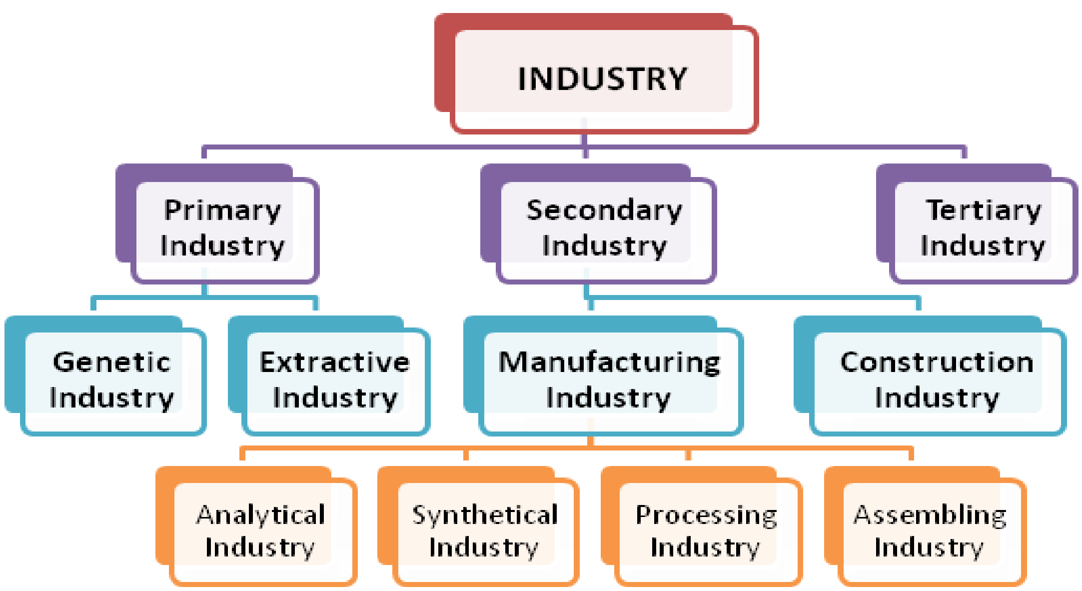

Chapter 3

Industrial Economics

What is Industry?

- A group of firms either producing similar products or using similar raw material is called industry e.g., cement, sugar industry etc.
- Industry means a place where goods are manufactured. Industry includes all those firms or units which are engaged in the manufacturer of goods or components of similar nature or which uses the similar raw materials.
- Industry is an economic activity where raw material is converted into finished goods. In other words, industry means where goods are manufactured. Example: steel industry, cotton industry etc.

Types of Industry



Industrial Sector

Has an important and effective role in countries' economic development:

1.Making investment.

2. Creating job opportunities.

3.contribution to the gross domestic products (GDP).

Industrial Sector Development

1. Industrial customization policy.
2. Customs protection policy.
3. Government loan policy.
4. Government procurement policy.
5. Policy to reduce industrial corporate taxes.

