

## UNIT-I

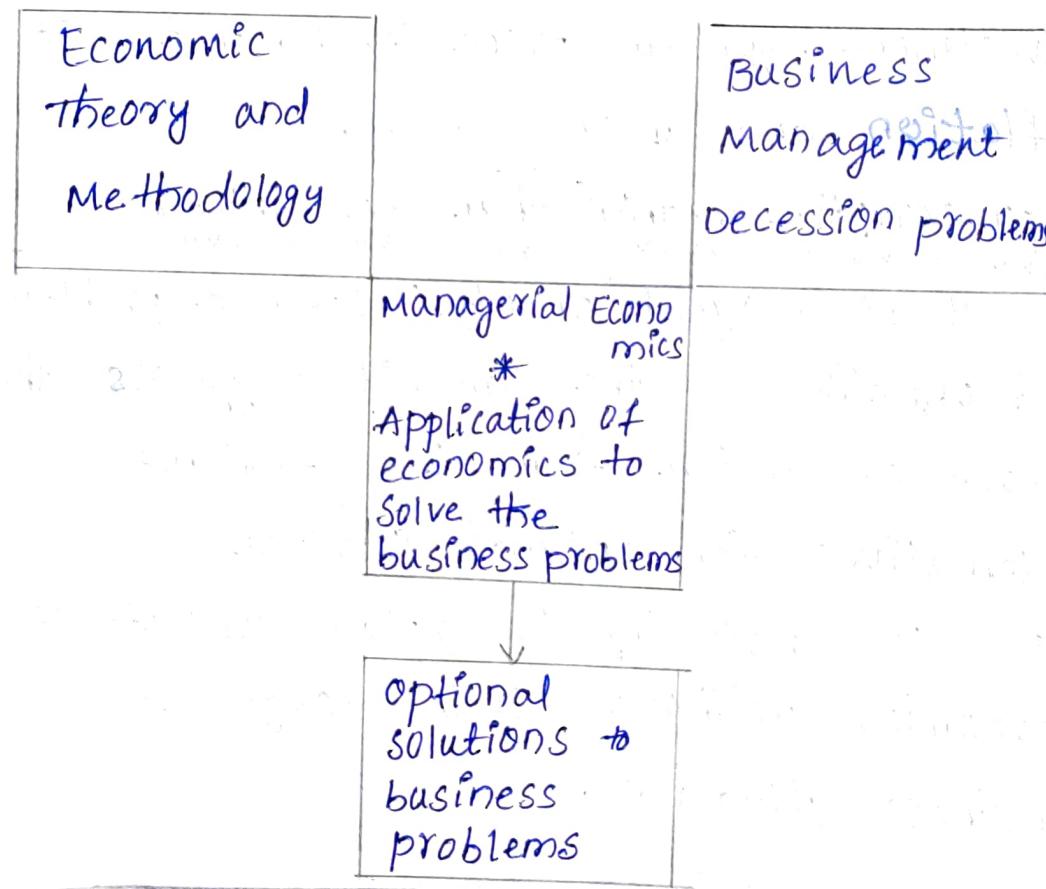
Managerial Economics

Definition :- According to Spencer and Siegal man

"ME is the integration of economic theory with business practices for the purpose of facilitating decision making and forward planning by Management"

According to 'Mc Nair & Merriam'

"ME consists of the use of economic modes of thought to analyse business situations"



