

BUSINESS ECONOMICS-I

(Microeconomics)

Course No.: ECO
Nature of the Course:

Full Marks: 100
Pass Marks: 35
Lecturer hours: 150

Course Objectives

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

Course Description

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

Contents

- Unit 1: Introduction** **LH 5**
- a) Concept of business (managerial) economics
 - b) Meaning, Scope, Use and Limitations of microeconomics
 - c) Microeconomics in the process of business decision making
- Unit 2: Theory of Demand and Supply and Equilibrium Price** **LH 20**
- a) Demand function, determinants of demand, movement and shift in demand curve
 - b) Supply function, determinants of supply, movement and shift in supply curve
 - c) Market equilibrium
 - d) Change in equilibrium due to shift in demand curve and supply curve
(Numerical assignment)
- Unit 3: Elasticity of demand and supply** **LH 20**
- a) Concept and types of price, income and cross elasticity of demand
 - b) Measurement of price, income and cross elasticity of demand: Total outlay, Point and Arc method
 - c) Uses of price, income and cross elasticity
 - d) Concept of elasticity of supply
 - e) Measurement of elasticity of supply
(Numerical assignment)
- Unit 4: Theory of Consumers Behavior** **LH 20**
- a) Concept of cardinal and ordinal utility analysis
 - b) Cardinal approach: Assumptions, consumer's equilibrium, criticisms and derivation of demand curve (cardinal approach)
 - c) Ordinal approach: Indifference curve: Concept, properties, marginal rate of substitution, price line and consumer's equilibrium
 - d) Price effect: Derivation of PCC
 - e) Income effect: Derivation of ICC
 - f) Substitution effect: Hicksian approach
 - g) Decomposition of price effect in to income and substitution effect: Hicksian approach
(Numerical assignment)

Unit 5: Theory of Production**LH 16**

- a) Production function: Meaning, long run and short run production function and concept of Cobb-Douglas production function
 - b) Concept of total product, average and marginal product
 - c) Law of variable proportion
 - d) Isoquant: Meaning and properties
 - e) Marginal rate of technical substitution, iso-cost curve
 - f) Optimal combination of inputs
 - g) Laws of return to scale
- (Numerical assignment)*

Unit 6: Cost and Revenue Curves**LH 17**

- a) Concept of cost: Actual cost and opportunity cost, implicit cost and explicit cost, accounting and economic cost, historical cost and replacement cost, separable cost and common cost
 - b) Derivation of short run cost curves
 - c) Reason for the 'U' shape of short run average cost curve
 - d) Derivation of long run cost curves
 - e) Relationship between short run and long run AC and MC curve
 - f) Shape of the long run average cost curve: Theoretical reason and empirical evidence
 - g) Concept of economies of scale and economies scope
 - h) Concept of revenue: Total revenue, average revenue, and marginal revenue. Revenue curves under perfect and imperfect competition
 - i) Relation between average and marginal revenue curves
 - j) Relationship between price elasticity and marginal revenue and total revenue
- (Numerical assignment)*

Unit 7: Theory of Product Pricing**LH 30**

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

Unit 8: Theory of Factor Pricing**LH 22**

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

Basic Books

- Salvatore, Dominic. (2009). **Principles of Microeconomics**. Publish in India Oxford University Press, New Delhi
- Pindyck, Robert S. and Daniel Rubinfeld. (2001). **Microeconomics**. New Delhi: Prentice Hall of India
- Mankiw, N. Gregory. (2009). **Principles of Microeconomic**. Cent age Learning India Private Limited, New Delhi (4th edition)
- Gilespi, Andrew. (2010). **Business Economics**: Oxford University Press

Reference Books

- Joshi, Shyam. (2012). **Business Economic**. Kathmandu: Taleju Prakashan
- Dwivedi, D.N. (2001). **Microeconomic Theory and Application**. Tata McGraw-Hill Publishing Company Limited, New Delhi
- Ahuja, H.L. (2004). **Advance Economic Theory**. New Delhi: S. Chand and Company
- Koutsoyianis, A. (1991). **Modern Microeconomics**. Hongkong: ELBS
- Gould, J.P. and E.P. Lazer. (2003). **Microeconomic Theory**. New Delhi: All India Travelers Book Sellers
- Browning, E.K. and J.M. Browning. (2001). **Microeconomic Theory and Application**. New Delhi: Kalyani Publishers