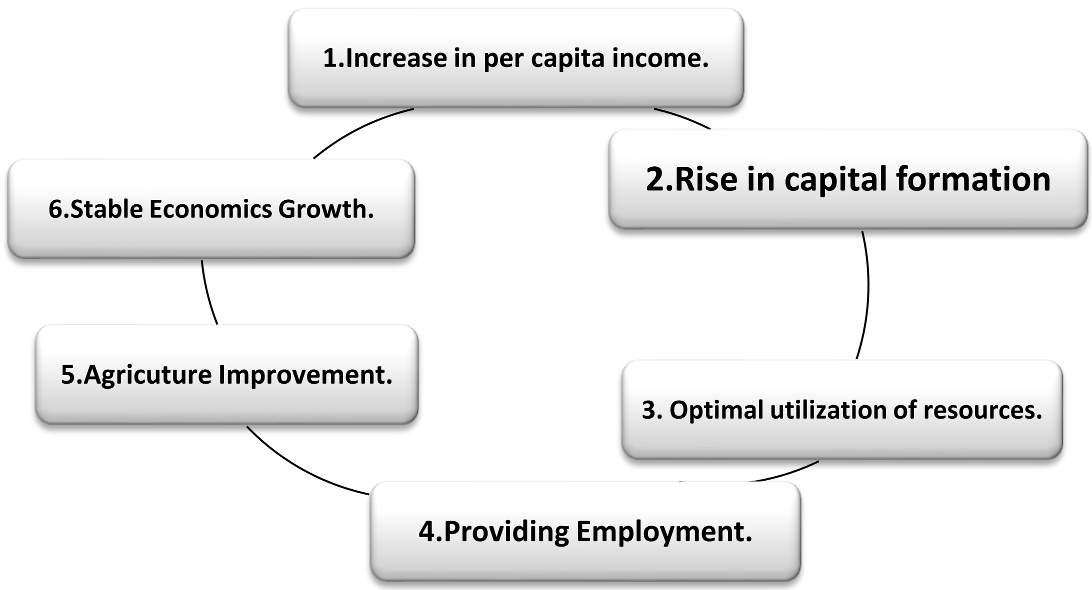
Definition Of Industrial Economics

- It is a branch of applied economics, like applied economic sciences, such as agricultural economics, international trade, and public finance.
- It represents an application of micro and macro economic theory.
- It uses various tools, concepts, and methods of economic analysis in studying and analyzing economic phenomena and processes that take place within the framework of the industrial sector.

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.

Importance of Industrial Economics



Scope of Industrial Economics

1. Industrial Efficiency.
2. Industrial Location.
3. Industrial Finance.
4. Determinants of profitability.
5. Profit Analysis.
6. Cost Analysis.
7. Pricing theory.
8. Diversification.

What is Manufacturing?

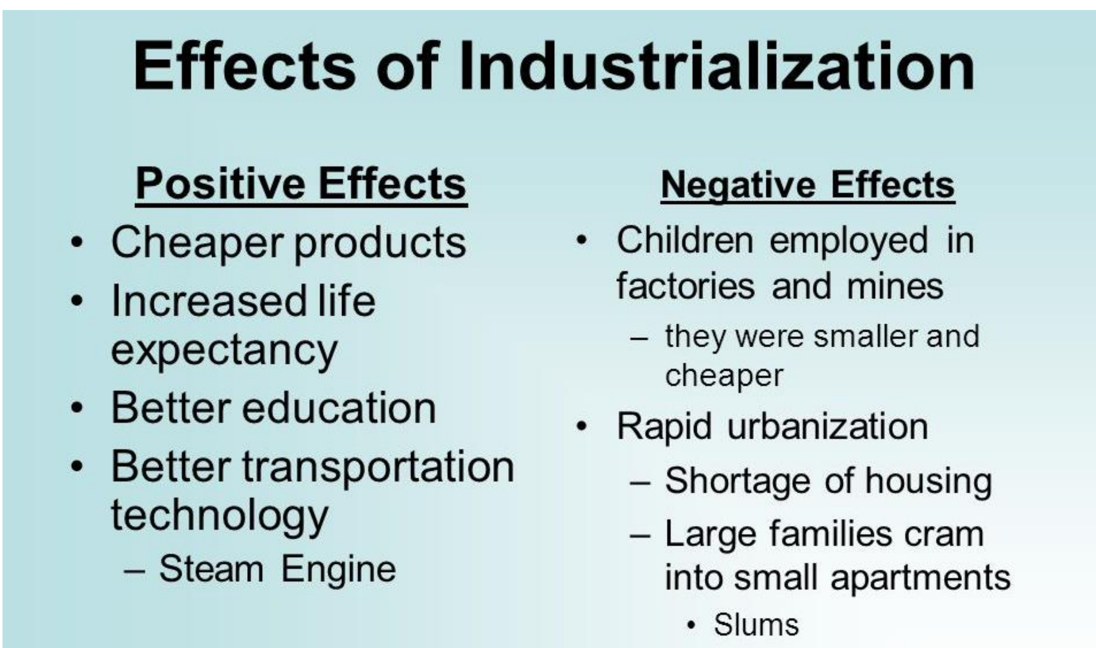
Manufacturing refers to a large-scale production of goods that converts raw materials, parts, and components into finished merchandise using machines.

