MANAGERIAL ECONOMICS

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Managerial Economics

Introduction

- Managerial Economics generally refers to the integration of economic theory with business practice.

- Economics provides tools, Managerial economics applies these tools to the management of business.

- Managerial economics means the application of economic theory to the problem of management.

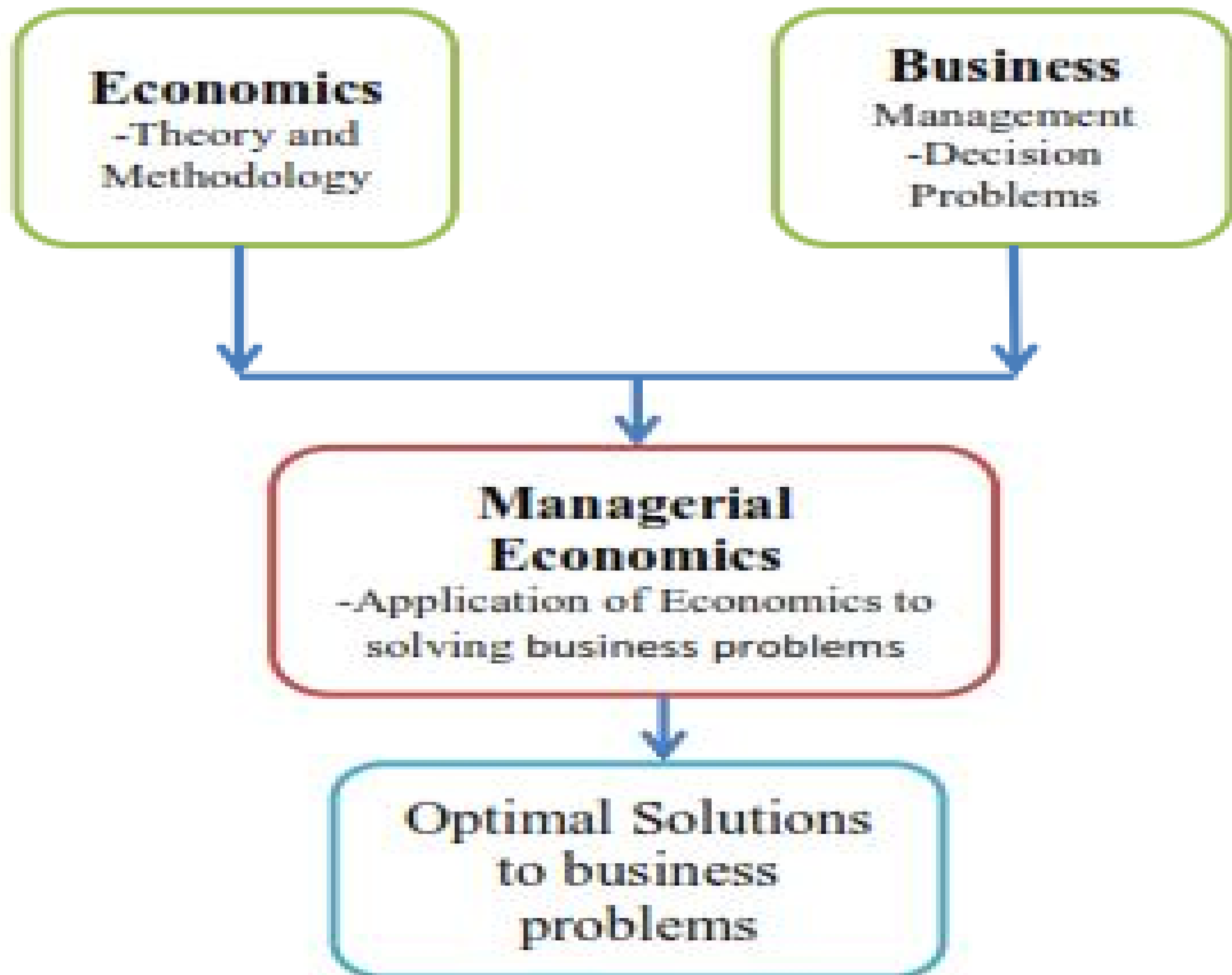
- It enables the business executives to assume and analyze things.

