Business Economics

Ondrej Bednar

Lesson 1: Introduction to the course and to the business economics

- Student should be able to explain what business does economics studies
- Key Concepts
- Structure

Business Economics

- What is business?
- What types of business do we know?
- Types of economic societies
- Fundamental questions of society
- What is economics
- Economics, economy, economic….
- Scarcity

Key Concepts

- Scarcity
- Opportunity costs
- Rationality
- Marginal changes
- Unintended consequences

“There is no such thing as a free lunch”

Examples, examples

Ideas

- Efficient allocation of resources and markets
- Trade can be mutually beneficial
- Market outcomes can often be improved by governments
- Externalities
- Market power
- The ability to produce goods and services determine standard of living

Microeconomics vs Macroeconomics

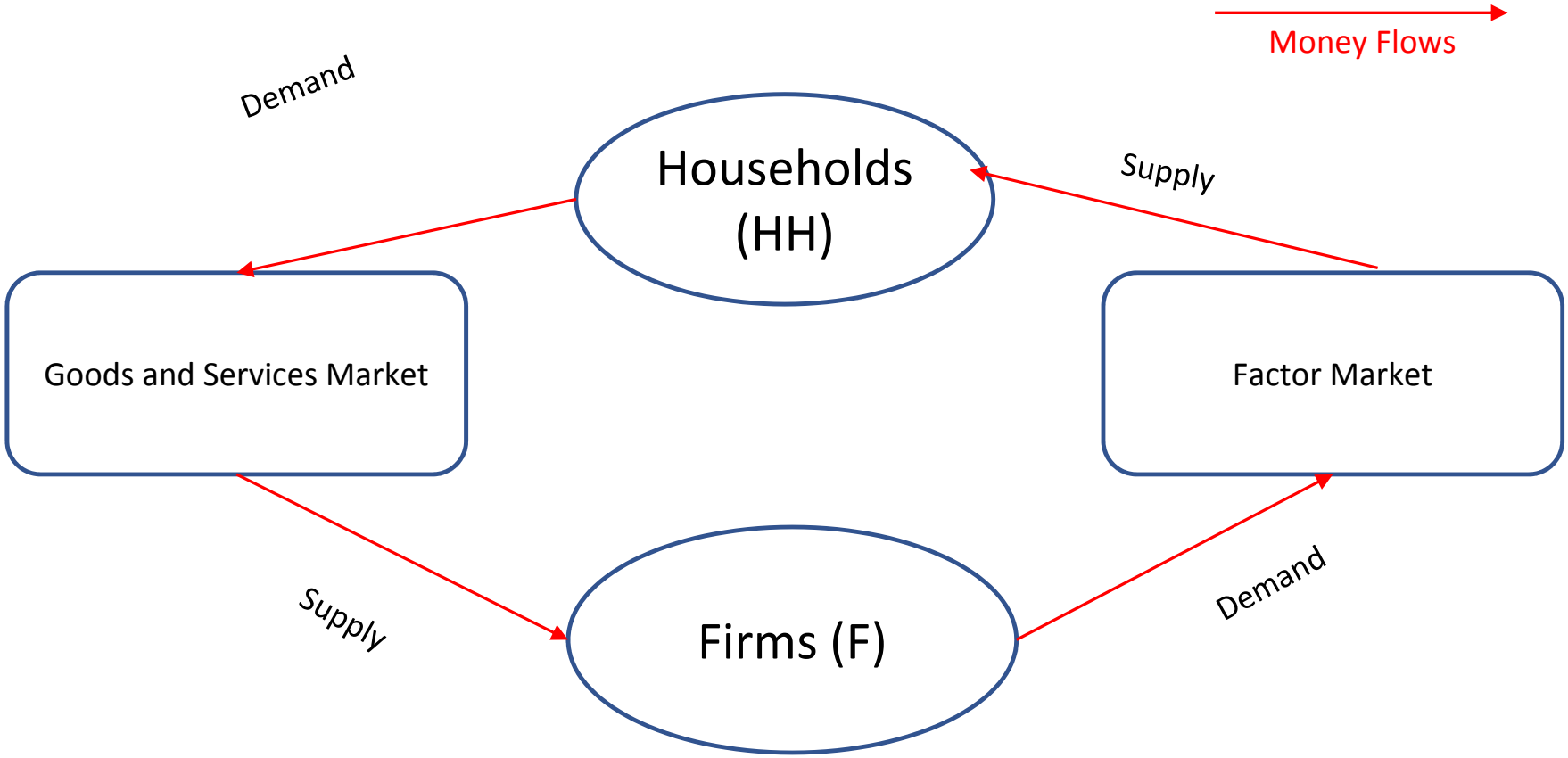
Microeconomics

- Single markets
- Business Optimisation

Macroeconomics

- All markets within economy aggregated
- GDP, Inflation, Balance of Payment, Unemplyoment …

MicroEconomics for business: Where we are



Firms

- Maximize profits Π
- Π(Q) = TotalRevenue-TotalCosts= $p(Q)\cdot Q+C(Q)$

- Maximizing Π with respect to quantity …0 $=p(Q)+Qp'(Q)+C'(Q)$ -> $p(Q)+Qp'(Q)=C'(Q)$.... MR=MC Marginal Revenue= Marginal Cost

Revenue Function

- Depends on market structure where the firm operates: prefect or imperfect competition
- Total Revenue, Average Revenue, Marginal Revenue Graphs

Cost function

- Fixed vs variable costs distinction
- Production function: Total product TP, Average Product AP, Marginal Product MP
- Factors of production L, K, A
- Total Costs, Average Costs, Marginal Costs Graphs

Households optimisation

Total Utility, Marginal Utility, Budget

Elasticities

- $\varepsilon_d = \%\Delta Q / \%\Delta P$
- How big a change causes in Quantity demanded causes price change
- What makes demand more elastic

