

# **ECO 203: Microeconomics for Business**

## **(BBM)**

**Credits: 3**  
**Lecture Hours: 48**

### **Course Objectives**

This course aims to develop students' understanding of the microeconomic concepts and theories in order to enhance their skill in analyzing business opportunities and markets for efficient use of resources.

### **Course Description**

This course comprises fundamentals of microeconomics, analysis of demand, supply and market efficiency, theory of consumer's behavior, production and cost analysis, pricing theory and practices and market for resources.

### **Course Learning Outcomes**

By the completion of the course students will be able to:

- Describe the nature of microeconomics and its use in business and also understand basic principles of economics.
- Use the demand and supply as the basic tools of market equilibrium and efficiency.
- Measure elasticity of demand and supply and use price elasticity of demand in business decision making.
- Derive the demand curve for normal goods by analyzing the consumer's behavior in both cardinal and ordinal approach.
- Explain the production functions and determine optimal combination of inputs and also examine the behavior of short-run and long-run cost and cost curves.
- Explain market structures, determine profit maximizing price of the products in those market and explain the pricing of real practices.
- Describe the pricing of resources.

### **Course Details**

#### **Unit 1: Fundamentals of Microeconomics**

**5LHs**

Microeconomics: concept and scope; Microeconomics in business decisions: nature and uses; Basic principles of economics: how people make decisions, how people interact and how the economy as a whole works.

#### **Unit 2: Analysis of Demand, Supply and Market Efficiency**

**12LHs**

Demand function: concept and types, movement and shifts in demand curve; Supply function: concept and types, movement and shifts in supply curve; Market equilibrium; Effect of changes in demand and supply on market equilibrium; Effect of government policy (Tax, subsidy and price control) on market equilibrium; Market efficiency: concepts and measurement (by consumer's surplus and producer's surplus); Price elasticity of demand: concept and calculation; Price elasticity of demand in demand curve; Relationship between revenue and price elasticity; Uses of price elasticity of demand in business decision making; Concept of income elasticity of demand, cross elasticity of demand, advertisement elasticity of demand and elasticity of supply.

**Unit 3: Theory of Consumer's Behavior****4LHs**

Cardinal approach: assumptions, consumer's equilibrium and derivation of demand curve; Ordinal approach: concept, assumptions and properties of indifference curve; Marginal rate of substitution; Price line; Consumer's equilibrium; Price effect and derivation of demand curve for normal goods

**Unit 4: Production and Cost Analysis****11LHs**

Production function: concept and types; Optimal employment of one variable inputs; Isoquants: assumptions, MRTS, properties and isocost line, optimal employment of two variable inputs; Laws of returns to scale; Cobb-Douglas production function; Cost function: concepts, implicit cost and explicit cost, accounting cost and economic cost, opportunity cost; Behavior of short-run costs and cost curves; Derivation of long-run average and marginal cost curves; Economies and diseconomies of scale; Relation between average cost and marginal cost

**Unit 5: Pricing Theory and Practices****10LHs**

Market structure: concept and characteristics; Profit maximization goal of firm; Price and output determination under perfect competition: short-run and long-run equilibrium, Derivation of short run supply curve of a firm and industry; Price and output determination under monopoly: short-run and long-run equilibrium; Price and output determination under monopolistic competition: short-run and long-run equilibrium; Pricing practices: price discrimination, cost plus pricing, incremental cost pricing and two-part tariffs

**Unit 6: Markets for Resources****6 LHs**

Wage determination: competitive labor market, Three union models, The minimum-wage controversy, Wage differentials and Pay for performance; Interest rate differentials; Economic rent and its determination; Profit: business profit and economic profit

**Basic Book**

McConnell, C.R., Brue, S.L. and Flynn, S.M., *Economics: Principles, Problems and Policies*, New Delhi, McGraw Hill. Latest Edition

**References**

Browning and Browning (1994), *Microeconomic Theory and Applications*, New Delhi, Kalyani Publishers

Adhikari, G.M. and Shreshtha, R.G. *Microeconomics for Business*, Kathmandu: KEC Publications, Latest Edition.

Case, K. E. and Fair, R.C. *Principles of Economics*, Singapore, Pearson Education. Latest Edition.

Dwivedi D.N., *Microeconomics Theory and Practice*, New Delhi, Tata McGraw Hill. Latest Edition

Koutsoyianis, A., *Modern Microeconomics*, London, Macmillan. Latest Edition