** VALLUVAR COLLEGE OF SCIENCE AND MANAGEMENT – KARUR**

**PG AND RESEARCH DEPARTMENT OF COMMERCE**

**TWO MARK QUESTIONS WITH ANSWER - (PART – A)**

**UNIT 1**

Business Economics – definition - Scope and Nature Art or Science –Concepts –

relationship with other disciplines - Micro and Macro Economics relating to business

1. **WHAT IS MEANT BY BUSINESS ECONOMICS**?

Business economics deals with economic issues concerned with modern business. The business organization, whether big or small, buys raw materials, appoints lab our, borrows capital from money market, pays taxes to the government and makes sufficient profit with a view to survive and prosper.

1. **DEFINITION OF BUSINESS ECONOMICS**

Spenser and seegleman say that, “Business Economics is the integration of economic theory with business practice for the purpose of facilitating thought to analyses business situations.”

1. **WHAT IS MEANT PUBLIC FINANCE?**

Public finance has been separated from Economics and is treated as an independent

Branch. The sources of revenue to the government and the principle governing

expenditure for the benefit of the people.

1. **WHAT IS MEANT BY MICRO ECONOMICS?**

Micro economies deals with the analysis of small units of the economy such as individual consumers, producers or firms and small units like industries or markets. “Micro economics is the study of particular firms, particular households, Individuals prices, wages, incomes, individual industries, particular commodities.

5. **WHAT IS MEANT BY MACRO ECONOMICS?**

Macro economics has assumed importance due to enlarge governmental activities in

post-war economies. The study is indispensable for the formulation of successful

government economic policies.

6**. WHAT IS MEANT BY DEDUCTIVE METHOD?**

Deductive reasoning is a logical process in which a conclusion is based on the concordance of multiple premises that are generally assumed to be true.

7. **WHAT IS MEANT BY INDUCTIVE METHOD?**

Inductive reasoning is a method of reasoning in which the premises are viewed as

Supplying some evidence for the truth of the conclusion this is in contrast to deductive

reasoning.

8. **WHAT IS MEANT BY POSITIVE AND NORMATIVE ECONOMICS?**

A positive or pure science analyses cause and effect relationship between variables but it

does not pass value judgment.As normative science, economics involves value judgments

. It is prescriptive in nature and described ‘what ought to be’ or ‘what should be the things’.

9. **WHAT IS MEANT BY WELATH DEFINTION**

The term ‘wealth’ does not have a universally accepted meaning.

However, these definitions have indicated that wealth of a nation includes only material

manufactured goods. It is for this reason that to Adam Smith, labor was ‘productive’ if it

produced material goods

10. **WHAT IS MEANT BY CONSUMER GOOD**?

We do not buy a consumer good to make something else that we aim to sell. when somebody

buys a consumer good, he or she uses it. These goods satisfy personal needs and not the needs

required for the productive of other products.

11**. WHAT IS MEANT BY CAPITAL GOOD?**

Capital goods are things that businesses buy to make other things, these type of good last a

long time,ie.they are durable

12. **WRITE ANY TWO OBJECTIVES OF BUSINESS ECONOMICS?**

* Business Economics deals with issues connected with selection of resources available to a firm, method of production and effective management of business firms.
* Business economics aims at solving various risks.

**UNIT 2**

Demand Analysis- - Law of Demand- Demand curves- Elasticity of Demand- Demand forecasting - Marginal rate of substitution – Consumer’s equilibrium

1. **WHAT IS MEANT BY DEMAND?**

Demand means a desire to buy and consumer goods and services. In economics, demand means a desire to buy, a decision to buy, supported by adequate purchasing power.

Example, A person desires and decide to buy luxurious car.

2. **WHAT IS MEANT BY LAW OF DEMAND?**

The Law of demand indicates the relationship between the price of a commodity and the quantity demanded in the market. In simple means that a person will purchase more of a commodity when its price falls and he will purchase less of it when its price rises. The greater the amount to be sold, the lower must be the price to attract purchasers.

3**. WHAT IS MEANT BY PRICE DEMAND?**

Price demand means to various quantities of a commodity or service that a consumer would purchase at a given time at different prices in a market when other things remain constant

1. **WHAT IS MEANT BY CROSS DEMAND?**

Cross demand refers to the quantities of commodity or service which will be purchased with reference to changes; not of that particular commodity, but of other inter related commodities, other things remaining same

1. **WHAT IS MEANT BY GIFFEN’S PARADOX?**

Robbert Giffen discovered that the poor people will demand more of inferior goods if their

Prices rise and demand less if their prices fall. Superior goods are those goods where their

price increase, their demand also increases .Poor people spent a major part of their income

on inferior goods**.**

1. **WHAT IS MEANT BY ELASTICITY OF DEMAND?**

The law of demand tells the direction of change. We do not know how much the quantity changes with the change in price. This is explained by the elasticity of demand. The relationship between small changes in price and the consequent changes in the amount demandedis known as elasticity of demand. It is also known as rate of change.

1. **DEFINITION OF ELASTICITY OF DEMAND?**

According to Stonier and Hague,” Elasticity of demand is a technical term used to describe the degree of responsiveness of the demand for a commodity to a fall in its price”

1. **WHAT IS MEANT BY DEMAND FORECASTING?**

Demand forecasting is essential for a firm to enable it to produce the require quantities at the right time and arrange well in advance well in advance for the various factors of production, viz., raw materials, equipments, machine accessories, labour, building, etc. Demand forecasting is an important aid in effective planning. Demand forecasting is also helpful in better planning and allocation of national resources.

