INDUSTRIAL ECONOMICS

II-M.A ECONOMICS

What is a INDUSTRY ?

An industry is the manufacturing of a good or service within a category. Although industry is a broad term for any kind of economic production, in economics and urban planning industry is a synonym for the secondary sector, which is a type of economic activity involved in the manufacturing of raw materials into goods and products.

INDUSTRIAL ECONOMICS

Industrial economics is distinctive branch of economics which deals with the economic problems of firms and industries, and their relationship with society. It is also known by several names with marginal differences such as ' Economics of Industries', 'Industry and Trade', 'commerce' and 'Business Economics' etc. The name 'Industrial Economics' was adopted in the early fifties perhaps through the writings of P.W.S. Andrews.

INDUSTRIAL ECONOMICS

- It is a distinctive branch of economics which deals with the economic problems of the firms and the industries and their relationship with the society.

- It has both micro aspect and macro aspect.

Role of General Economics in Industrial Economics

- **The problem of decision making**

- **The problem of uncertainty and risk**

Imperfect market conditions, government policies, import and export

- **The problem of forecasting**

Position of raw materials, the prices of factors of production etc.

OBJECTIVES

- Achieving industrial development
- Information related to the natural resources, industrial climate, supplies of factors of production etc.

SCOPE OF INDUSTRIAL ECONOMICS

- Industrial Efficiency- Determined by production function
- Diversification
- Industrial Finance-

Two Dimensions- Source of finance & its effective utilization

- Industrial location

- The determinants of profitability-

Government policies, Advertisement, Size of a firm, market concentration etc.

- The organizational form and its motives
- Theory of demand- Consumer behavior
- Theory of production- Producer's behavior

- Cost Analysis- Relation between cost and quantity of output.
- Profit Analysis- Most common objective
- Analysis of pricing theory- Different market conditions, price discrimination.

Generally speaking, the industrial economy concerns those activities combining factors of production (facilities, supplies, work, knowledge) to produce material goods intended for the market.

There are four types of industry. These are primary, secondary, tertiary and quaternary. Primary industry involves getting raw materials e.g. mining, farming and fishing. Secondary industry involves manufacturing e.g. making cars and steel.

Industrial efficiency

The ability of a manufacturer to produce a product at as low a cost as possible and still make a profit: From the viewpoint of **industrial efficiency**, larger units of production have cost advantages over smaller units

Definition of Efficiency

Efficiency refers to doing things in a right manner. Scientifically, it is defined as the output to input ratio and focuses on getting the maximum output with the minimum resources.

Elements of Efficient Industrial Structure

1. Employee morale
2. Communication
3. Decision making

Eight Stages of industrial Efficiency

1. Identifying ethical framework
2. Clear description
3. Explaining the value
4. Documentation of strategies
5. Explaining sales strategy
6. Assign specific goals
7. Designing work flow
8. Creating communication plan

Importance of Industrial Efficiency

1. Rapid growth of industry
2. Growth of national income
3. Reducing unemployment
4. Rapid development
5. Developing the life standard
6. Increasing the importance of business
7. Minimizing the social unrest
8. Ensuring proper usage of resources
9. Minimizing the pollution
10. Improve the expertise
11. Social development
12. Increasing the remittance

Efficiency vs Effectiveness

SL	Efficiency	Effectiveness
1	Doing this in a right manner	Doing the right things
2	This can built inflexibility in the system	More adaptable to the changing the environment
3	Discourage innovation.	Encourages innovation
4	Look at avoiding mistakes error	About gaining success

Model of Industrial Efficiency

1. Defining Goals
2. Creativity
3. Appraisal
4. Transparency
5. Supervision
6. Environment
7. Training
8. Incentive System

Why people are inefficient

1. Lack of proper guidelines
2. Autocratic attitude
3. Insufficient training
4. Lack of information
5. Non co-operation
6. Poor salary
7. Environment
8. Political Instigation
9. Lengthy working hour
10. Lack of management

Guidelines for inefficient people

1. Strictness of Management
2. Sufficient training for the workers
3. Sufficient information for employees
4. Co-operations
5. Political stability
6. Creating reasonable working hour
7. Proper wage scale
8. Labor welfare and security
9. Democratic attitude
10. Consultation
11. Motivation
12. Working with limitations
13. Growing up ownership
14. Shuffling of responsibilities

Disqualifications of Inefficient employees

1. Autocratic attitude
2. Lack of honesty
3. Lack of sincerity
4. Less attentive in workplace
5. Lack of commitment
6. Instance of breaking of rules
7. Intentional waste
8. Lazy
9. Lack of technical knowledge
10. Unethical to company's policy
11. Overconfidence
12. Lack of awareness
13. Greedy
14. Internal Complexity
15. Negative attitude
16. Unwillingness of negotiate
17. Poor sense of creativity
18. Absenteeism

