

Determinants of cost function:

1. Size of the plant location
2. Level of output
3. Price of inputs
4. State of technology
5. Managerial efficiency

Types of cost:

1. Actual cost & full cost:

- Actual cost are those costs which involves financial expenditure at some point of time or other and which are recorded in the books of A/c
- Full cost includes the opportunity cost of self owned resources used in the business

2. Explicit cost & implicit cost:

- Explicit cost are the same as actual costs. They refer to all monetary incurred by a firm for production of a commodity
- Implicit costs are refer to non monetary expenses incurred by the firm for the purpose of production.

3. Opportunity cost & outlay cost:

- Opportunity costs or alternative cost is the return from the next best opportunity of a resources had it not been put to the present use.
- Out lay are those expenses which are actually incurred by the firm. These are the actual payments made for labours, machinery, advertisement.

4. Sunk cost & differential cost:

- sunk cost is the cost incurred in the past and has no effect on future decision making
- differential cost is the change in total cost due to change in the level, change in the product, alternative method of production etc.,

5. incremental cost and marginal cost:
 - incremental costs represent the increase total cost as result of decision to expand the level of activity or employment of a new technology. It may consist of variance cost only.
 - Marginal cost is the increase in total cost as a result of increase by one unit. The another word marginal cost is the cost of producing an additional unit of the product.
6. Fixed cost and variable cost:
 - Fixed cost are those costs which do not change with changes in the volume or level of output within the limits of plants capacity
 - Variable cost is one which tends to vary directly with variation in the volume of outpur.

MACRO ECONOMICS;

- The word macro has been derived from the Greek word makros which means large.
- Macro economics is the branch of economics which deals with the economy as a whole.
- Macro economics studies economic issue at the aggregate level of the economy as a whole. It deals with the behaviour of not on particular unit but all the units combined together.

SCOPE OF MACRO ECONOMICS:

1. National income:-macro economics deals with national income. It includes the study of concept of national income. Product and expenditure and measurement of aggregate and sub – aggegrate of national income.
2. Employment:-macro economics is concerned with the determination of the level of employment in the whole system and variation in it.
3. Monetary theory:- deals with monetary theory, which further deals with the demand and supply of money, central banking, commercial banking, monetary policy and the impact of monetary changes upon general level of economic activities.
4. Business cycles:- the theoris of business cycles and policies to control cyclical fluctuation come within the sphere of macro economics

5. Theory of economic growth:-macro economics analyses the actions and interactions of variance factors influencing economic growth.

BUSINESS CYCLES:

The wave like fluctuation in the level of economic activity is referred to as business cycle or trade cycles:

Definition:- According to Haberler “ the business cycles is the general sense may be defined as an alternation of periods of prosperity and depression of good and bad trade”

Phases of business cycle:-

1. Boom
2. Recession
3. Depression
4. Recovery

1. Boom:- the boom phase means a state in which the real income consumed, the real income produced and the level of employment are higher or rising. The economic activity gathers momentum demand for consumer goods increases. Capital goods industries flourish and there is increased investment. Increased demand for resources results in increases wages, costs and price increases in price is faster than increases in cost resulting in increase in profit. Wholesalers and retailers stock more to meet the increased demand. Producers produce more to meet the requirements of dealers.
2. Recession (contraction):- boom cannot last indefinitely. Boom carries with its seeds of recession. At the peak of boom there is full employment, wages, costs, prices and quality of products suffers. Costs overtake prices and firms start incurring losses, further increase in price leads further decrease in demand for consumer goods.
3. Depression (slump):- during the phase of depression economic activity is at its low level. Wages, costs, prices are very low. There is massive unemployment leading to a fall in the aggregate income of the people. This brings down the purchasing power of the community. General demand falls faster than production. The piled up stock are sold at very high rate of discount leading to heavy loss to the firm.
4. Recovery:- the period of depression will in itself have seed of recovery. Pessimism gives way to optimism and signs of hope appear. The businessman identifies the climate to be favourable for business activity. Banks with idle funds come forward with terms easing. This stimulates employment income of the people increases leading to increases in purchasing power. Consumers who have postponed their buying due to fall in prices start buying.

Characteristics of business cycle:-

1. It has a wave like fluctuation. The periods of boom and depression occur alternatively.
2. It is recurring in nature & phases repeat regularly
3. Steep fall towards depression

4. It is synchronic in nature
5. It is pervasive in nature present everywhere.

Causes of business cycle:

1. Changes in money supply due to the monetary policies of banks
2. Changes in the proportion between purchasing power of the community and supply of goods
3. Changes in the proportion b/w production of capital goods and consumer goods.
4. Climatic conditions affect the agricultural sector and this inturn will have its impact on other sector of the economy

MULTIPLIERS:

A multipliers exists when a change I one variable induce multiple and successive stage of change in second variable. An initial investment generates an income by a multiple of it determined by the marginal propensity to consume. Marginal propensity to consume is the ratio of change in the consumption to the change in the income as income increased consumption also increases the increase in consumption will be less than the increases in income.