1. **WHAT IS MEANT BY CROSS ELASTICITY DEMAND**?

Cross elasticity of demand means, change in the quantity demanded of a particular commodity A, in response to a change in the priceof another commodityB. The formula for cross elasticity of demand is,

Ec= Percentage change in demand for commodity A

Percentage change in price of commodity B

Commodities A and B are substitute. If the price of ‘B’ increase consumerswill substitute A. The price of A remains constant. The demand for commodity willbe extended. If the price of ‘B’ falls, the price of A remains constant,B becomes Cheaper than A, The demand for A will be contracted.

1. **WHAT IS MEANT BY INCOME ELASICITY DEMAND?**

Income Elasticity of demand is the ratio of proportionate change in the quantity demanded of a commodity to a given proportionate change in the income of the consumer. Stonier and Hague defined, “Income Elasticity shows the responsiveness of a consumers purchases of a particular good to a change in his income”. Income elasticity of demand (Ei) for a commodity is given by the formula,

Ei = Proportionate change in quantity demanded

Proportionate change inincome

1. **WHAT IS MEANT BY SUBSTITUTE GOODS?**

Substitute good is a good that can be used in place of another. In consumer theory substitute good that a consumer perceives as similar or comparable ,so that having more of one good causes the consumer to desire less of the other good.

1. **WHAT IS MEANT BY DEMAND FUNCTION?**

Demand function is an algebraic expression that shows the functional relationship between the demand for a commodity and its various determinants affecting it. This includes income and price along with other determining factors.

1. **WHAT IS MEANT BY COMPLEMENTARY GOODS**?

Complementary good is a good whose appeal increases with the popularity of its complement. Technically it displays negative cross elastic of demand and that for it increases when the price of another good decreases

14. **WHAT IS MEANT BY BREAK EVEN ANALYISIS**?

The break - even analysis (BEA) has considerable significance for economic research,

business decision making company management, investment analysis and public policy.

Break even analysis is an important technique to trace the relationship between cost, revenue

and profits at the varying levels of output or sales.

15. **WHAT IS MEANT BY** **EQUILIBRIUM OF FIRM?**

A firm is said to be in equilibrium when it has no tendency either to

increase or to contract its output. A firm is in equilibrium when it is earning

maximum profit.

16. **WHAT IS MEANT BY LONG-RUN EQUILIBRIUM OF THE FIRM?**

The long run equilibrium refers to the situation where free and full

adjustment in the capital equipment as well as in the number of firms has been

allowed to take place

**UNIT 3**

Production function-Factors of production - ISO quant analysis -scale of production economies

of large scale production and limitations

1. **WHAT IS MEANT BY PRODUCTION FUNCTION?**

Production refers to the transformation of inputs or resources into outputs of

goods and services. For example, if we want to produce wheat, we need land,

fertilizer, water, workers and some machinery. These are called inputs or factors of

production.

1. **WHAT IS MEANT BY PRODUCTION FUNCTION?**

A production function is an equation, table or graph showing the maximum

output of a commodity that a firm can produce per period of time with each set of

inputs. Both inputs and outputs are generally measured in physical rather than in

monetary units. Technology is assumed to remain constant during the period of the

analysis.

1. **WHAT ARE THE** **ASSUMPTION’S OF THE LAW OF VARIABLE PROPORTION?**

1. Only one factor is varied.

2. The scale of output is unchanged.

3. Technique of production does not change.

4. Units of factor input varied are homogeneous

1. **WHAT IS MAENT BY** **OPPORTUNITY COST ?**

To calculate the market value of implicit cost the concept

of opportunity cost is used. Now we elaborate the concept. The opportunity cost of

factor of production is the reward (or value) that factor could have earned in the next

best alternative occupation.

1. **WHAT IS MEANT BY FACTORS OF PRODUCTION?**

The resources needed to produce a given product are called factors of production

Production of goods and services needs various inputs which are known as ‘Factors of

Production’, ‘Agents of Production’, ‘Productive Resources’ or sometimes even

‘Productive Services’

* + - Land
    - Labour
    - Capital
    - Entrepreneurship

1. **WHAT ARE THE ASSUMPTION OF PRODUCTION FUNCTION?**

* The level of technology remains constant.
* The firm uses its inputs at maximum level of efficiency.
* It relates to a particular unit of time

1. **WHAT IS MEANT BY INCREASING RETURNS TO SCALE?**

When inputs are increased in a given proportion and output increases in a greater proportion, the returns to scale are said to be increasing. In other words, proportionate increase in all Factors of production results in a more than proportionate increase in output are a case of increasing returns to scale. Thus, if all inputs are doubled than total output is more than doubled.

8. **WHAT IS MEANT BY DECREASING RETURNS TO SALE?**

If the firm continues to expand beyond the stage of constant returns, the stage of

diminishing returns To scale will start to operate. If a proportionate increase in all inputs

results in less than proportionate increase in output, the returns to scale is said to be

decreasing. Thus, if all inputs are doubled than total output is less than doubled