- Every firm tries to get satisfactory profit even though economics emphasizes maximizing of profit.

- This function is done by managerial economics

Definition

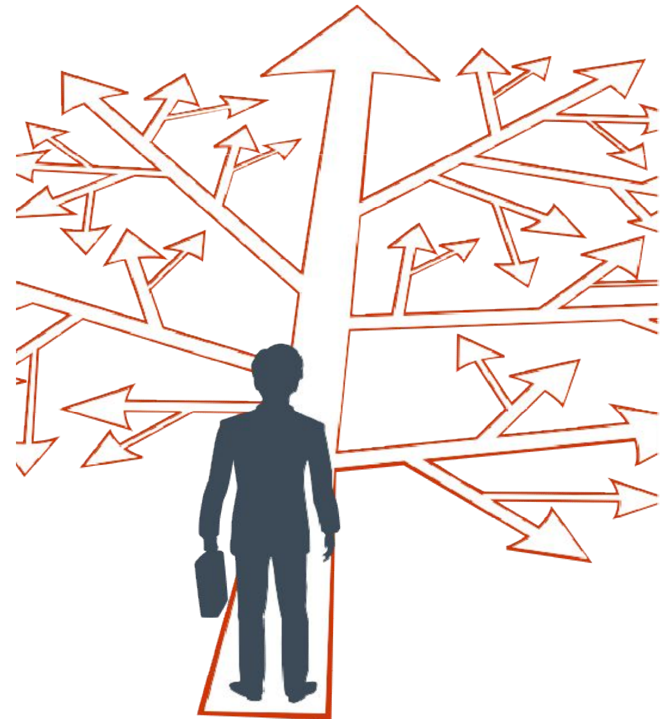
Managerial Economics is the application of economic principles and methodologies to the decision making process within the organization.


Economics
-Theory and
Methodology
Business
Management
-Decision
Problems
Managerial
Economics
-Application of Economics to
solving business problems
Optimal Solutions
to business
problems

Nature of Managerial Economics

- The primary function of a manager in business organization is decision making and forward planning under uncertain conditions.

Decision making is the process of choosing from a set of alternatives



- Managerial Economics is supposed to enrich conceptual and technical skills of a manager.
- It is concerned with economic behaviour of a firm.
- It is the application of economic analysis to evaluate business decisions.

Scope of Managerial Economics

Demand Analysis and Forecasting

A business firm is an economic organization which is engaged in transforming productive resources into goods that are to be sold in the market.

Cost and production analysis

A firm's profitability depends much on its cost of production.

Pricing decisions, policies and practices

The success of a business firm largely depends on the correctness of the price decisions.

Profit management

- A business firm is an organization designed to make profits.
- Profits are acid test of the individual firm's performance.

Capital management

Capital management implies planning and control of capital expenditure because it involves a large sum and moreover the problems in disposing the capital assets off are so complex that they require considerable time and labour.

Economic Principles relevant to Managerial Decisions

I. Concept of Scarcity
II. Concept of Opportunity Cost
III. Production of Possibilities Curve
IV. Concept of Margin or Increment
V. Discounting Principle

Concept of Scarcity

Human wants are unlimited, but human capacity to satisfy such wants and demand.

