



MANAGERIAL ECONOMICS

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MANAGERIAL ECONOMICS

NATURE AND SCOPE

Learning Objective:

- **Define Economics**
- **Discuss Managerial Economics**
- **Nature of managerial Economics**
- **Scope of Managerial Economics**
- **Importance of Managerial Economics**
- **Explain Principles of Managerial Economics**
- **Role of Managerial Economics**
- **Summary**

Economics: According to the J R HICKS

The activity involves income earning or spending thru exchanging goods and services is called or known as Economic activity.

- Income or Earning
- Exchange (Two sides)
- consideration
- Goods and services.

Managerial economics: In general proper utilization of resources to meet the target or growth of the business.

Managerial Economics should be thought of as **applied micro economics**. It is an application of the part of micro economics that focuses on the topics that are of greatest interest and importance to managers. Managerial Economics includes demand, production, cost, pricing, market structure, and government regulations.

Managerial economics analyzes the internal and external factors impacting an organization. It aims to resolve problems using micro and macroeconomic tools. Thus, it is a practical approach where economic measures are undertaken to solve business problems. In addition to solving problems, this approach extends to the growth and sustainability of a firm.

Definition of managerial Economics

Managerial economics is economics applied in decision making. It is a special branch of economics bridging the gap between abstract theory and managerial practice.

-----*Haynes, mote and paul.*

Managerial economics is concerned with application of economics concepts and economics analysis to the problems of formulating rational managerial decision.

-----Mansufield.

“Managerial Economics is concerned with business efficiency”.

-----Christopher Savage and John R. Small

N. Gregory Mankiw stated managerial economics is about answering three crucial questions:

- How do people make decisions?
- How do people interact?
- How does the economy work as a whole?

Finding answers to these questions can drive a business towards success.

NATURE OF MANAGERIAL ECONOMICS

Managers study managerial economics because it gives them insight to reign the functioning of the organisation. If manager uses the principles applicable to economic behaviour reasonably, then it will result in smooth functioning of the organisation.

1.3.1 Managerial Economics is a Science

Managerial Economics is an essential scholastic field. It can be compared to science in a sense that it fulfills the criteria of being a science in following sense:

- Science is a Systematic body of Knowledge. It is based on the methodical observation. Managerial economics is also a science of making decisions with regard to scarce resources with alternative applications. It is a body of knowledge that determines or observes the internal and external environment for decision making.
- In science any conclusion is arrived at after continuous experimentation. In Managerial economics also policies are made after persistent testing and trailing. Though economic environment consists of human variable, which is unpredictable, thus the policies made are not rigid. Managerial economist takes decisions by utilising his valuable past experience and observations.
- Science principles are universally applicable. Similarly policies of Managerial economics are also universally applicable partially if not fully. The policies need to be changed from time to time depending on the situation and attitude of individuals to those particular situations. Policies are applicable universally but modifications are required periodically.

1.3.2 Managerial Economics requires Art

Managerial economist is required to have an art of utilising his capability, knowledge and understanding to achieve the organizational objective. Managerial economist should have an art to put in practice his theoretical knowledge regarding elements of economic environment.

1.3.3 Managerial Economics for administration of organisation

Managerial economics helps the management in decision making. These decisions are based on the economic rationale and are valid in the existing economic environment.

1.3.4 Managerial economics is helpful in optimum resource allocation

The resources are scarce with alternative uses. Managers need to use these limited resources optimally. Each resource has several uses. It is manager who decides with his knowledge of economics that which one is the preeminent use of the resource.

1.3.5 Managerial Economics has components of micro economics

Managers study and manage the internal environment of the organization and work for the profitable and longterm functioning of the organisation. This aspect refers to the micro economics study. The managerial economics deals with the problems faced by the individual organization such as main objective of the organisation, demand for its product, price and output determination of the organisation, available substitute and complimentary goods, supply of inputs and raw material, target or prospective consumers of its products etc.

