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MANAGERIAL ECONOMICS AND ECONOMIST

Intro

Business economics or managerial economics is the systematic application of pure economics which assists in decision-making and forward planning process of business management. Managerial economics is also understood to refer to business economics or applied economics or theory of firm. In economics, we include the analysis of theoretical aspects of economic events, which are generally based on certain hypothetical assumptions, whereas actual business is related to practical aspects of economic analysis. Business economics fills the gap between the economic theories and practical behaviour of the business. It lies at the border line of economics and business management and acts as bridge between these two branches of knowledge. This modern and specific branch of knowledge is also known by different nomenclature as Theory of the Firm, Economics of Enterprise, Economic Analysis for Business Decisions, Economics of Business Management etc.

Origin

After second world war, the subject of managerial economics is gaining popularity and its study is becoming very significant in the courses of Commerce, Management, Accounting, Engineering etc. According to famous economist **Prof. Robbins,** human resources are limited whereas needs and usage are unlimited. Resources can be utilized in various forms. Thus, for best optimum form of utilization, we have to select the best. In any business organisation, the prime function of managers are decision making and forward planning. The practical use of economic theories for decision-making and forward planning in the atmosphere of uncertainty is managerial economics. Thus, it can be described as a stream of study that engulfs economic theory as well as with the principles of management. This is the basic reason for the fast popularity, which this discipline is getting in the competitive world of management, day by day. This modern branch has attracted the serious attention of corporate sector towards it. The globalization and meltdown of this century has brought new challenges for managerial economics and in this state the role of economist and managerial economists is getting significant in all over the world. The managerial economics is taking place of economics in 21st century and importance is growing very fastly.

Meaning and Definitions of Business Economics

Business economics is that specific branch of general economics which joins the economic theories and business behaviour. This is the micro part of economic science which is used in solving the practical problems of business.

Business economics in made up of two words *i.e.* business and economics. Business is meant to that human activity which is performed with the prime objective to earn optimum money. Hence, business is a practical activity. The second word economics is of theoretical character and studies the optimum uses of resources. The business economics analyses the various theories of economics and implement them to practical usage so as to smoothen the decision-making and forward planning.

Some of the important definitions are as below :

1. According to **Spencer & Siegelman**, "Business economics is the integration of economic theory with business practice for the purpose of facilitating decision-making and forward planning by management." It means that the integration of economics and business is made in business economics or managerial economics for facilitating managerial decision-making and forward planning process for accomplishment of the organizational objectives.

2. In the words of **Joel Dean**, " The purpose of managerial economics is to show how economic analysis can be used is formulating business policies." This definition depicts that managerial economics attempts to use the economic analysis in planning and policy formulation.

3. In the views of **Prof. Hague**, "Managerial economics is concerned with using logic of economics, mathematics and statistics to provide effective ways of thinking about business decision problems." The most important function of management is decision-making and managerial economics helps in solving the problems concerned with deciding through the use of economic theories and statistical tools.

4. As per **Malcolm P. McNair** and **Richard S. Meriam**, "Business economics consists of the use of economic modes of thought to analyse business situations." This definition states that the implementation of economic methods of thinking for the study of business events and atmosphere is managerial economics.

5. According to **Haynes, Mote** and **Paul**, "Managerial Economics is economics applied in decision-making. It is a special branch of economics bridging the gap between abstract theory and managerial practice." This means managerial economics is the branch of general economics which is used in the decision-making process. In this definition, the emphasis is given on the use of various tools of economic analysis for solving the business problems.

6. **Norman F. Dufty** seems to be in agreement regarding the definition with Haynes, Mote & Paul. In his words, "Managerial economics includes that portion of economics known as the theory of firm, a body of theory which can be of considerable assistance to the businessman in his decision- making." In this, a very significant statement has been given that managerial economics can also be termed as theory of the firm.

In the all above definitions, there is difference in word formation but the basic elements are same. The essence of all the definitions is same. We can summarise as,"Managerial economics acts as a bridge between economic theories and business behaviours so that optimum help can be obtained for decision-making and forward planning of managers." There is emphasis on the resource allocation problem so that optimisation of solution to the problems of business world may be possible.

