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CORE CONCEPT OF BUSINESS ECONOMICS

Economics is concerned with the application of economic concepts and economic analysis to the problems of formulating rational managerial decisions. This tutorial covers most of the topics of managerial economics including micro, macro, and managerial economic relationship; demand forecasting, production and cost analysis, market structure and pricing theory.

Definition of Economics-

As the science of decision-making, economic philosophy operates in our daily lives whether we realize it or not. When we are evaluating the interest rates on our credit cards or trying to decide whether to buy or lease a new car or go out to dinner or on vacation, these are all decisions we make using economic thinking. We live in a world of limited resources, and economics helps us decide how to use these limited inputs to satisfy our never-ending list of wants and needs. Economics is also a large field with a rich history that's been explored and examined by hundreds of influential people, ranging from philosophers to politicians.

In its most simple and concise definition, **economics** is the study of how society uses its limited resources. Economics is a social science that deals with the production, distribution, and consumption of goods and services. Economics focuses heavily on the **four factors of production**, which are land, labor, capital, and enterprise. These are the four ingredients that make up economic activity in our world today and can each be studied individually.

Economics is split into the following two broad categories of study:

- **Macroeconomics** - the branch of economics that studies the overall working of a national economy. It is more focused on the big picture and analyzing things such as growth, inflation, interest rates, unemployment, and taxes. When you hear the Federal Reserve is raising interest rates or that the national unemployment rate is 7.5%, you are hearing about macroeconomic topics.
- **Microeconomics** - the branch of economics that studies how households and businesses reach decisions about purchasing, savings, setting prices, competition in business, etc. It focuses at the individual level, while macroeconomics looks at the decisions that affect entire countries and society as a whole.



History, Timeline, & Notable Figures

The history of economics entails numerous figures, courses, and books and can be traced back thousands of years. We'll focus strictly on the last 300 years and what is often considered the beginning of modern day economic thinking. Here are a few of the most notable thinkers and their accomplishments:

1700s- Adam Smith is largely considered the father of modern economics and capitalism. Smith's *Wealth of Nations* has a huge impact on economic thought still today. He reasoned that markets would work best if left alone and promoted that little government intervention in the economy was best.

1800s- Thomas Malthus studied populations, and his main contributions include his work on the relationship between food supply and populations. Karl Marx is most noted for his advocacy of socialism and communism over capitalism, which he strongly denounced. He is arguably one of the most influential economists in history. Marx believed that communism was inevitable in the process of evolution.

Alfred Marshall focused on the study of microeconomics and wrote *Principles of Economics*, which is one of the most influential economic textbooks of all time. Marshall proposed the idea that economics was a scientific discipline that required more mathematics and less philosophy.

1900s- John Maynard Keynes was one of the most revolutionary economists of the 20th century. He argued against free market principles and promoted government involvement as a means of correcting depressions and recessions; the bailouts to large auto companies and banks in response to the recent recession are one such example of government involvement.

Adam Smith's Wealth Definition:

The formal definition of economics can be traced back to the days of Adam Smith (1723-90) — the great Scottish economist. Following the mercantilist tradition, Adam Smith and his followers regarded economics as a science of wealth which studies the process of production, consumption and accumulation of wealth.

His emphasis on wealth as a subject-matter of economics is implicit in his great book— 'An Inquiry into the Nature and Causes of the Wealth of Nations or, more popularly known as 'Wealth of Nations'—published in 1776.