1.3.6 Economics has components of macro economics

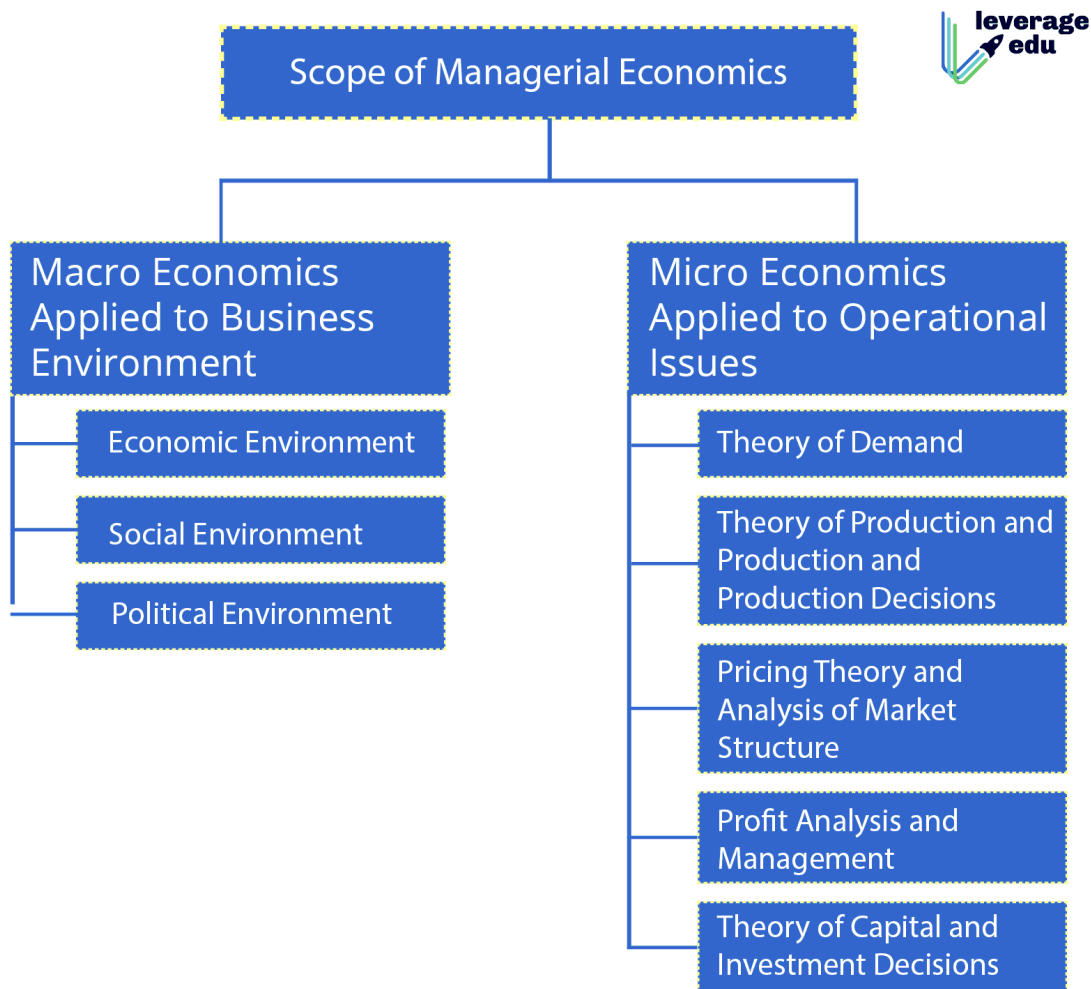
None of the organisation works in isolation. They are affected by the external environment of the economy in which it operates such as government policies, general price level, income and employment levels in the economy, stage of business cycle in which economy is operating, exchange rate, balance of payment, general expenditure, saving and investment patterns of the consumers, market conditions etc. These aspects are related to macro economics.

1.3.7 Managerial Economics is dynamic in nature

Managerial Economics deals with human beings (i.e. human resource, consumers, producers etc.). The nature and attitude differs from person to person. Thus to cope up with dynamism and vitality managerial economics also changes itself over a period of time.

Scope of Managerial Economics

Managerial Economics is a developing subject. The scope of managerial economics refers to its area of study.



The concept is implemented in the following ways:

1. Microeconomics for Solving Operational Problems

Managers apply micro economics principles and theories to handle internal issues—production, sales, distribution, capital, pricing, profit, workforce, etc.

(‘**Micro**’ means small. It studies the behaviour of the individual units and small groups of such units. It is a study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities. Thus microeconomics gives a microscopic view of the economy.)

Given below are the various microeconomic theories:

- **Production Theory:** In order to ensure high productivity with limited resources, microeconomics studies the impact of production-related decisions: capital requirement, labor requirement, production capacity, process, methods, techniques, cost, and quality,
- **Investment Theory:** Companies diligently plan their capital investment to ensure resource utilization—generating higher returns.
- **Demand Theory:** To ensure consumer satisfaction, managers analyze consumer needs and requirements—they understand consumer attitudes and responses toward company products or services.
- **Market Structure Pricing Theory:** It involves price determination and management—the business prices its products and services very competitively. To determine the price, the firms consider production cost, market demand, and marketing cost.
- **Profit Management:** Profit maximization is the ultimate aim—this approach focuses on cost and revenue.