The Concept of Manufacturing

Manufacturing is defined as the creation of new products, either from raw materials or components. Examples of manufacturing include automotive companies, bakeries, shoemakers and tailors, as they all create products, rather than providing services.

The Importance of Industrialization in Developing Countries

Industrialization helps the country's economy maintain a balance of imported and exported goods. The ability to manufacture certain products on a large scale based on domestic resources made it possible to provide goods as exports to other countries.



Factors Affecting location of Industry: Industrial locations are complex in nature. They are influenced by the availability of many factors. Some of them are: Raw Materials, Land, Water, Labour, Capital, Power, Transport, and Market. The locational factors of industries are grouped into: Geographical factors and Non-Geographical factors.

Factors responsible for location of Industries

I. Geographical Factors

1. **Raw Material:** Bulky goods and weight losing materials cannot be transported for long distances. Therefore, industries like iron and steel and sugar industries are located near the place of availability of iron ore and sugar cane respectively. Similarly, Sugar industries are located near the sugarcane growing areas.

2. **Power**: Power is base and essential to run the entire industry. Power is mostly generated from the conventional sources like coal, mineral oil, and water. So, any one of these sources must be located near the industries to fulfil its power requirement.

3. **Labour**: Availability of cheap and skilled labour is another important requirement for labour intensive industries (e.g., Tea industry).

4. **Transport**: It is needed for transporting raw materials to the industries and also for sending the finished products to the market. Availability of easy transportation always influences the location of an industry. So, the junction points of waterways, roadways and railways become active centres of industrial activity.

5. **Storage and Warehousing**: The finished goods should reach the market at the end of the process of manufacturing. Hence, such finished products should be stored at suitable storage or warehouse till the goods are taken to the market.

6. **Topography**: The site that is selected for the establishment of an industry must be flat. So, it can be well served by different modes of transport**.**

7**. Climate**: Climate of the area selected for an industry is also one of the important factors of location of industries. Extreme climate condition is not suitable for the successful industrial growth. Moreover, there are certain industries which require a specific climate. Example: Cool- humid climate is ideal for cotton textile industry.

8. **Water Resources**: Availability of water is another important factor that influences the industrial location. Many industries are established near rivers, canals, and lakes for this reason. Iron and steel industries, textile industries and chemical industries require plenty of water, for their proper functioning.

---

2. Non-Geographical Factors:

1. **Capital**: Capital or huge investment is needed for the establishment of industries without which no industry can be established.

2. **Government Policies/Regulations**: Government policies are another important factor that influences industrial location. The government sets certain restriction in the allocation of land for industries in order to reduce regional disparities, to control excessive pollution and to avoid the excessive clustering of industries in big cities. So, the policies also affect the industrial locations.

3. Banking and Insurance Facilities: The areas with better banking facilities are better suited for establishing industries. In many cases, investors seek a loan to start the industries. Monetary transactions are happening regularly, which is possible through banking facilities. Again, under changing economic scenarios and local conditions, enterprises look for insurance facilities to support their industrial activities under any unfavorable circumstance.

4. Availability of Labor: An industrial setup can function effectively with the availability of cheap labor in the area of operation of the industry. Some industries involve manual activities which require a large labor force. The availability of labor suitable for the work at a lower cost is a favorable condition for industrial setup and operations.

6. Industrial Inertia: Often industries don't tend to relocate to new areas even with the current region's changing socio-economic conditions, which create some challenges. It may be observed that costs associated with relocating fixed capital assets and finding labor in the new location outweigh the costs of adapting to the changing conditions of a current location. In such cases, the industry avoids relocating facilities even under the changing circumstances following industrial inertia.

7. Possibility of Future Expansion: All industries think of long-term goals and explore possibilities for the future expansion of business. The opportunities available for possible future development and growth with technology upgrades are deciding factors for the location and presence of an industry in a region.

8. Size of Industrial Units: The size of an industrial unit also can influence choosing a location because the size of industrial units may require the acquisition of larger land areas affecting the population and natural habitat located in the proximity. There may be complexities involved in relocating local communities and handling environmental issues.

9. External Economic Factors: External economic factors also influence the location of industries. Changes in external economies occur as specialized subsidiary activities develop in a region when a particular industry is localized. External economies play a significant role when many industrial units are located nearby.