MANAGERIAL ECONOMICS

Introduction to Managerial Economics

- Managerial economics refers to the integration between economics and business principles. It is a broader line between economics and business management. It is a hybrid of economics and management and that is why is called as applied economics.

- A) Helps in achievement of desired objectives.
  B) Allocation of scarce resources in effective and efficient manner .
  C) Minimizes the risks involved in business.
  D) Gives a clear image if risks that can occur and helps in overcoming them.

- Nature :- a) Involves micro-economic theory as it covers the concepts of it such as elasticity of demand and supply, revenue, cost management, pricing policies and helps in providing a logical base to run a business efficiently.
  b) Involves macro-economic theory as it covers the concept of level of national income, GDP, Level of consumption and production.
  c) Applied knowledge of economics as it involves both the perspectives i.e. Economics and business principles.
  d) Applied science- Helps in forecasting the risks that can occur in future and can be modified according to the situations.

- Scope of Managerial economics

  a) Production function- P(f)= inputs X price. If price of inputs increases then firm emphasis on cost effective production.
  b) Cost analysis- Relation between cost of inputs and outputs. Also, deciding the methods of evaluation costs and production.
  c) Inventory management- Low inventory = affects productivity
  Extra inventory = Unproductive capital. Also, focuses on invertory management and production.
  d) Advertising- i) Advertising and budget ii) Improves face value and demand.
  e) Price system- i) Production + pricing ii) Understanding market iii) profitable decisions iv) avoids unnecessary increase in price.
  f) Resource allocation- i) Optimum use of inputs= maximum output. (ii) increase in prices of inputs = allocating them in alternatives.

- Significance of managerial economics

  (i) Building analytical model to recognize the structure of market and challenges deeply. (ii) Set of analytical models and tolls to enhance the capabilities. (iii) offers clarity and avoids pitfalls.

- Economic problems involved

  (i) Employment of resources i.e. land, labour, capital and entrepreneurship.
  ii) Commodities to be produced that are tangible and intangible.
  Tangible are the products that are produced using factors of production and intangible are the services.
  iii) Total output of all commodities that are produced in a country over a given period of time is known as GDP (Gross domestic product).
  iv) Production
  v) Consumption
  vi) Problem of scarcity.

- Meaning of Economic problem

  Economic problem means how to use limited resources with alternative uses when they are limited. People who have more urgency of that limited resource will consume it first that the one for whom it is less urgent. That's how limited resources can be used in order to have maximum results.

  Economic problem is faced at family level. Every family manages its disposable income according to the needs that are more urgent to them and how to use that limited money in its alternative uses. A family thinks according to their respective incomes and that is how economic problem is faced at family level.

  Economic problem is faced at universal level also i.e. unlimited wants and limited resources. Developing and under developed countries are working on their priority sectors and developed countries works according to their revenue.