2. Macroeconomics for Handling External Environment Issues

(‘**Macro**’ means large. It deals with the behaviour of the large aggregates in the economy. The large aggregates are total saving, total consumption, total income, total employment, general price level, wage level, cost structure, etc. Thus macroeconomics is aggregative economics.)

Businesses operate in external environments—face unforeseen challenges. Macroeconomics deals with external challenges with the help of tools like PESTEL analysis.

Let us go through the components in detail:

- **Political (P):** The government plays a critical role in a firm’s progress. Thus, managerial economics studies how governance style, political unrest, and foreign collaboration affect private sector companies.
- **Economic (E):** Business profitability greatly depends on government policies, tax reforms, GDP, and the nation’s economic stability.
- **Social (S):** The social environment molds businesses. This includes factors like societal values, beliefs, attitudes, consumer awareness, employment conditions, literacy rate, and trade unions.
- **Technological (T):** Technology enhances the production and distribution of goods or services.
- **Environmental (E):** When awareness of environmental concerns increases—firms face pressure to adopt sustainable and eco-friendly practices. This includes the curtailing of pollution, waste management, preservation of water, and preservation of natural resources.
- **Legal (L):** Businesses must operate within legal boundaries—national laws pertaining to consumer rights, labour laws, health and safety laws, product labelling regulations, and advertising guidelines.

Nature of Managerial Economics

Managerial economics has often been confused with traditional economics but it has a whole new meaning and purpose. Let us understand the distinction by venturing deeper into its characteristics:

- **Microeconomics:** It solves microeconomic problems faced by a particular firm—does not focus on the entire economy
- **Pragmatic:** Managerial economics is a practical approach—it applies economic principles in decision-making and problem-solving.
- **Multidisciplinary:** This approach aggregates multiple streams—business, management, accounting, statistics, finance and mathematics.
- **Application of Macro Economics:** Every firm operates in an external environment—influenced by legal, political, global, social, economic, technological, competitive, and demographic factors. Macroeconomics deals with all these threats.
- **Management Oriented:** It educates leaders and managers on how to make crucial decisions in critical situations.

Importance of managerial economics

Following are areas where managerial economics plays a key role:

- The companies use managerial economics for forecasting demand. Based on demand projections, long-term business policies are formulated.
- The external environment poses various challenges and uncertainties. This discipline creates an estimate of those threats; as a result, firms can prepare themselves for damage limitation strategies.
- Investment management is crucial for business. By employing demand analysis, firms can plan inventory beforehand.

- It facilitates the determination of the future cost of the business. Scarce resources can be utilized efficiently; this way total cost of production and sales can be mitigated.
- This study aids top-level management in making critical capital management decisions—investing in the right venture.

SUMMARY

Managerial economics generally refers to the integration of economic theory with business practice. Economics provides tools and managerial economics applies these tools to the management of business. In simple terms, managerial economics means the application of economic theory to the problem of management. Managerial economics may be viewed as economics applied to problem solving at the level of the firm.

It enables the business executive to assume and analyse things. Every firm tries to get satisfactory profit even though economics emphasises maximising of profit. Hence, it becomes necessary to redesign economic ideas to the practical world. This function is being done by managerial economics.

The scope of managerial economics is not yet clearly laid out because it is a developing science. Even then the following fields may be said to generally fall under

Managerial Economics:

1. Demand Analysis and Forecasting

2. Cost and Production Analysis
3. Pricing Decisions, Policies and Practices
4. Profit Management
5. Capital Management

The usefulness of business economics lies in borrowing and adopting the toolkit from economic theory, incorporating relevant ideas from other disciplines to take better business decisions, serving as a catalytic agent in the process of decision making by different functional departments at the firm's level, and finally accomplishing a social purpose by orienting business decisions towards social obligations.

SELF ASSESSMENT QUESTIONS

1. Discuss the nature, scope and signification of managerial economics?
2. State the relationship between micro economics, macroeconomics and managerial economics.
3. Throw light on goals and scope of economics.

SUGGESTED READINGS:

- Managerial economics, Dwivedi D.N., Vikas publishing house, New Delhi.
- Managerial Economics, Mehta, P.L., S. Chand, Delhi.
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Thank you !