CHARERISTICS OF BUSINESS ECONOMICS

Based on the above defintions, managerial economics has the following characteristics :

1. Micro-Economics : Economics is divided under two categories known as, Micro-economics and Macro-economics. Micro-economics mainly studies the economic behaviour of the individual unit which may be a person, a particular household or a particular firm whereas macro-economics studies all the units combined together or aggregates. Micro-economics deals with a small part of the economy which may be a firm or a person because that study use to be rather more realistic. The nature of the managerial economics is micro-economics. It studies the activities of a business organisation rather than whole economy. The studies related to macro factors are only given due consideration in manaperial economics.

2. Coordination of theory and practice : Managerial economics includes the analysing the theories of economics and implementing them for practicality. The business world always has to bear the loss arising out of the conflict between economic generalist and professonalists but the managerial economics bridges this gap of conflict between them.

3. Pragmatic : Business economics is not based on the hypothetical assumptions of general economics. The theories of pure economics are generally inrealistic and based on certain assumptions. They work when other things remain equal. But, in practical life, these other things are not always equal but keep on changing. The business economics is based on real experiences and helps to solve business related problems in better way.

4. Helpful in decision-making and planning : The main aim of business management is to help managers in decision-making and planning. Business economics plays a significant role in taking decision of best alternative choice and forward planning regarding uncertain future.

5. Prescriptive : Managerial economics is prescrptive and not descriptive. This does not explain the problem rather it suggests the solution regarding what to to and what not to do.

6. Both science and art : Managerial economics is used as a systematic branch of knowledge thus, it is science. On the other hand, this suggests the method for choosing the best. hence it is also art.

7. Case study Method : The teaching of managerial economics would be less fruitful through the traditional lecture system. This subject is suitable and best to be taught through case study method in Universities, Colleges and educational institutes so that students could be able to take decisions as managers on the basis of real incidents.

Nature of Business Economics

The nature of any subject depicts that it is a science or an art or both, and again if it is a science then it is positive science or normative science.

As a Science : Science means organised knowledge. Science must have four characteristics : (a) Systematic study of facts, (b) Specific principles, rules and theories. (c) Cause and effect relationship among theories, and (d) Universal acceptability of rules. In business economics also, there is a systematic analysis and study of facts, it has various principles and theories which are chanacterstised by cause and effect relationship and universal applicability. Business economics has some specified theories which are applicable in almost all the situations. Although business economics is a science, it is not a natural or physical science. It is because of the fact that it deals with human entities and behaviour. It is not as accurate as physics or chemistry rather it is a developing social science. Hence, there is no doubt that it is a science, but we have to decide whether it is a positive science or normative science. A positive science answers about "What is ?" and normative science includes study about "What should be ?" Positive science includes the study of realistic situations whereas normative science includes decision taking about the merits and demerits of these situation.

For example, in case of death due to poison, positive science states that poison causes death. But, normative science states that taking poison is dangerous, thus, a man should never take it, or man should take proper care while handing poison. Business economics is a normative science since it involves deciding about 'do or not to do' rather than releasing the economic events. This states about the steps that to be taken for optimum utilisation of resources. This is similar to the situation in which the real cause for disease of a patient is derived by a pathologist but the remedies to cure is referred by a physician. Like a physician, business economics provides the solutions to the business problems and not to simply describe the events. Managerial adn business economics is of prescriptive nature rather than descriptive. It emphasises more on the ends than resources. It would be more appropriate to keep business economics in the category of normative science rather than positive science.

As an Art : The art is related to the 'know how' of any task. Art is a behavioral knowledge and it tells the best method for doing any work. Science gives theoretical knowledge whereas art trains about the behavioural activities. Art and science are complementary to each other. The systematic knowledge is science and systematic application of that knowledge for solving practical problems is art. Art teaches us to perform a work in an effective manner. Art is having the ability to answer the question of "how ?" This teaches us to do the work is the best way. The managerial economics helps the manager to accomplish the desired goal and method of optimum utilisation of resources. This helps in choosing the most profitable usage of limited resources of the firm in the uncertainty. It solves the problems relating to production, cost, demand, finance and profit etc. Thus, it is clear that business economics or managerial economics is an art also.