Market interactions graphs

Market Structures

Monopoly, Oligopoly, Monopolistic competition, Perfect competition

Repetition

Profit-optimizing company in imperfect market

Break-even analysis

Price elasticity of demand and supply and what affects the elasticities

Elasticities continued

Income Elasticity

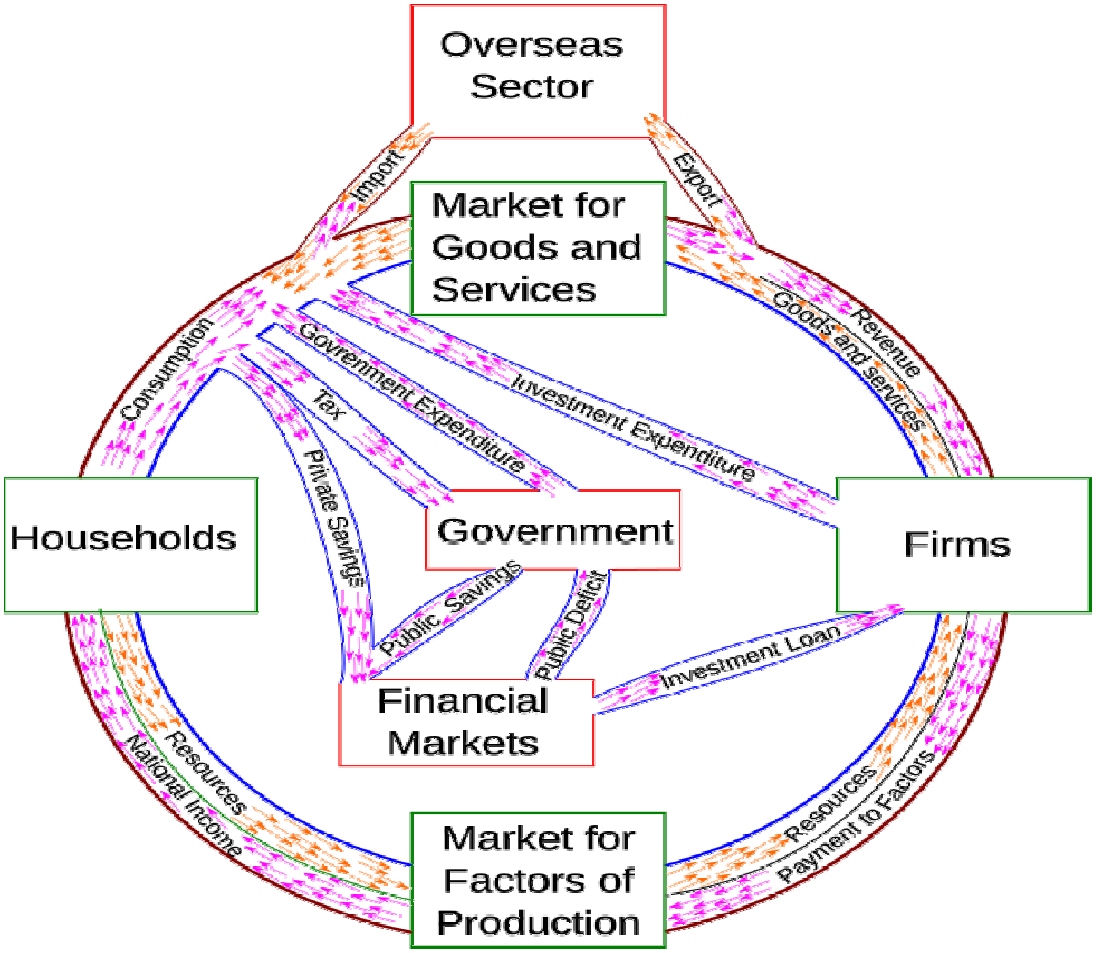
Cross Elasticity

Example:

D1:P=20-5Q

D2:Q=5-0.25P

Macroeconomics



Main macroeconomic variables

Product

Inflation

BoP

Unemployment rate

Interest Rate

Exchange Rate

PRODUCT

