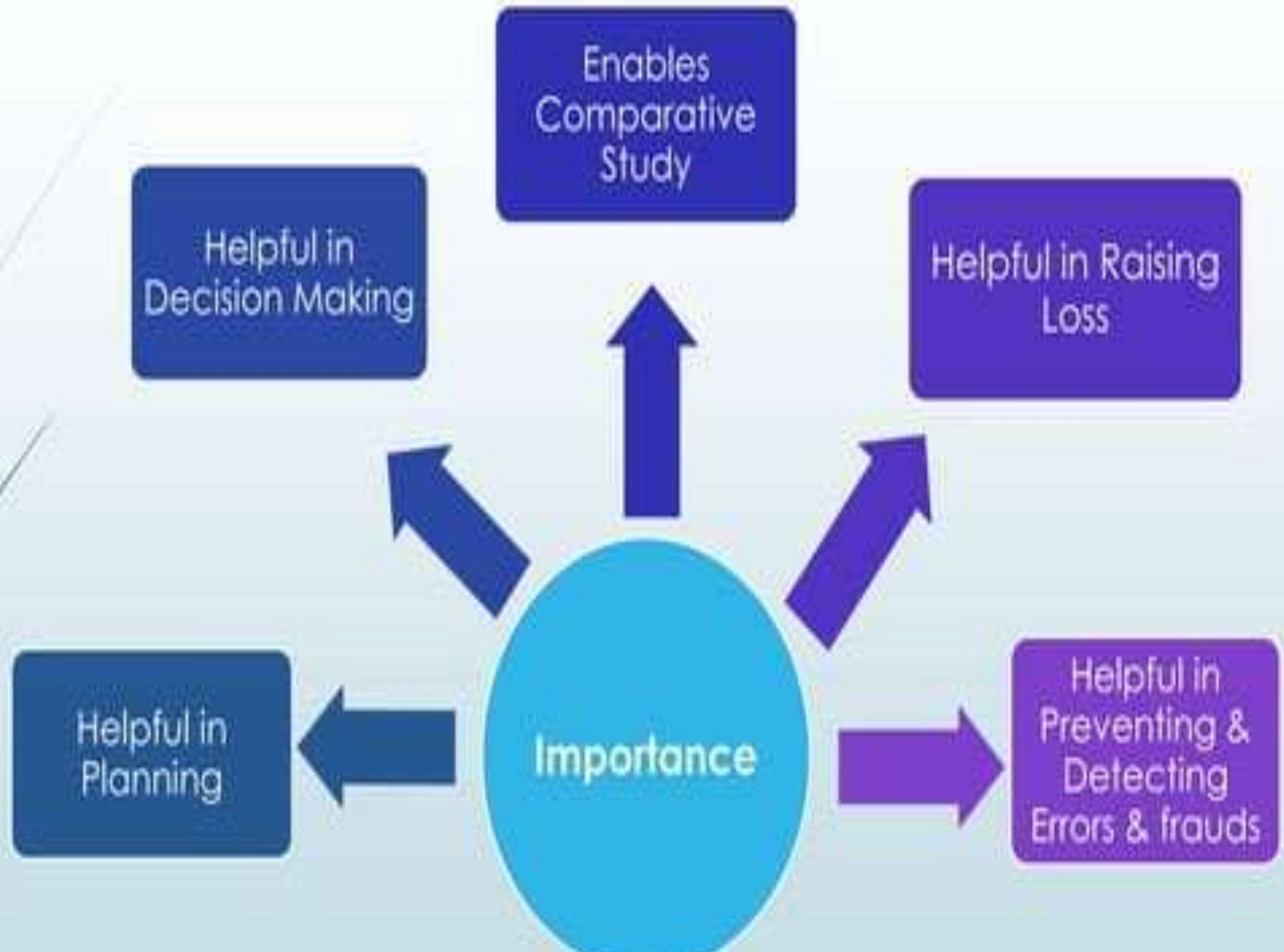
- To know the exact reasons leading to net profit or net loss.
- To ascertain the financial position of the business from year to year.
- To prevent and detect errors and frauds.

Functions of Accounting

Functions of Accounting

Conclusion

Significance


Enables Comparative Study
Helpful in Decision Making
Helpful in Raising Loss
Importance
Helpful in Planning
Helpful in Preventing & Detecting Errors & frauds

ACCOUNTING RULES:

- **Personal Account**: these are the accounts of natural persons such as ram account, gopal account. Artificial person such as udayltd, syndicate bank. And representative personal account.

Rule: "Debit----The Receiver
Credit---The Giver"

- **Real Accounts**: accounts relating to properties or assets of a trader are known as real accounts. It includes tangible assests such as buildings, furniture,. Cash, etc and also intangible assets such as goodwill, trade marks, patent rights.

Rule: "Debit----What comes in

- **Nominal Accounts** : account dealing with expenses, losses, gains and incomes are called nominal accounts, eg. Salaries, wages commission account etc.

Rule: "Debit----All expenses and losses

Credit---All incomes and gains"

GAAP (Generally Accepted Accounting Principles):

Accounting principles are the guidelines which provide a procedure to be followed in the process of accounting. But it is very difficult to have principles which are universally acceptable.so we have a set of principles which are general accepted by the makers of financial statements. These principles are called as "Generally Accepted Accounting Principles" (GAAP).

