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.

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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.

- <u>Significance of managerial economics</u>

  (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.

- <u>Economic problems involved</u>

  (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.

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