



# **BUSINESS ECONOMICS FOR TOURISM**

**Semester-ii**

**Sub Code :18BTM25A**

## **UNIT -I**

1. Business Economics- Nature; Scope& Characteristics
2. Microeconomics and macroeconomics
3. Application- Wealth Oriented ,Welfare Oriented ,scarcity Oriented ,  
Development Oriented
4. Indian scenario-Before and After LPG



# **BUSINESS ECONOMICS- NATURE; SCOPE & CHARACTERISTICS**

## **NATURE-**

- Knowledge of economic science is essential for every citizen in a country as its study endeavors to open up to all the material means of a refined and noble life.
- The role played by economic conditions of a nation could be well appreciated by people who know economics.



# SCOPE-

- As the scope of economics is unlimited, an attempt at delimiting the scope of economic science by defining it is not appreciated even by eminent economists.
- “Definitions are both unnecessary and undesirable”.  
“political economy is said to have strangled itself with definitions”.
- Different economists defined economics differently from time to time mainly due to the fact that. “Economics is an unfinished science”.



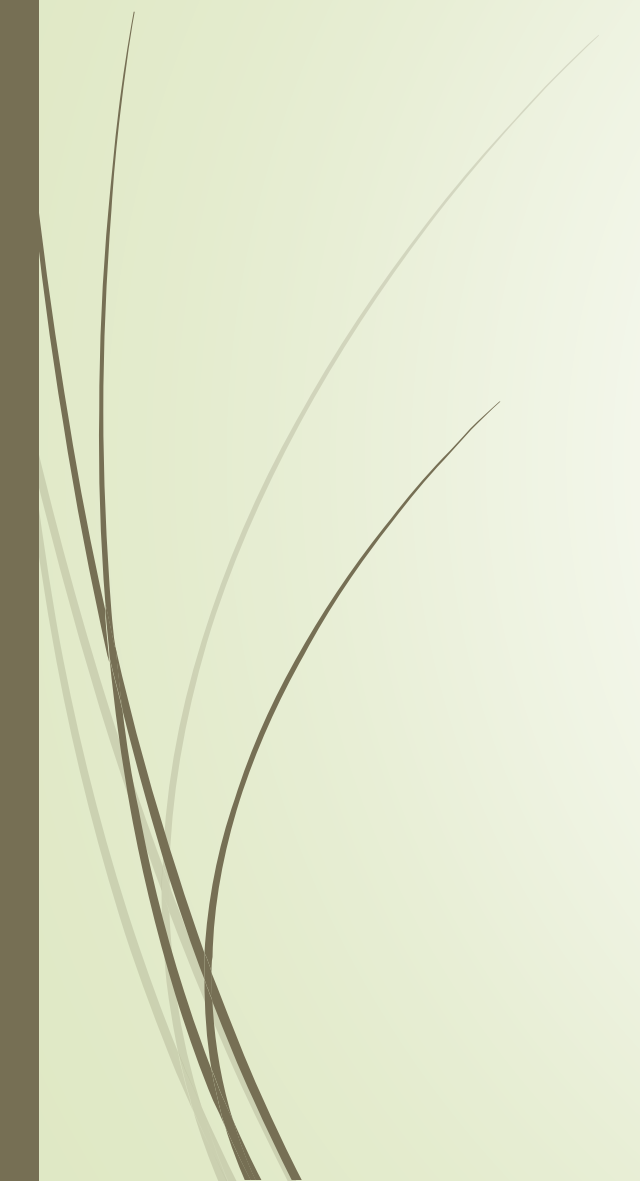
# CHARACTERISTICS-

Economics, as a branch of knowledge, has assumed immense importance in the modern complex world, for knowledge of economic science is being more and more applied to solve problems like want, poverty, unemployment, inflation, depression, recession, stagflation, underdevelopment, adverse balance of trade and balance of payments, over population, food etc.



# MICROECONOMICS AND MACROECONOMICS

## MICRO-ECONOMIC ANALYSIS

- The subject matter of economics consists of two parts, namely Micro economics and Macroeconomics.
  - Ragnar Frisch, who is among the first Nobel laureates in Economics coined these terms which are now universally used. "Micro" is derived from the Greek word "mikros" meaning small and "Macro" from "makros" meaning large.
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**The ingredients of micro economics are presented through the following chart:**

**Thus,**

micro economics studies:

1. Demand and theory of consumption
2. Supply and theory of production
3. Price theory or exchange theory
4. Theory of distribution which also includes theories of rent, wages, interest and profits, and
5. Theory of Economic Welfare.