Efficiency in Industrial organization

1. Using least amount of resource
2. To reach the ultimate goals
3. Creating favorable working condition
4. Increate the worker's ability
5. Proper communication
6. Training in industrial relation
7. Time saves time
8. Leading labor turnover
9. Create good redoing among the workers
10. Applying good management rules

Seven habits to increase efficiency

1. Be proactive
2. Being with the end in mind
3. Put first thing first
4. Think win-win
5. Seek first to understand then to be understood.
6. Synergies
7. Interdependence

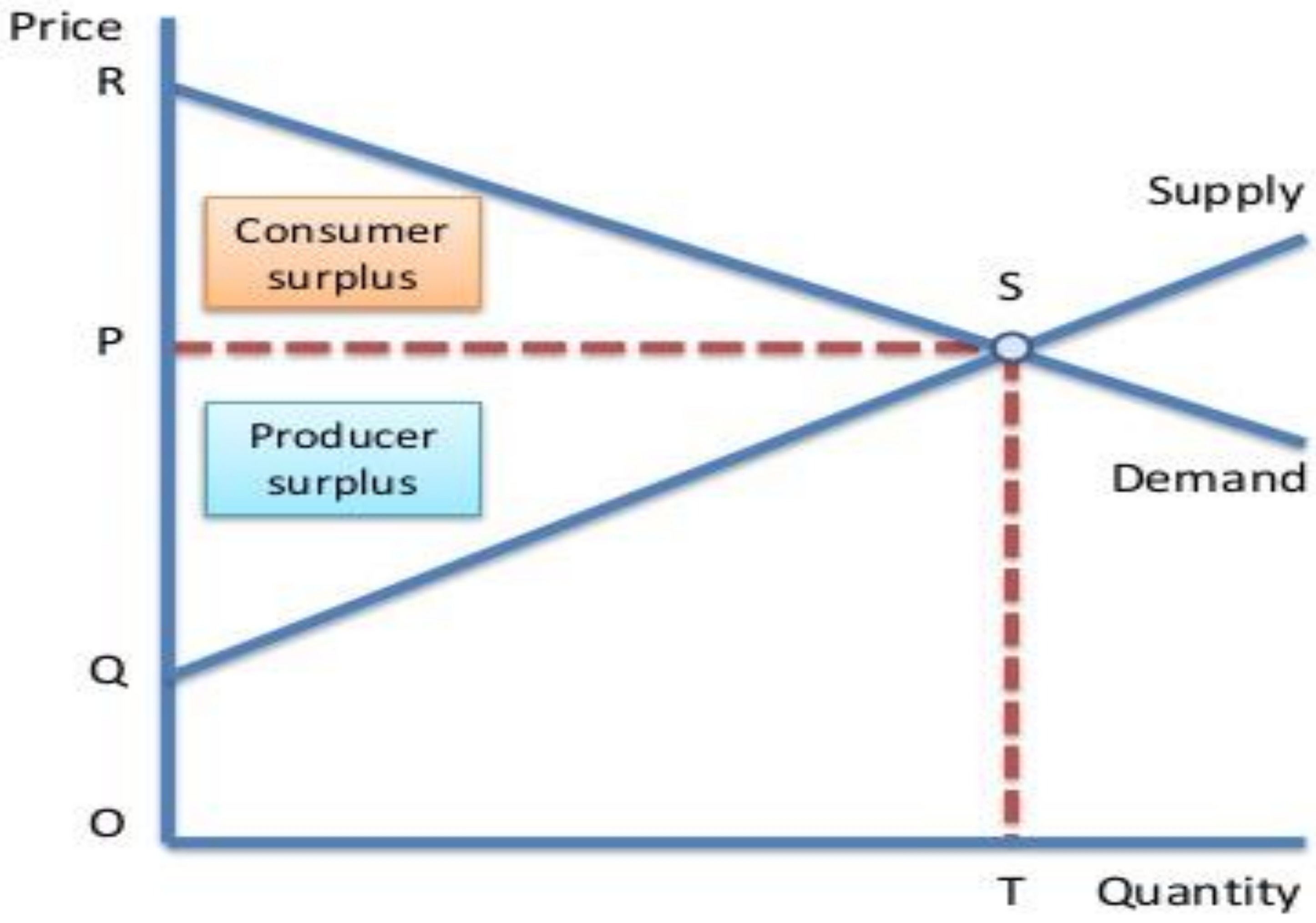
What is Economic Efficiency?

