



Chapter 1 – Introduction to Managerial Economics & PPC

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What is Economics ?



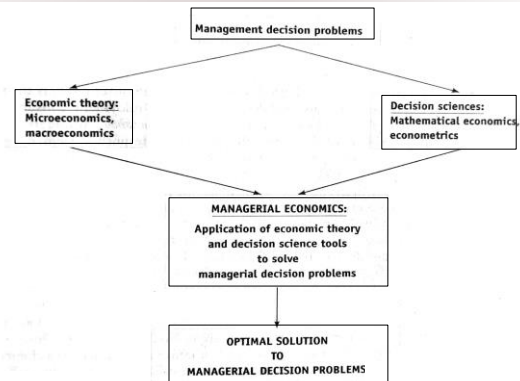
- 'Economics' in simplified form is a 'Science of wealth'
- It studies how people interact with value; in particular with the production, distribution, and consumption of goods and services.
- Classified into 2 common areas:
 - Microeconomics: Study of a person, unit or entity
 - Macroeconomics: Study of group of units, industry/sector, economy as a whole

What is Managerial Economics ?



- It is a combination of 'Microeconomics' as well as 'Macroeconomics', designed specifically to solve business problems and practical business application
- Aspects covered:
 - Demand
 - Supply
 - Production
 - Cost Structures
 - Markets

Dominic Salvatore Model



3 basic fundamentals

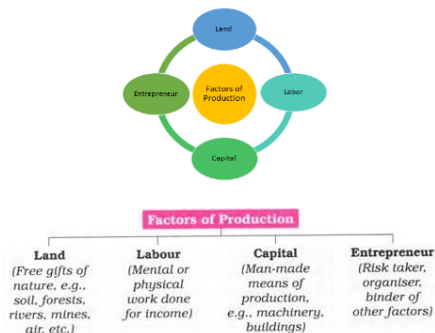


- Scarcity
 - Human wants are unlimited, resources are limited
- Choice
 - We have to make a choice
- Opportunity Cost
 - We will face Trade-off

Consumption v/s Saving



Factors of Production



Production Possibility Curve (PPC)

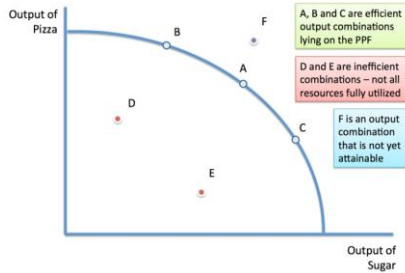


Production Possibility Curve is also called as Production Possibility Frontier (PPF)

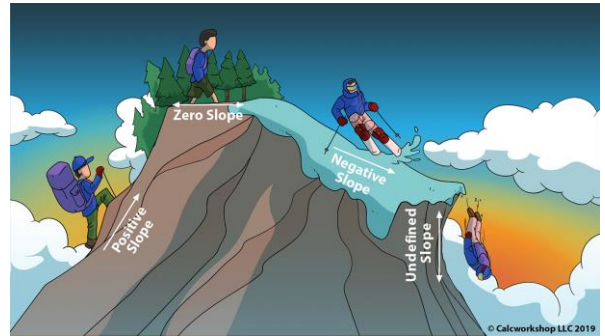
"It shows a various combinations the output of two goods or services which can be produced with the given resources"

Resources basically refer to various Factors of Production

Production Possibility Curve



Slope



Opportunity Cost

- The slope of PPC represents 'Opportunity Cost'
- Slope measures rate of change

OC in PPC

$$= \frac{\text{New Quantity of Good A} - \text{Old Quantity of Good A}}{\text{New Quantity of Good B} - \text{Old Quantity of Good B}}$$

Important Characteristics of PPC

- It slopes downward to the right (Scarcity):
To increase output of a product, the output of other product needs to be reduced
- Generally, it is 'bowed outward' (Opportunity Cost):
Represents the **rising opportunity cost** when substituting one type of production for another

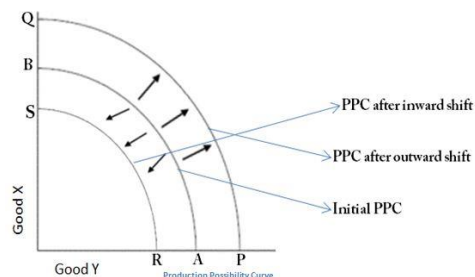
Economic Output vs Environmental Protection



- Emerging countries like India, Brazil would place a greater emphasis on Economic output which will help improve GDP per capita.
- On the other hand developed nations would give more importance to Environmental Protection



Shift in PPC



Reasons for PPC Shifting outward & Inward



- | | |
|---------------------------------|-------------------------------|
| 1. Increase in Resources | 1. Decrease in Resource |
| 2. Better Technology | 2. Degradation in Technology |
| 3. Better productivity of labor | 3. Fall in labor productivity |
| 4. Trade | 4. International Conflicts |

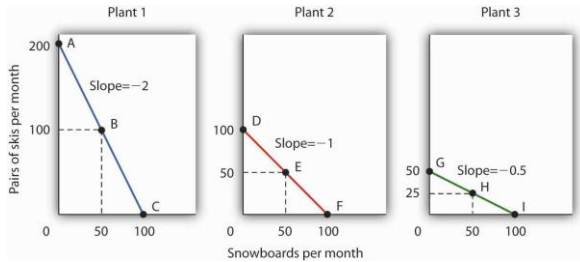
Comparing Multiple PPC – Snowfun Case



A firm in Switzerland called 'Snow-fun' is involved in manufacturing Skis, snowboards and other equipment.

The firm has 3 plants in total and is currently using all its 3 plants to manufacture Skis as they are in high demand.

Now suddenly the economic conditions have changed and there is a demand for 50 Snowboards and the firm wants to produce this order of Snowboards by giving up a few Skis, which plant would it choose?



ET Review: Dec 22, 2021



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