# MACROECONOMICS

- Macroeconomics is the study of aggregates; hence called Aggregative Economics.
- It is the analysis of the entire economic system, the overall conditions of an economy like total investment and total production.
- "Macroeconomics deals not with individual quantities as such but with aggregates of these quantities; not with individual incomes, but with the national income; not with individual prices but with the price levels; not with individual outputs but with the national output".
- It analyses the entire economy and its large aggregates like total national income and output, aggregate consumption, savings and investment and total employment.



## Nature-

- The terms “Economics for Business Decisions”, “Economic Analysis for Business Decisions”,
- “Economics of Business Management”, “Economics of the Enterprise”, “Economics of the firm”, “Business Economics” and “Managerial Economics” have all been used interchangeably.
- The use of economic tools to analyse situations, of economic reasoning to solve business problems, of economic theory to business practice has come to be accepted by management or business executives in business organizations in their prime functions of decisions making and forward planning.





**APPLICATION- WEALTH ORIENTED ,  
WELFARE ORIENTED ,SCARCITY  
ORIENTED ,DEVELOPMENT ORIENTED**



## WEALTH ORIENTED -

- In the early days, economics was called the political economy because of the close relation between politics and economics.
- Adam Smith, the father of political economy, gave the title to his magnum opus as “an enquiry into the nature and causes of the wealth of nations”.
- According to classical economists, economics is concerned with the earning and spending of wealth. They conceived of an economic man whom they described as a selfish, scheming and calculated individual ever engaged in making money.




## WELFARE ORIENTED-

- “Political economy, or economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.
- Thus it is on the one side a study of wealth: and on the other and more important side, a part of the study man”

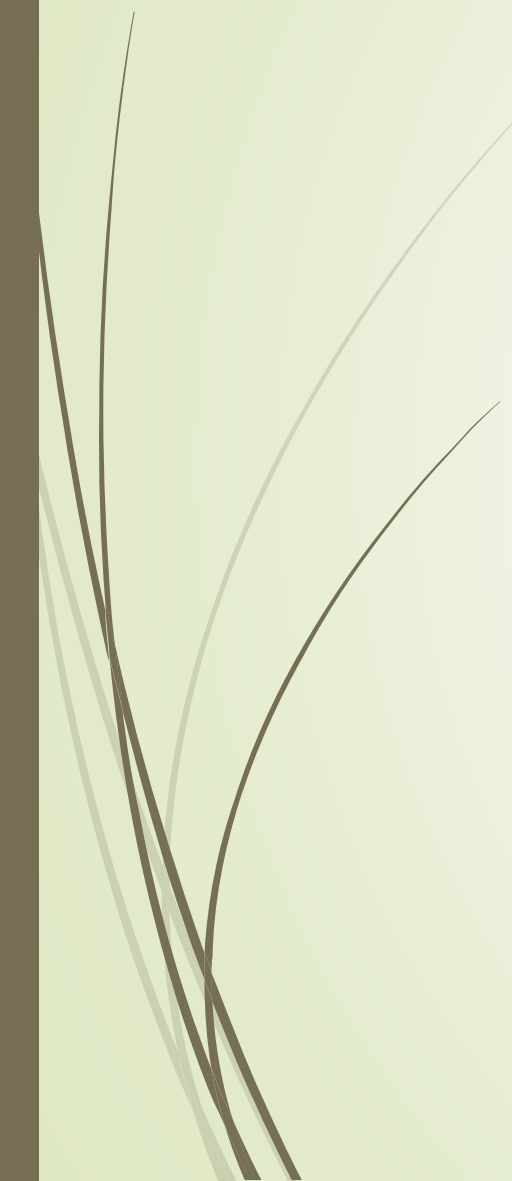


## SCARCITY ORIENTED-

- “Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.”
  - The ‘means or resources can be put to alternative uses. If good can be put to only a single use, there would arise no economic problem in its use. When the good has been put to any other use arises there issues. But in actual life, it can be easily observed that a good is capable of being put to several alternative uses.
  - Hence its total demand is so high that its existing supply is not adequate to meet it. Thus the good concerned gains economic significance.
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## **GROWTH ORIENTED -**