Concept of Opportunity Cost

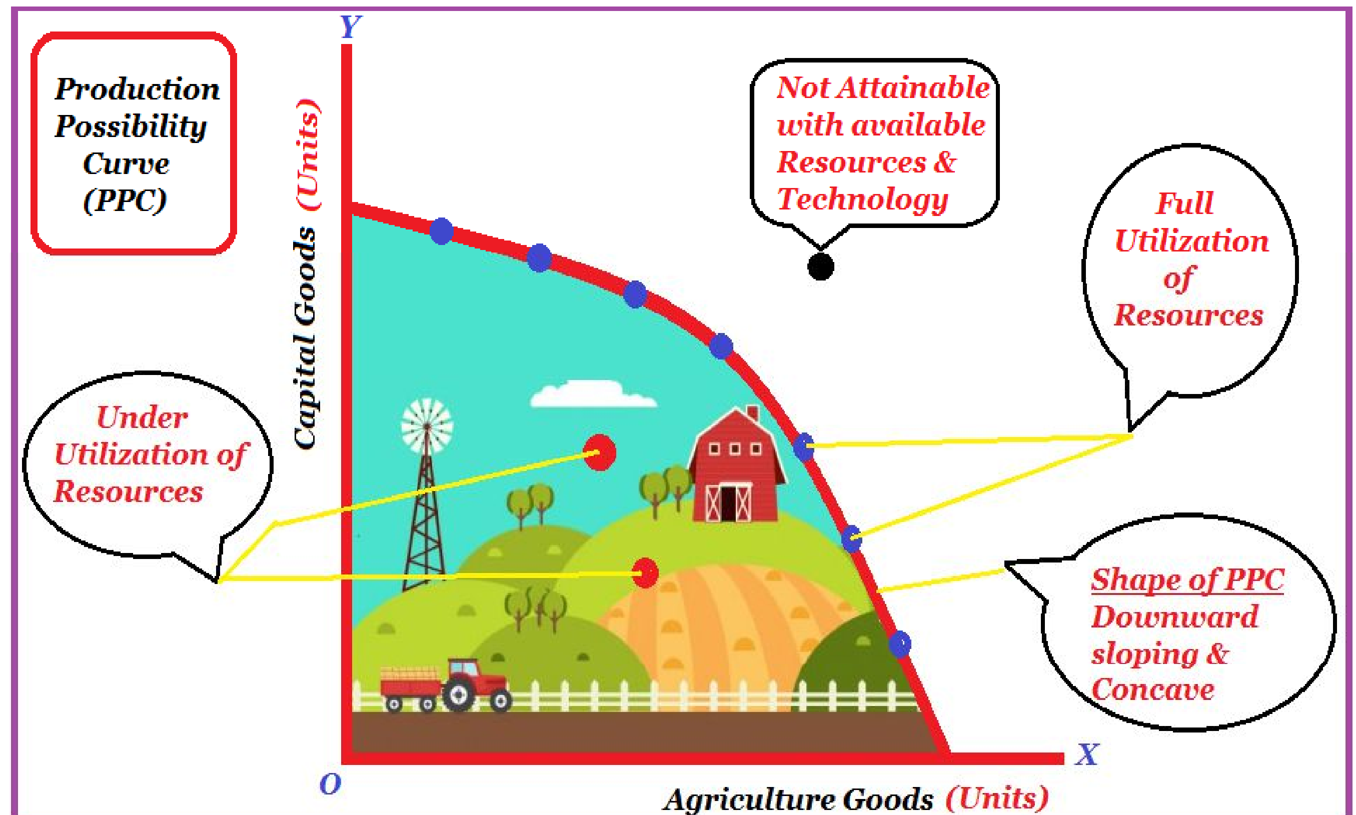
Opportunity cost is the benefit forgone from the next best alternative that is not selected.

An opportunity cost is the cost of a missed opportunity.

1. A buys a pizza and with that same amount of money he could have bought a Coke and a Burger. The opportunity cost is the Coke and Burger.
2. For a farmer choosing to plant wheat, the opportunity cost would be any other crop he may have planted, like rice.

Production of Possibilities Curve

Production Possibilities Curve(PPC) is a graph that shows the different combinations of the quantities of two goods that can be produced or consumed in an economy, subject to limited availability of resources.



Concept of Margin or Increment

- The concept of marginality deals with a unit increase in cost or revenue or utility.
- Marginal cost is the change in total cost due to a unit change in output.

Discounting Principle

- The core of discounting principle is that a rupee in hand today is worth more than a rupee received tomorrow.
- Discounting principle refers to time value of money.