Accounting principles can be broadly divided into two categories

A. Accounting Concepts

1. Business Entity Concept
2. Money Measurement Concept
3. Cost Concept
4. Going Concern Concept
5. Dual-aspect Concept
6. Realisation Concept
7. Matching Concept
8. Accounting Period Concept
9. Objective Evident Concept

B. Accounting Conventions

1. Full disclosure
2. Materiality
3. Consistency
4. Conservation

1. Business Entity Concept: business is treated separated from the proprietor. All the transactions are recorded in the books of business and not in the books of the proprietor. The proprietor is also treated as a creditor of business. When he contributes capital, he is treated as person who has invested his amount in the business.

2. Money Measurement Concept: only those transactions are recorded in accounting which can be expressed in terms of money. Therefore, in the process of accounting only events which can be expressed and measured in terms of money are recorded.

3. Cost Concept: according to this, an asset is recorded its cost in the books of account i.e., the price which is paid at the time of acquiring it. The market value or any other value of an asset is not considered. It is therefore called as "historical cost concept".

4. Going Concern Concept: it is assume that a business organisation will continue to operate for a considerably long period of time. This assumption is very important because sometimes money is spent by the business for a future benefit.

5. Dual-aspect Concept: dual mean two. It implies that every transaction will have two aspects. These aspects are giving and receiving.

6. Realisation Concept: Every business unit spends money to purchase goods or to manufacture goods for sale. Profit cannot be made only by manufacture sales of goods either for cash or on credit is essential to make earning. Without realisation of sales proceeds, there can be no profit. Unearned/unrealised revenue should not be taken into account.

7. Matching Concept: this concept tries to match the revenue and expenditure of an organisation pertaining to a particular period of time i.e., is one year. This will help the users of accounting to understand the functioning of the business in a clear manner.

8. Accounting Period Concept: business organisations are believed to have continued existence. But the performance of the organisation should be assessed regularly over a period of time. Normally one year is taken to assess the financial performance of the business.

9. Objective Evident Concept: This concept relates with the verification of accounting record with the outside evidence. Outside evidence means study of those documents and vouchers on the basis of which accounting record has been made.

Accounting conventions:-

Conventions of full disclosure: According to this convention, all accounting statements should be honestly prepared to that and full disclosure of all significant information to be made.

Convention of materiality: According to this convention, accounting should consist of all the material facts. Material facts are one those which can have an impact on the financial statements of the organisations. Immaterial and irrelevant items should be excluded or merged with other items.

Convention of consistency: Accounting rules, practices and conventions should be continuously observed and applied i.e. these should not change from one year to another.

Convention of conservation: According to this convention all incomes or profits if anticipated should not be taken into account. But any anticipated losses should be considered while preparing the accounts of a business.

Double entry book keeping: -

This system of accounting was invented by 'Lucas paciolio' of Italy in 1494 in Venice but developed in England. The object of book keeping is to keep a complete record of all transactions that take place in business. The double entry book keeping refers to a system of accounting in which every transaction effects at least two accounts. In double entry book-keeping, the amount of every transaction is written twice, once as debit and again as credit, leading to the conclusion that that in mathematical terms the sum of all accounts will be zero and in terms of accounting equation, the sum total of all assets must be equal to sum total of all liabilities and the owners equity. This equity holds true up to the last stage of accounting process, ending with the preparation of the balance sheet.

Every business transaction having two aspects, one will be treated as debit and other will be treated as credit. This debit and credit will be decided on the basis of nature of aspect. Each aspect comes under personal, real or nominal accounts.

Every business organisation deals with people, assets, pays expenses and receives incomes. Therefore, it is necessary to keep the following accounts in order to keep a complete record of all the transactions.

1.Personal accounts (PA)

2. Real accounts (RA)

3. Nominal accounts(NA)

Characteristics of Double entry system:

1. Every business transaction affects two or more accounts
2. Every account is divided in two parts
3. Division of amount column as debit and credit
4. Dual aspect of every transaction
5. Based upon accounting concepts and conventions
6. Preparing trial balance
7. Preparation final accounts

Advantages of double entry system:

1.Scientific system: It is scientific system compared to single entry system.

2.Full information

3. Assessment of profit and loss

4. Knowledge of creditors

5.Arithmetical accuracy

6.Assessment of financial position

7.Comparison of results

8.Maintenance according to incoming tax rules

9.Detection of frauds

Rules for debiting and crediting:-

The rules of debit and credit depend on the nature of an account. If aspect related to persons, personal account rules, if assets real account rule and if expenses or incomes nominal account rules are applicable.

Personal accounts: Personal accounts deal with persons. These include natural persons such as Rama Rao, Latha etc., artificial persons or legal persons such as Tata Company Ltd, Andhra Bank etc and representative personal accounts.

Rule: Debit ((Dr) → The receiver

Credit (Cr)→ the giver

E.g.:1. Cash received from Raju is Rs 5000/- . Here Raju is personal a/c and he is Cr (giver).

2. Goods sold to Chandra is Rs 7000/- . Here Chandra is personal a/c and he is Dr (receiver).

Real accounts: Real a/c deals with assets. These include tangible assets like land, buildings, machinery etc which can be seen touched and intangible assets like goodwill, trademarks etc which cannot be seen but can be measured.

Rule: Dr→ what comes in?

Cr→ what goes out?

E.g. goods purchased for cash RS 8000/-. Here goods and cash are real a/c. Goods is Dr(coming) while cash is Cr(going).

Nominal accounts: Nominal accounts are deals with expenses like rent, wages, salary, transport etc and incomes like discount received, rent received, commissions received etc.

Rule: Dr→ the expenses and losses

Cr→ the incomes and gains

E.g. 1. Salary paid by cash Rs 5000/- . Salary is nominal a/c and is Dr (expenditure)

2. Interest received Rs 5000/- .interest is nominal a/c and is Dr (income)