**UNIT-I**

**INTRODUCTION TO MANAGERIAL ECONOMICS**

**Economics**

AC Pigou endorses the opinion of Marshall. Pigou defines Economics as “the study of economic welfare that can be brought directly and indirectly, into relationship with the measuring rod of money”.

Prof. Lionel Robbins defined Economics as “the science, which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.

**Microeconomics**

The study of an individual consumer or a firm is called microeconomics (also called the *Theory of Firm*). Micro means ‘one millionth’. Microeconomics deals with behavior and problems of single individual and of micro organization.

**Macroeconomics**

The study of ‘aggregate’ or total level of economics activity in a country is called *macroeconomics*. It studies the flow of economics resources or factors of production (such as land, labour, capital, organisation and technology) from the resource owner to the business firms and then from the business firms to the households.

**Managerial Economics**

Managerial Economics as a subject gained popularity in USA after the publication of the book “Managerial Economics” by Joel Dean in 1951.

Managerial Economics refers to the firm’s decision making process. It could be also interpreted as “Economics of Management” or “Economics of Management”. Managerial Economics is also called as “Industrial Economics” or “Business Economics”.

C. I. Savage & T. R. Small therefore believes that managerial economics “is concerned with business efficiency”.

M. H. Spencer and Louis Siegelman explain the “Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management”

**Difference between Microeconomics and macroeconomics**

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| **BASIS** | **MICROECONOMICS** | **MACROECONOMICS** |
| **Definition** | Microeconomics studies the behaviour of individual consumers and firms. | Macroeconomics studies the behaviour of the entire economy based on aggregate demand and factors. |
| **Deals in** | Individual economic variables | Aggregate economic variables |
| **Applications** | Applied to operational and internal issues of the business. | Applicable to the environment and external issues of the business. |
| **Tools** | Demand and Supply | Aggregate Demand and Aggregate Supply |
| **Assumption** | Every macroeconomic variable is constant. | Every micro-economic variable is constant. |
| **Scope** | Product pricing, Demand, Supply, production, Factor pricing, Consumption, Economic welfare, etc. | Employment, General price level, National income, labour economics, distribution, money etc. |
| **Significance** | Product price determination through prices of factors of production in the economy. | Maintaining stability in the general price level and resolving major problems of the economy such as inflation, deflation, reflation, poverty and unemployment. |

**Nature of Managerial Economics**

1. **Interdisciplinary Nature:** Managerial economics draws from both economics and management disciplines. It integrates economic theories, principles, and tools with managerial concepts, providing a framework for decision-making in a business context.
2. **Microeconomic Foundation:**At its core, managerial economics is rooted in microeconomics, focusing on the behavior of individual firms and consumers.

It examines how businesses allocate resources, set prices, and make production decisions to maximize their objectives, considering factors such as demand, supply, costs, and [market structure](https://www.geeksforgeeks.org/market-characteristics-classification/).

1. **Decision-oriented Approach:** The primary objective of managerial economics is to aid[decision-making](https://www.geeksforgeeks.org/types-of-decision-making/). It provides managers with analytical tools and techniques to assess and evaluate alternatives, enabling them to make rational choices that align with the organization’s goals and objectives.
2. **Pragmatic Perspective:** Managerial economics is pragmatic in nature, emphasizing practical applications over theoretical abstraction. It is concerned with providing solutions to real-world business problems and helping managers navigate the complexities of the market by considering factors like risk, uncertainty, and imperfect information.
3. **Focus on Optimization:** One of the key aspects of managerial economics is the pursuit of optimization. Managers seek to maximize objectives such as profit, market share, or shareholder wealth, while simultaneously minimizing costs and risks. This involves finding the most efficient allocation of resources to achieve desired outcomes.
4. **Prescriptive and Descriptive:** Managerial economics is both prescriptive and descriptive. It prescribes strategies and actions that managers can take to achieve specific goals. Simultaneously, it describes and explains economic phenomena and business behaviors, providing a comprehensive understanding of the factors influencing decision-making.
5. **Incorporation of Behavioral Economics:** In recent years, there has been an increasing recognition of the role of behavioral economics in managerial decision-making. This involves understanding how psychological factors and cognitive biases influence managerial choices, adding another layer of complexity to the field.
6. **Multidisciplinary**: The contents, tools and techniques of managerial economics are drawn from different subjects such as economics, management, mathematics, statistics, accountancy, psychology, organizational behavior, sociology and etc.

**Difference between economics and managerial economics**

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| **Basics** | **Economics** | **Managerial economics** |
| Meaning | It involves the framing of economic principles to solve economic problems. | It involves the application of economic principles to solve economic problems. |
| Character | It is microeconomic as well as macroeconomic in character. | It is microeconomic in character. |
| Nature | It is positive as well as normative in nature. | It is only normative in nature. |
| Scope | It has a wider scope. | It has a narrower scope as compared to the scope of economics. |
| Branches | It involves managerial economics as its applied branch. | It is an applied branch of economics. |
| Validity of assumptions | It is based on certain assumptions. | In it, some assumptions become invalid when applied. |

**Scope of Managerial Economics:**

The scope of managerial economics refers to its area of study. Managerial economics refers to its area of study.

Theory of demand and Demand Forecasting

Pricing and Competitive strategy

Production cost analysis

Resource allocation

Profit analysis

1. **Demand Analyses and Forecasting:**

A firm can survive only if it is able to the demand for its product at the right time, within the right quantity. Understanding the basic concepts of demand is essential for demand forecasting. Demand analysis should be a basic activity of the firm because many of the other activities of the firms depend upon the outcome of the demand for cost.

**2. Pricing and competitive strategy:**

Pricing decisions have been always within the preview of managerial economics. Pricing policies are merely a subset of broader class of managerial economic problems. Price theory helps to explain how prices are determined under different types of market conditions. Competitions analysis includes the anticipation of the response of competitions the firm’s pricing, advertising and marketing strategies. Product line pricing and price forecasting occupy an important place here.

**3. Production and cost analysis:**

Production analysis is in physical terms. While the cost analysis is in monetary terms cost concepts and classifications, cost-out-put relationships, economies and diseconomies of scale and production functions are some of the points constituting cost and production analysis.

**4. Resource Allocation:**

Managerial Economics is the traditional economic theory that is concerned with the problem of optimum allocation of scarce resources. Marginal analysis is applied to the problem of determining the level of output, which maximizes profit. In this respect linear programming techniques has been used to solve optimization problems. In fact lines programming is one of the most practical and powerful managerial decision making tools currently available.

**5. Production and cost analysis:**

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