It may be concluded that business economics is the ultimate combination of normative science and art. In business economics, there is deep analysis about 'what should be done ?' and 'how to be done ?' So, some economists also termed it as 'scientific art'.

Scope of Business Economics

Business economics is a modern and developing stream. Therefore, it involves various contradictions in the ideology given by various economists. Its study material and scope is also increasing day by day. Still, the following aspects are included is the domain of the managerial economics :

1. Demand Analysis and Forecasting : The ultimate aim of every business is to sell which leads to profit. So, decisions taken by business managers mostly depends on demand or sales forecasting. The analysis and pre-determination of demand is the starting or beginning point of business decision and planning. It includes the analysis of law of demand, curve, demand elasticities, factors determining the demand, types of demand and demand forecasting.

2. Cost and Production Analysis : Every firm is associated with production of specific goods or services. For the profit management and control, cost and production analysis is very vital. The cost analysis is done in monetary units while production analysis is in physical units. Thus, the scope of cost analysis is wider than production analysis. It includes the study of costing along with its classification, the relationship between cost and production, linear programming, law of production, cost control and minimisation, economies of scale and diseconomies of scale etc.

3. Price Analysis : Decisions related to pricing policy and application are significant part of business economics. The main source of income of any business is pricing. The market expansion and success of a business are based on profitable price decisions. The price analysis includes price decision, price policy, price discrimination and price forecasting in various competitive state. This category includes understanding of pricing and output decisions under conditions of perfect competition, monopoly, imperfect competition, duopoly, oligopoly etc.

4. Profit Management : Profit Management is the integral part of business economics. The long term goal of every business is fair profit earning which is essential for its success. Profit is the difference between input (cost of production) and output (cost of sales). But, there is always a state of uncertainty in the case of profit margin. The understanding of nature and characteristics of profit, profit policy, profit planning and profit forecasting are the main areas of profit management. So, in business economics, profit planning through break-even analysis is also studied.

5. Capital Management : Business requires capital investment in plant, machinery, building, copyright etc. Capital investment decisions involve huge money which generally includes study of time factor that is they have to invest for long run. A minor fault in decision-making can bring problem for even the existence of the whole business. Capital related decisions are taken by top management because of its seriousness. These decisions includes cost of capital, rate of return, choice of investment proposals, sources of capital and capital budgeting.

Besides the above five areas, operations research has also been included in business economics in the recent years. The various quantitative techniques of operations research like linear programming, game theory, inventory models network analysis through PERT and CPM and decision theory etc. are considered as part of modern managerial economics or business economics.

Difference Between Business Economics and Economics

Though business economics is the specific field of economics, it differs from economics in several ways. Some of them can be categorised as following :

1. Scope : Economics is a broad area of knowledge which includes economic analysis of both micro and marco economies. On the other hand, business economics is micro economics, whose area is narrower than macro economics.

2. Science : Economics is both normative and positive science but business economics is mainly normative science. Actually, business economics lies in the group of social sciences or humanities.

3. Theory and Practice : Economics includes the study of economic theories whereas business economics includes the study of both economic theory and its practical aspects.

4. Importance of Assumptions : The economic theories are based on various assumptions whereas in managerial economics most of the assumptions get lost in the practical applicability. It is mainly based on real experiences.

5. Principles of Distribution : In economics the study of various theories of wages, rent, interest and profit are done under the principles of distribution. In business economics, only profit theory of distribution is studied.

6. Economic & Non-economic aspects : Economics in its pure form limits its work-area to economic aspects only but business economics puts emphasis on problems related to social and political along with economic aspects.

7. Origin : Economics is an ancient subject, its existence can be found even in vedic era also. But business economics is relatively modern and its origin is of after second world war period.

8. Knowledge of Other Subjects : Economics generaly does not involves the study of other subjects at the time of theoretical analysis but business economics essentially requires study of accounting, statistics, mathematics etc. due to practical nature of analysis.

Significance of Business Economics

Business economics plays a very significant role in managerial decission-making process. Choosing the best method in alternative ways of doing is known as decision-making. The problem arises because of the scarcity of