FEDERAL RESERVE BANK of ST. LOUIS

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Categories > National Accounts > National Income & Product Accounts > GDP/GNP

Real Gross Domestic Product (GDPC1)

Observations
Q4 2024: 23,542.349
Updated: Mar 27, 2025 8:03 AM CDT
Next Release Date: Apr 30, 2025

Units:
Billions of Chained 2017 Dollars, Seasonally Adjusted Annual Rate

Frequency:
Quarterly

1Y | 5Y | 10Y | Max
1947-01-01 to 2024-10-01

Edit Graph
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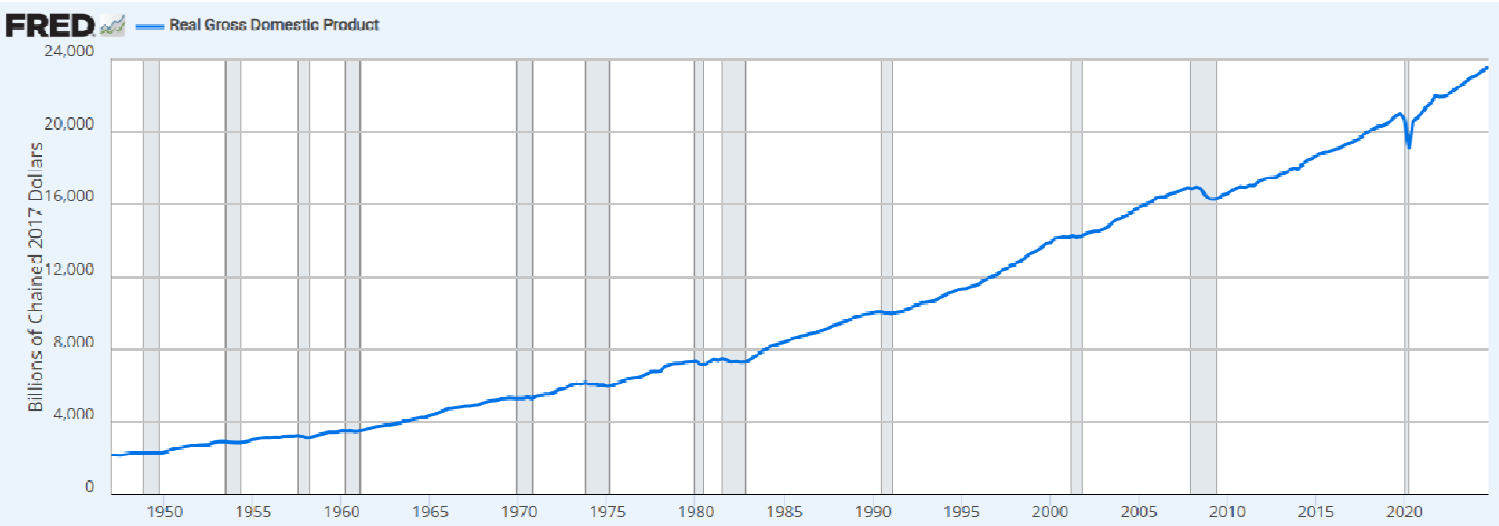