How well are our scarce resources used? This is what is discussed when economists talk about and analyse economic efficiency

- Efficiency is about a society making **optimal use of scarce resources** to help satisfy changing wants & needs
- There are **several meanings of efficiency** but they all link to how well a market system allocates our scarce resources to satisfy consumers
- Normally the market mechanism is good at allocating these inputs, but there are occasions when the **market can fail**

Basics of Allocative Efficiency

Economic efficiency means making optimum use of scarce resources



Allocative efficiency is at an output which maximizes total consumer welfare

At the market equilibrium price, consumer and producer surplus is maximized – at this output, economic welfare is maximized.

Key Concepts – Economic Efficiency

Allocative efficiency	**Producing what is demanded by consumers at a price that reflect the marginal cost of supply**
Dynamic efficiency	Changes in the choice available in a market together with the quality/performance of products that we buy.
Pareto optimality	Where it is not possible for individuals, households, or firms to bargain or trade in such a way that everyone is at least as well off as they were before and at least one person is better off
Productive efficiency	Producing an output at the lowest feasible average cost. This is at an output where AC=MC
X-inefficiency	A lack of real competition may give a monopolist less of an incentive to invest in new ideas or consider consumer welfare

MEASUREMENT OF EFFICIENCY:

Efficiency is often measured as the ratio of useful output to total input, which can be expressed with the mathematical formula $r=P/C$, where P is the amount of useful output ("product") produced per the amount C ("cost") of resources consumed.

CONCEPT AND ORGANISATION OF FIRM

CONTENTS

- Sole Proprietorship
- Partnership (general & limited)
- Joint Stock Company
- Co-operative Society

SOLE PROPRIETORSHIP

A sole proprietorship is a business owned and operated by one individual.

The shops or stores which you see in your locality — the grocery store, the vegetable store, the sweets shop, the chemist shop, the paanwala, the stationery store, the STD/ISD telephone booths etc. come under sole proprietorship.

Advantages

- Easy to start
- No registration
- No profit sharing
- Easy decision-making
- Easy to windup
- Secrets (information about business techniques)
- No corporate taxes

Disadvantages

- Unlimited liability
- Employee benefits i-e Medical insurance premiums not deductible(taxes)
- Raising funds
- Limited Life
- Loss in absence

Partnership

A Partnership is a legal relationship formed by the agreement between two or more individuals to carry on a business as co-owners.

Each member of such a group is individually known as 'partner' and collectively the members are known as a 'partnership firm'.

These firms are governed by the Indian Partnership Act, 1932.

Characteristics of PF

1. Number of Partners: Maximum limit is 10 in case of banking business and 20 in case of all other types of business.

2. Contractual Relationship: The agreement in writing is known as a ‘Partnership Deed’.

3. Competence of Partners: Minors and insolvent persons are not eligible.

...Characteristics of PF

4. Sharing of Profit and Loss: In absence of an agreement, they share it equally.

5. Transfer of Interest: No partner can sell or transfer his interest in the firm to anyone without the consent of other partners.

6. Voluntary Registration: Registration of partnership is not compulsory. But since registration entitles the firm to several benefits, it is considered desirable.

Joint Stock Company

- a **voluntary association** of persons to carry on business.
- Members of a joint stock company are known as **shareholders** and the capital of the company is known as share capital.
- The companies are governed by the Indian Companies Act, 1956.
- Tata Iron & Steel Co. Limited, Hindustan Lever Limited, Reliance Industries Limited, Steel Authority of India Limited, Ponds India Limited etc.

Features of JSC

1. Artificial Person.
2. Separate Legal Entity.
3. Common Seal.
4. Perpetual Existence.
5. Limited Liability.
6. Transferability of Shares.
8. Membership: Minimum membership of two persons and maximum fifty is known as a Private Limited Company. But in case of a Public Limited Company, the minimum is seven and the maximum membership is unlimited.

Co-operative Society

Any ten persons can form a co-operative society. It functions under the Cooperative Societies Act, 1912 and other State Co-operative Societies Acts. The main objectives of co-operative society are:

(a) rendering service rather than earning profit,

(b) mutual help instead of competition, and

(c) self help in place of dependence.

Classification of co-operatives

On the basis of objectives, various types of co-operatives are formed:

a. Consumer co-operatives

b. Producers co-operatives.

c. Marketing co-operatives.

d. Housing Co-operatives.

Characteristics of CooS

1. Voluntary association.
2. Membership: Min 10 – Max unlimited.
4. Service Motive.
5. Democratic Set up.
6. Sources of Finances.
7. Return on capital.