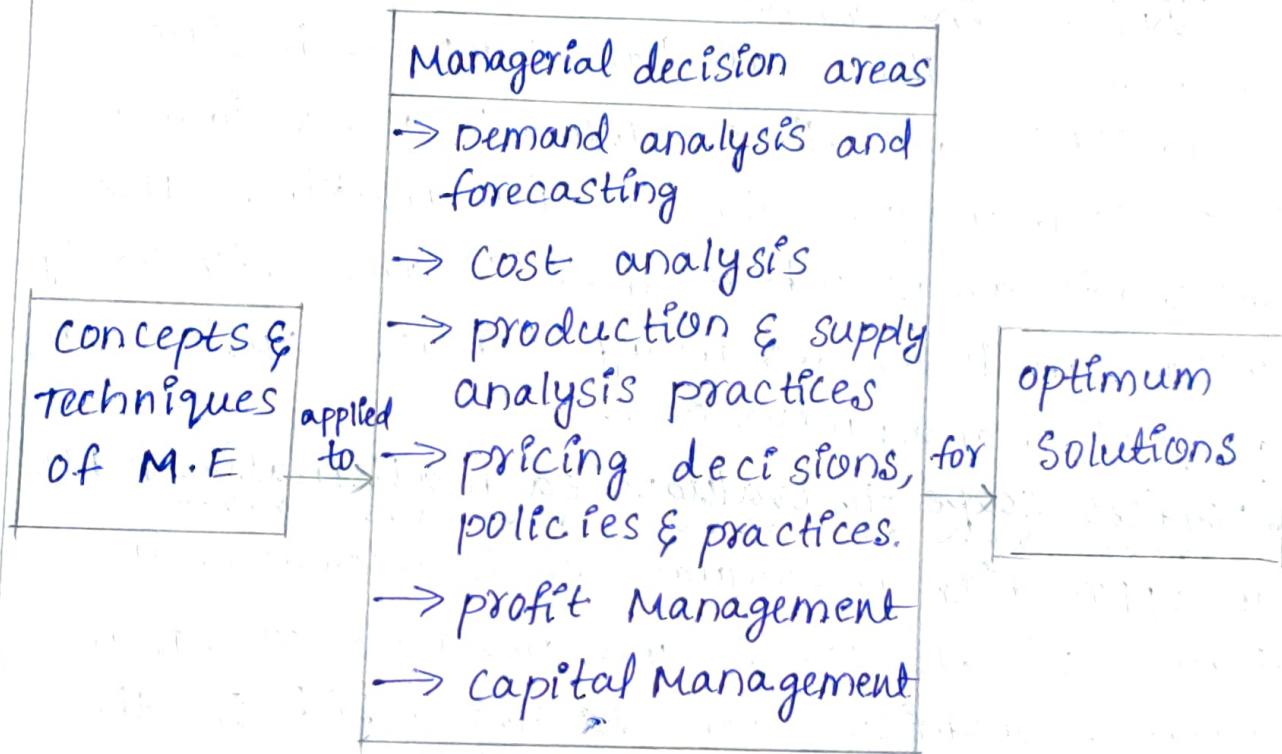
## Nature of ME (characteristics of ME)

- ① close to Microeconomics:- ME is the study of the economic behaviour of individual decisions making units such as individual consumers, resource owners, business firms in a free enterprise system. As such ME by its nature is close to micro economics.
- ② Macro touch:- The managerial decisions of individual firms are vitally affected by the macro conditions of the economy, such as aggregate level of output, income, consumption, investment, general price level, rate of inflation and interest rate.
- ③ prescriptive rather than descriptive:- It is a 'goal oriented' Given a problem and objective of the firm, it suggests the course of action from the available alternatives for optimal solution.  
ME does not try to explain concept of economics without their usage to business situations.

- ④ ME is pragmatic :- It avoids difficult abstract issues of economic theory but involves complications ignored in economic theory to face the overall situations in which decisions are made.
- ⑤ Applied in nature :- 'Models' are built to reflect the real life complex business situations and these models are of immense help to managers for decision making. The different areas where models are extensively used include inventory control, optimisation, project management etc.,
- ⑥ Offers scope to evaluate each alternative :- ME offers scope to evaluate each alternative in an opportunity to evaluate each alternative in terms of its costs and revenues. The managerial economist can decide which is the better alternative to maximise the profits for the firm.
- ⑦ Interdisciplinary :- The concepts, tools and techniques of managerial economics are drawn from different subjects such as economics, management, mathematics, statistics, accountancy, psychology, organisational, sociology etc.,

⑧ Assumptions and Limitations: Every concept & theory of ME is based on certain assumptions as such their validity is not universal. Where there is a change to in assumptions, the theory may not good at all.

Scope of ME:-



① Demand analysis and forecasting: The objectives of demand analysis are to know consumer behaviour. The analysis answers the questions, such as why do consumer buy a commodity? when do they stop consuming a commodity? How do the consumers behaviour when a change occurs in price of a commodity etc.

Demand forecasting enables the management to strengthen market position and enlarge profits. Thus knowledge of demand analysis and forecasting is essential in making decisions in choice of commodities for production.

② Cost analysis:~ Actual expenditure incurred to produce a product is called "cost". The cost analysis provides suit the prospective customers and enable them to accept the finished products of the firm in determined price.

③ Production and supply analysis:~ Production theory, explains the behaviour of costs. It explains how average and marginal cost vary. When production increased, it also explains the size of the firm and its output.