Source: U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

Fullscreen

Growth Economics

- **Cycle/wave name**
  Period (years)
- Kitchin cycle (inventory, e.g. pork cycle)
  3–5
- Juglar cycle (fixed investment)
  7–11
- Kuznets swing (infrastructural investment, demographics) 15–25
- Kondratiev wave (technological basis)

Fiscal Policy

Fiscal policy refers to how the **government uses spending and taxation** to influence the economy.

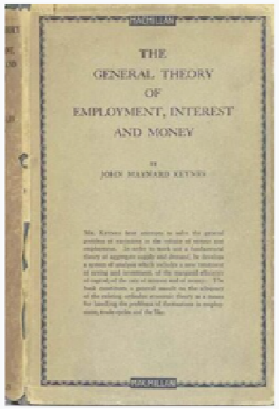
- **Spending**: On infrastructure, public services, social benefits, etc.
- **Taxation**: Income tax, corporate tax, VAT, etc.

Goal: Promote economic stability, reduce unemployment, and support growth.

Contrast with Monetary Policy:

- Fiscal = government (Ministry of Finance/Treasury)
- Monetary = central bank (interest rates, money supply)

The General Theory of Employment, Interest and Money



Author	John Maynard Keynes
Language	English
Genre	Non-fiction
Publisher	Palgrave Macmillan
Publication date	1936
Publication place	United Kingdom
Media type	Print paperback
Pages	472 (2007 edition)
ISBN	978-0-230-00476-4
OCLC	62532514

Types

- **Expansionary Fiscal Policy**
- Used during a recession
- Involves increasing spending or cutting taxes
- **Goal:** Stimulate demand, reduce unemployment
- Example: 2009 U.S. stimulus package during the Great Recession
- **Contractionary Fiscal Policy**
- Used when economy is overheating (high inflation)
- Involves cutting spending or raising taxes
- **Goal:** Slow down inflation, reduce deficits
- Example: Austerity measures in Europe post-2010 debt crisis

Main schools

- **Keynesian View**
- Pro-fiscal intervention
- Believes demand drives the economy
- Advocates government spending during downturns to offset weak private sector
- “The boom, not the slump, is the right time for austerity.” — Keynes
- **Classical / Monetarist View (e.g., Milton Friedman)**
- Skeptical of government intervention
- Believes markets self-correct
- Advocates limited fiscal policy, prefers monetary policy
- “The use of fiscal policy to offset the business cycle has not been a success.” — Friedman

Monetary Policy- lesson goals

- Explain what a central bank can control and what it influences indirectly.
- Trace the transmission mechanism from policy rate → financial conditions → spending → inflation → hiring.
- Predict which kinds of firms benefit/hurt when rates rise/fall (and why).
- Turn a rate/inflation scenario into a pricing, investment, and financing decision.

Interest Rate

If rates jump 2 percentage points, what changes *tomorrow morning* for a business?