OBJECTIVE OF FIRM

Sales maximisation

Profit maximisation

Utility maximisation

Welfare maximisation

Growth maximisation

Objectives of firm

Major objectives

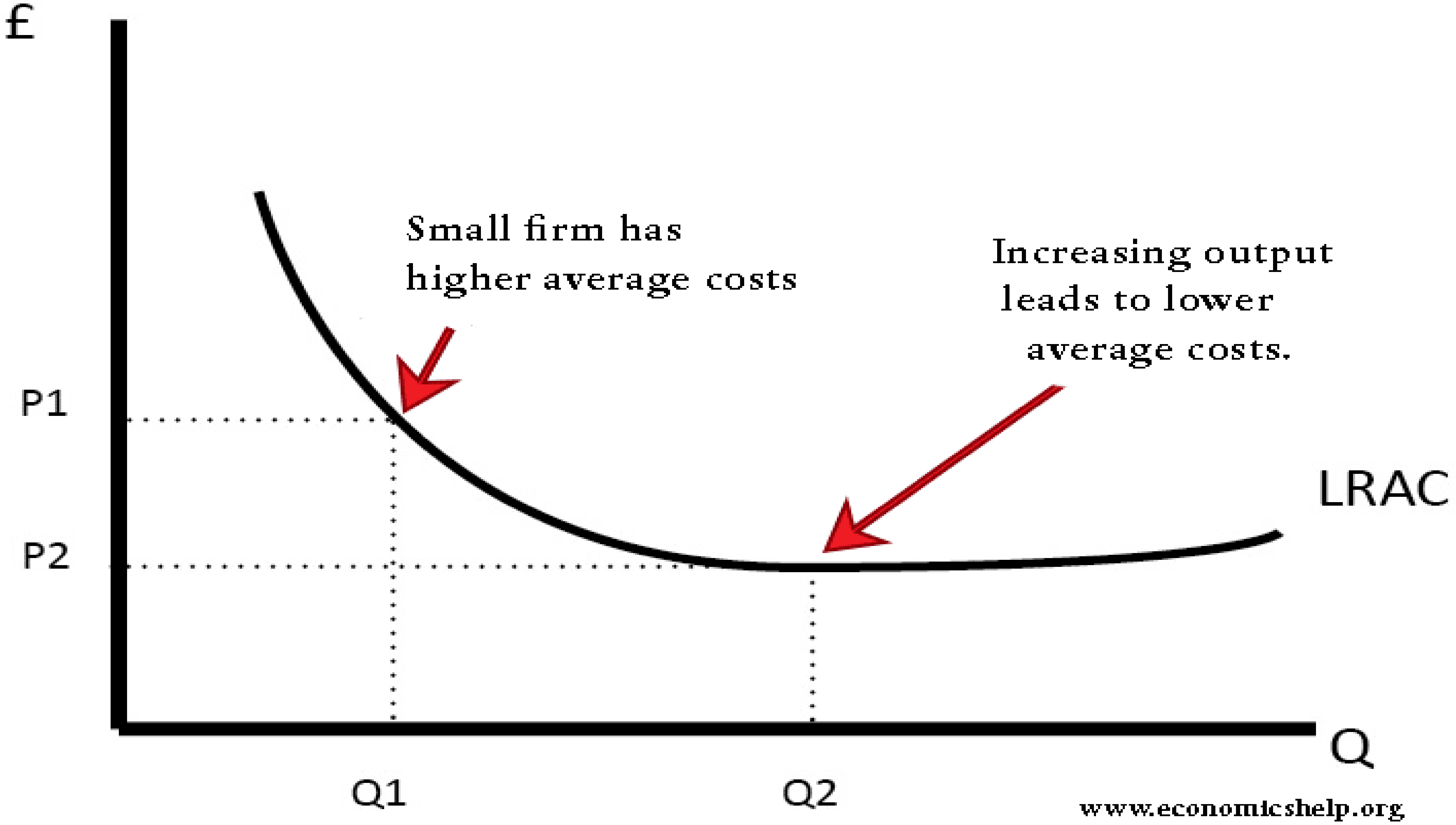
There are five major types of firm objectives:

1. Survival,
2. Profit Maximization,
3. Growth,
4. Sales Revenue Maximization,
5. Image and Social responsibility.

SIZE AND GROWTH OF A FIRM:

Most firms seek to become bigger – increasing sales and market share. Firms can grow through internal expansion, external growth (merger) or diversification into related industries. The motives for increasing in size can include: Greater sales lead to greater profit, making the firm more attractive to shareholders

Growth of Firms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Small firm has
higher average costs
Increasing output
leads to lower
average costs.
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Firms can grow <u>internally</u> by:

- By investing in more capital by borrowing more money, raising more funds from owners or by keeping some of the profit back in business.

Firms can grow externally by:

- Through **INTEGRATION**-when one firm combines with another business.
- This can happen in any two ways:
- By a **merger**-a friendly deal where two businesses join together (each business owns a share of the other business for mutual benefit or,
- By a **takeover**-a forced and sometimes hostile deal where one firm buys a share of the other business.

UNIT- II

IndustrialLocation-LocationalTheories-The
Geographical Concentration- The Centra
Place Theory-Renner Theory- Rawstones
Principles-WeberTheory-Sargent Florence
Theory- Losch Theory.