④ Pricing decisions, policies and practices:~ Price is a market value of the product. Pricing theory basically explains the way the prices are determined under different market situations.

⑤ profit Management:~ profit Management theory guides in the measurement and management of profit, in making allowances for risk & return, In calculating the pure return of capital and pure profit & also influence profit planning.

⑥ Capital Management:~ capital is the foundation of a firm ,it is one of the scare & expense factor. It is efficient allocation and management is one of the most important task of Management.

## Managerial Economics - linkages with other Disciplines.

(I)

### Managerial Economics - operation research :-

Decision making is the main focus in operations research & managerial economics.

- If ME focused on "problem of decision making", operations research focus on solving the Managerial problems.
- operations research is the tool for finding the solutions for many a Managerial problems.
- operations research is useful to make economical and logical relationships among the given variable.
- Finally, the operations research models.

Such as linear programming, queuing, transportation, optimization techniques, and so on, are extensively used in solving the Managerial problems.

### Managerial Economics - Mathematics of M.E is.

Concerned with estimating & predicting the relevant economic factor for decision making & forward planning. In their process, he extensively makes:

use of the tools & techniques of Mathematics.

such as algebra, calculus, exponentions, vectors. and

Input - output tables etc., Mathematics produce

Provides derivation and exposition of economic  
and analysis.

III Managerial economics - statistics deals with different techniques useful to analysis the cause and effect relationships in a given variable or phenomenon. It also empowers the manager to deal with the situations of risk & uncertainty through its techniques such as probability. The business environment for the

Managerial economist is full of risk & uncertainty. He extensively makes use of the statistical technique such as averages, correlation, regression, time series etc, These techniques enhance the relevance of the conceptual base in managerial economics.

⑤ Accountancy - M.E :- The accounting provides accounting information relating to cost, revenues, receivables, payables, profit / loss etc., and this forms the basis for the managerial economist to act upon.

The Main Objective of accounting function is to record, classify, and interpret the given data. The managerial economist profusely depends upon accounting data for decision making & forward planning.

⑥ Managerial Economics - psychology or psychology contributes towards understanding the behavioral implications, attitudes of the customers; consumer psychology is the base for the economist to take a decision making and forward planning.

M.E - organizational Behaviour or O.B enables the ME to study & develop behavioural models of the firm integrating the managerial behavior with that of the owner this further analyse the economic rationality of firm in a focussed way.

## Managerial Economics - Management

Decision making is an integral part of today's business management. Making a decision is one of the most difficult task faced by professional manager. A manager has to take several decisions in the management of business. Some of the important types of business decisions are

- a) Production decisions
- b) Marketing decisions
- c) Investment decisions
- d) Personnel decisions
- e) Inventory decisions.

Thus, M.E concepts are highly useful in business management practices for taking decisions

These and ~~answering~~ forward planning decisions provide solutions to different managerial problems. As such, M.E and Management has close relationship.

## \* Contemporary Importance of Managerial Economics

The following points indicate the significance of the study of M.E. in its right person perspective.

- ① It gives guidance for identification of key variables in a decision-making process.
- ② It helps the business executives to understand the various intricacies of business & managerial problems and to take right decision at the right time.
- ③ It provides the necessary conceptual technical skills, tool box of analysis and techniques of thinking. Modern tools, instrument like.
  - Elasticity of demand & supply
  - Cost & Revenue
  - Income & expenditure
  - Profit & volume of production etc.,
 All these helps to solve various business problems.

- In the context
- (4) It is a both science and Art., In the context of Globalization, privatization, liberalization, and marketization, also a highly competitive dynamic economy, M.E helps in Identifying various business & managerial problems, Their causes and consequences & Suggest various policies & programs to over come them.
- (5) It helps the business executives to become much more responsive, realistic, and competent to face the ever changing challenges in the modern business world.
- (6) It helps in the optimum use of scarce resource of a firm to maximize its profits.
- (7) It also helps in achieving other objective of a firm, like  
→ Attaining Industry Leadership.  
→ Market Share Expansion and  
→ Social responsibilities etc.

⑤ It helps a firms in forecasting the most important economic variables like demand, supply, cost, revenue, price, sales & profit etc., and formulate sound business policies.

⑥ It also helps in understanding the various external factors & forces which affected the decision-making of a firm.

Thus, ME has become highly useful and practical discipline. In recent years to analyze and find solution to various kinds of problems in a systematic & rational manner.

