BBA 2nd Semester

MANAGERIAL ECONOMICS

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NATURE AND SCOPE OF MANAGERIAL ECONOMICS

INTRODUCTION

Managerial Economics is the process of application of the principles, techniques and concepts of economics to solve managerial problems of business and industrial enterprises.

Definitions:

Spencer and Siegelman, "Managerial economics may be defined as the integration of economic theory with business practices for the purpose of facilitating of decision making and forward planning by management".

Norman F.Dufty, "Managerial Economics is a body of theory which can be of considerable assistance to the businessman in his decision-making".

Me Nair and Meriam, "Managerial Economics consists of use of those economic model of thought to analyse the changing business situation".

Nature of Managerial Economics

Following is the nature of Managerial Economics

1) Applied Economics: It suggests how economic principles are applied to the formulation of policies and programmes.

2) Micro Economics: It is essentially micro-economics. It is concerned with the problem of business firm such as forecasting the demand for its products, calculating the cost of production, fixation of price, profit planning and capital management etc.

3) Related to theory of firm: The behaviour of the firm, type of market structure, price and output determination by a firm under different market structure are studied in it.

4) Normative science: It is concerned with what should be done to achieve the organisational goal most efficiently.

5) Multi-disciplinary: It is related with different disciplines like economics, psychology, statistics, management, operational research and mathematics.

6) Pragmatic: It does not deals with abstract issues of economic theory. It deals with determinants of business-making. It tries to solve the managerial problems.

7) Decision Sciences: Managerial economics utilizes the tools of mathematical economics and econometrics to construct decision models for the optimal behaviour of the firm.

8) Descriptive: It attempts to interpret observed phenomena and to formulate theories about possible cause and effect relationships.

9) Co-ordinating nature: It establishes co-ordination between theoretical and practical aspects of the various analyses of micro and macro-economics.

10) Both science and art: It studies factual situations so it is a real science and at the same times it determines ideals for the future success and therefore it is a normative science also. It may be called as art because it helps the management in the efficient utilisation of scarce economics resources.

11) Importance of macro-economics: It makes full use of macro-economics to help in understanding the environment in which the business must operate.

SCOPE OF MANAGERIAL ECONOMICS

The scope of managerial economics comprehends all those economic concepts, theories and tools of analysis which can be used to analyse business environment and to find out solution to practical business problems.

I) Micro-economics applied to operational issues

1) Demand analysis: The traditional theory of demand is very useful in explaining the consumer's behaviour. How the consumer chooses and at which price? When they substitute? All these questions are answered using the demand analysis.

2) Production and cost analysis: The problem relating to location of industries and the amount of output in short run and long run is all decided by the production theory. Cost analysis helps in determining the size of the firm, the volume of output and factor proportions.

3) Pricing theory and policies: The revenue analysis has to be done to find out the prices at which the product is sold. Theories regarding the price determination under various market conditions enable the firm to solve price fixation problems.

4) Inventory management: How much inventory if the ideal stock? Managerial economics use such methods as ABC analysis, a simple simulation exercise and also a mathematical model with a view to minimise the inventory cost.

5) Advertising: Advertising forms an integral part of decision-making and forward planning. The message about the shape, design, colour of the product should reach the consumer before he thinks of buying it.

6) Capital Management: The efficient allocation and management of capital is one of the most important tasks of the managers. Capital Management implies planning and control of capital expenditures. The main topics dealt are (i) cost of capital (ii) capital budget (iii) return on capital (iv) allotment of capital-fixed and working.

7) Profit Management: A business firm in an organisation is designed to make profit and profits are the primary measure of success. The firm works under the condition of uncertainty. The important aspects cover under this area are (i) profit policy (ii) rate of profit (iii)profit stability (iv) appropriation of profit

8) Decision theory under uncertainty : Because of uncertainties like demand uncertainty, cost uncertainty, price uncertainty, profit uncertainty, capital uncertainty etc a manger confronts several problems and the whole process of decision making becomes more complex.

Macro economics applied to business environment

Business environment relates to the overall economic, social and political atmosphere of the country. The factors which constitute economic environment of a country include the following factors.

1) The type of economic system of the country.

2) Industrial policy of the country

3) Business cycles

4) General trends in economy with regards to production employment income, price, saving and investment etc.

5) Trade and fiscal policy of the country

6) social factors like value system of the society

7) Taxation policy of the country

8) Price and labour policy

9) Political system of the country

10) General attitude and significance of social organisations like trade union, producer union and consumers co-operative societies etc.