Interest rates impact

Financing Costs

Customer demand

FX / international sales

Hiring & inventory

Central Bank and monetary policies

- CB is an institution that manages the monetary policy of a country or monetary union
- Monetary policy affects monetary and financial conditions to accomplish its objectives, most often price stability and low unemployment

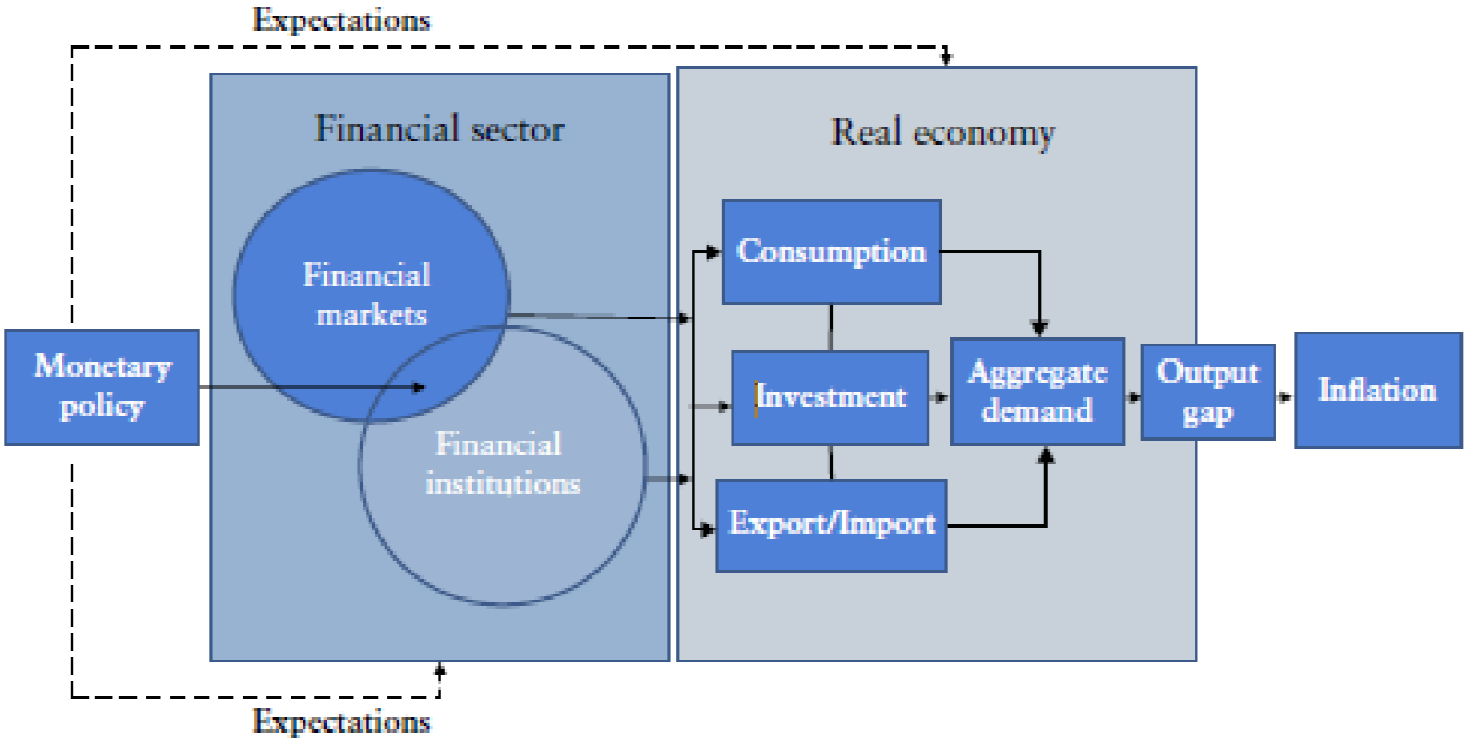
Monetary Policy Tools

Interest Rates

Forward Guidance

Reserve Requirements

Transmission mechanism



Monetary policy impact on busines

Market rates → WACC goes up/down, capex hurdle rates shift.

Credit availability → banks tighten lending standards, covenants matter.

Asset prices → wealth effect (consumer), valuation/financing (firms).

FX channel → rate differentials move currency, hits exporters/importers.

Expectations → pricing power and wage negotiations change.

Terms and concepts

Yield Curve

Quantitative Theory of Money

Game Theory

Statistics primer

Finance- company valuation

Finance derivatives and accounting

Behavioral economics