ACCELARATORS:

An increase in income induced by increase in investment creates further increase in investment. As income of people increases, spending power also increases consumers spend more on goods and serives. This will induce businessmen to expand their activities by making further investments. The accelerators in the numerical measures of the relationship between income and the resultant increase in investment

ECONOMIC ANALYSIS

Definition: A systematic approach to determining the optimum use of scare resources, involving comparison of two or more alternatives in achieving a specific objectives under the given assumptions and constraints

Economic analysis takes into account the opportunity cost of resources employed and attempts to measure in monetary terms the private and social costs and benefits of a projects to the community or economy.

Multiplier definition: A number which indicates the magnitude of a particular macro economics policy measure. In other word, the multiplier attempts to quantify the additional effects of a policy beyond those that ate immediately measureable for example, a decrease in taxation will have more of an effect than just the value of the reduced taxes. It will lead to greater disposable income which might cause an increase employment in industries which enjoy greater demand and so on. So the total effect of the implemented policy equals the effect of the measure, times the multiplier this is true of most macro

economic policy measure, because the actual effect of the measure cannot be quantified by the effect of the measure itself.

Accelerator definition: the ratio between investment expenditure in the change in gross domestic product. This is based on the notion that business investment depends in the rate of growth of aggregate output. If the economy is expanding in the other words then the business sector invests in more capital goods to produce to extra output needed. This accelerator effect modifies the simple multiplier effect based on the induced consumption and the marginal propensity to consume.

Meaning of National income and Accounting: National income accounting is a method or format of presenting and preparing national income statistics. National income accounting adopts the principles of business accounting for the estimation of national income. Though business accounting adopts the principles of business accounting is very old but its significances for national income accounting became apparent only after the formulation of the general theory of employment by Keynes in the year 1936. Business accounting or commercial is based on the principles of double entry system. In every business transaction there are two parties, namely one who pays and the other who receives such buyers and sellers. In double entry system there are two forms or aspects relating to each party, namely debit and credit.

Importance of national income accounting: national income accounting is an important discovery of the twentieth century the credit for presenting this system in systematic and scientific manner goes to Keynes. This system has been used in India only after getting independence. Before independence national income data were not available officially. National income accounting present the picture of the entire economy in a very short form reflecting the significance of all economic activities. The significance of national income accounting becomes evident from the following points.

1. Information about the economy
2. Sharing of national income
3. Information about structural changes
4. International comparisons
5. Adequate & reliable information about economic life
6. Information about economic development.

Keyne's theory of employment & output

Introduction: Keynes theory of employment was presented in his famous book "general theory of employment, interest and money published in 1936.

Aggregate supply: the aggregate supply refers to the amount necessary to be made by entrepreneur so that they can hire or employ the required number of men and material to produce necessary output.

Aggregate demand: the aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labours employed.

Effective demand: effective demand may be explained in simple terms as that point where aggregate demand is equal aggregate supply i.e., what the entrepreneurs expect to get by selling the output at an particular level of employment is exactly equal to the minimum proceeds they should get to covers the cost they had incurred .

Consumption function: aggregate demand represents the total expenditure of different communities. The major component in consumption expenditure. According to keynes, consumption function stated that consumption increased as income increased but the increases in consumption will be less than increase in income.

Investment ; the second component of aggregate demand in investment expenditure. Investment means net addition to the existing equipment such as new factories, machines etc

Investment depends on

1. Rate of interest
2. Marginal efficiency of capital

IMPORTANT QUESTIONS

PART A

- 1.What are variablecost?
- 2.What is economic balance?
- 3.What is BEP?
- 4.Define national income
- 5.Discuss the factors affecting elasticity of demand
- 6.Explain in brief (1)Multiplier (2)Accelerator
- 7.What do you mean by demand in economics?
- 8.What is elasticity of demand?briefly explain with diagram.
- 9.What is meant by business cycle?
- 10.List out the different phases of business cycle

PART B

- 1.Write a brief note on economic balance in cyclic operations and multiple equiplement units
- 2.Discuss the factors that determine the price elasticity of demand
- 3.Describe different phases of business cycle
- 4.Disscuss the different methods of demand forecasting
- 5.Explain the assumptions merits anddemerits of BEP analysis
- 6.Define national income. List out the varies methods of measuring national income.