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BUSINESS ECONOMICS

ARTICLE 24



UNDERSTANDING ITS CORE PRINCIPLES

BUSINESS ECONOMICS IS A BRANCH OF APPLIED ECONOMICS THAT STUDIES HOW BUSINESSES MAKE DECISIONS, ALLOCATE RESOURCES, AND COMPETE IN THE MARKET. BY UNDERSTANDING ECONOMIC PRINCIPLES AND MARKET STRUCTURES, BUSINESSES CAN MAKE BETTER STRATEGIC CHOICES, RESPOND TO COMPETITION, AND MAXIMIZE THEIR PROFITABILITY. THIS FIELD PROVIDES VALUABLE TOOLS AND INSIGHTS TO GUIDE BUSINESS OWNERS AND MANAGERS IN ASSESSING COSTS, SETTING PRICES, ANALYZING MARKET DEMAND, AND PLANNING FOR FUTURE GROWTH. HERE'S A BREAKDOWN OF TWO ESSENTIAL TOPICS IN BUSINESS ECONOMICS: THE BASIC ECONOMIC PRINCIPLES FOR BUSINESSES AND MARKET STRUCTURES.

1. BASIC ECONOMIC PRINCIPLES FOR BUSINESSES

UNDERSTANDING BASIC ECONOMIC PRINCIPLES HELPS BUSINESSES OPTIMIZE RESOURCES, SET APPROPRIATE PRICES, AND PLAN FOR GROWTH. HERE ARE SOME KEY PRINCIPLES:

1.1- SUPPLY AND DEMAND

SUPPLY: IS THE QUANTITY OF A PRODUCT OR SERVICE THAT BUSINESSES ARE WILLING AND ABLE TO SELL AT DIFFERENT PRICES

DEMAND IS THE QUANTITY THAT CONSUMERS ARE WILLING TO BUY AT VARIOUS PRICES.

EQUILIBRIUM PRICE: THE POINT AT WHICH SUPPLY EQUALS DEMAND, SETTING THE OPTIMAL PRICE FOR MAXIMUM SALES WITHOUT SURPLUS.

APPLICATION:

BUSINESSES USE SUPPLY AND DEMAND ANALYSIS TO DECIDE THE OPTIMAL PRICE FOR THEIR PRODUCTS OR SERVICES.

1.2 OPPORTUNITY COST

OPPORTUNITY COST REPRESENTS THE VALUE OF THE NEXT BEST ALTERNATIVE FOREGONE. IN BUSINESS, IT'S A WAY TO MEASURE THE TRADE-OFFS OF CHOOSING ONE INVESTMENT OVER ANOTHER.

○ EXAMPLE:

A BUSINESS MIGHT CHOOSE BETWEEN INVESTING IN NEW EQUIPMENT OR LAUNCHING A NEW MARKETING CAMPAIGN. THE OPPORTUNITY COST IS THE POTENTIAL BENEFIT LOST FROM THE OPTION NOT CHOSEN.

1.3 MARGINAL ANALYSIS

THIS PRINCIPLE INVOLVES COMPARING THE ADDITIONAL BENEFIT OF AN ACTION TO ITS ADDITIONAL COST.

- **MARGINAL REVENUE:**
THE EXTRA REVENUE GAINED FROM SELLING ONE ADDITIONAL UNIT.
- **MARGINAL COST:**
THE EXTRA COST INCURRED BY PRODUCING ONE ADDITIONAL UNIT.

APPLICATION:

BUSINESSES USE MARGINAL ANALYSIS TO DETERMINE HOW MUCH TO PRODUCE TO MAXIMIZE PROFIT, BY ENSURING THAT MARGINAL REVENUE EXCEEDS OR EQUALS MARGINAL COST.



2.1 PERFECT COMPETITION

CHARACTERISTICS: MANY SMALL FIRMS, IDENTICAL PRODUCTS, AND NO SINGLE COMPANY CONTROLS THE PRICE.

PRICING:

FIRMS ARE PRICE TAKERS, MEANING THEY MUST ACCEPT THE MARKET PRICE.

IMPLICATIONS FOR BUSINESSES:

FIRMS IN PERFECT COMPETITION FOCUS ON MINIMIZING COSTS, AS THEY CAN'T DIFFERENTIATE THROUGH PRICING.

EXAMPLE:

AGRICULTURE MARKETS OFTEN DISPLAY TRAITS OF PERFECT COMPETITION, WITH PRODUCTS LIKE WHEAT OR CORN SOLD AT MARKET-DRIVEN PRICES.

2.2 MONOPOLISTIC COMPETITION

CHARACTERISTICS: MANY FIRMS OFFER DIFFERENTIATED PRODUCTS, ALLOWING SOME CONTROL OVER PRICING.

PRICING: COMPANIES HAVE SLIGHT PRICE FLEXIBILITY DUE TO BRAND DIFFERENTIATION, ADVERTISING, OR UNIQUE FEATURES.

IMPLICATIONS FOR BUSINESSES: FIRMS INVEST IN ADVERTISING AND PRODUCT DEVELOPMENT TO STAND OUT IN THE MARKET.

EXAMPLE: THE FAST-FOOD INDUSTRY, WHERE CHAINS COMPETE BY DIFFERENTIATING THROUGH QUALITY, PRICING, OR BRANDING.



2.3 OLIGOPOLY

A FEW LARGE FIRMS DOMINATE THE MARKET, OFTEN WITH HIGH BARRIERS TO ENTRY.

○ EXAMPLE:

THE AIRLINE AND AUTOMOBILE INDUSTRIES, WHERE A FEW KEY PLAYERS INFLUENCE THE MARKET.

PRICING:

FIRMS MAY ENGAGE IN PRICE WARS OR COLLUSION TO STABILIZE PRICES, RESULTING IN INTERDEPENDENT PRICING STRATEGIES.

IMPLICATIONS FOR BUSINESSES:

COMPANIES OFTEN FOCUS ON NON-PRICE COMPETITION, SUCH AS QUALITY IMPROVEMENTS, ADVERTISING, AND PRODUCT INNOVATION.

2.4 MONOPOLY

PRICING:

THE FIRM IS A PRICE MAKER, SETTING PRICES AT LEVELS THAT MAXIMIZE PROFIT, OFTEN LIMITED ONLY BY REGULATORY OVERSIGHT.

IMPLICATIONS FOR BUSINESSES:

MONOPOLIES FOCUS ON MAINTAINING MARKET CONTROL THROUGH INNOVATION OR COST EFFICIENCY.

EXAMPLE: PUBLIC UTILITIES, WHERE ONE COMPANY OFTEN SERVES AN ENTIRE AREA DUE TO HIGH INFRASTRUCTURE COSTS.



CONCLUSION:

BUSINESS ECONOMICS PROVIDES A FRAMEWORK FOR UNDERSTANDING AND MAKING INFORMED DECISIONS IN THE COMPLEX ENVIRONMENT IN WHICH BUSINESSES OPERATE. BY APPLYING ECONOMIC PRINCIPLES AND UNDERSTANDING THE STRUCTURE OF THE MARKET, BUSINESSES CAN STRATEGICALLY POSITION THEMSELVES FOR SUCCESS.

**Thank
you!**