- It includes the aspect of economic growth and has the chief merit of taking cognizance of the dynamic changes occurring in the “ends” as well as the “means” with the passage of time.
  - “economics is the study of how men and society choose with or without the use of money, to employ scarce productive resources which could have alternative uses to produce various commodities over time , and distribute them for consumption now and in the future among various people and groups of society”.
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# **INDIAN SCENARIO – BEFORE AND AFTER LPG**

LPG reforms of 1991 is a strategic shift in Indian economy which changed the very Nature of Indian reality today. This topic forms the foundation for Indian Economy today.

Having a fair idea about the change it brought in Indian economy and international events which lead to it is important for the Mains across disciplines.



## NATURE AND SCOPE OF REFORMS:

India's New Economic Policy was **announced on July 24, 1991** known as the **LPG** or Liberalization, Privatization and Globalization model.

- Liberalization**- It refers to the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers.
- Privatization**- It refers to the transfer of ownership of property or business from a government to a privately owned entity.
- Globalization**- It refers to the expansion of economic activities across political boundaries of nation states.

The **main objective** was to plunge Indian economy into the arena of “Globalization” and to give it a new thrust on market orientation. The policy was intended to move **towards higher economic growth rate** and to build sufficient foreign exchange reserves.



## **Static dimensions:**

- Nature of Indian economy in the pre reform era
- Factors which led to 1991 economic reforms
- International events associated with Indian reforms

## **Current dimensions:**

- Nature and scope of reforms
- Outcome of the LPG reforms




## CONTENT:

### **Nature of Indian economy in the pre reform era:**

Indian economic policy after independence was influenced by the colonial experience, which emphasised on **industrialization under state monitoring, state intervention** in labour and financial markets, a large public sector, **business regulation, and central planning.**

**Indian economy was a closed one. Licence Raj** was prevalent to set up business in India. The **Indian rupee was inconvertible** and high tariffs and import licensing prevented foreign goods reaching the market.

The central pillar of the policy was **import substitution**, the **belief that India needed to rely on internal markets for development, not international trade.** There was **restriction of foreign investment and technology** and government controlled finance and capital markets.



**Iraq War:** In 1990-91, war in Iraq broke, which led to a rise in petrol prices. The flow of foreign currency from Gulf countries stopped and this further aggravated the problem.

- **Dismal Performance of PSUs:** These were not performing well due to political interference and became big liability for government.

- **Fall in Foreign Exchange Reserves:** India's foreign exchange reserve fell to low ebb in 1990-91 and it was insufficient to pay for an import bill for 2 weeks.



## **INTERNATIONAL EVENTS ASSOCIATED WITH INDIAN REFORMS:**

- **The Soviet Union was collapsing** at the time, proving that more socialism could not be the solution for India's ills.
- **Deng Xiaoping had revolutionized China with market-friendly reforms.**
- **1990-91 Iraq war** led to the stoppage of flow of foreign currency from Gulf countries.
- To tide over the Balance of Payment (**BoP**) issues, India borrowed huge amount from **International Monetary Fund (IMF)**.
- **The Asian financial crisis of 1997-99** laid India low.
- **The dot-com collapse and global recession of 2001**, and the huge global uncertainty created in the run-up to the **invasion of Iraq in 2003**.
- **The global boom of 2003-08** spearheaded by **China**.



## **FACTORS WHICH LEAD TO 1991 ECONOMIC REFORMS:**

- **Rise in Prices:** The inflation rate increased from 6.7% to 16.7% due to rapid increase in money supply and the country's economic position became worse.
- **Rise in Fiscal Deficit:** Due to increase in non-development expenditure fiscal deficit of the government increased. Due to rise in fiscal deficit there was a rise in public debt and interest. **In 1991 interest liability became 36.4% of total government expenditure.**
- **Increase in Adverse Balance of Payments:** In 1980-81 it was Rs. 2214 crore and rose in 1990- 91 to Rs. 17,367 crores. To cover this deficit **large amount of foreign loans** had to be obtained and the interest payment got increased.