VAYU EDUCATION OF INDIA

Managerial Economics

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MANAGERIAL ECONOMICS

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PREFACE

BACKGROUND AND PURPOSE

As in the previous editions, the primary objective of the next edition of *Basic Econometrics* is to provide an elementary but comprehensive introduction to econometrics without resorting to matrix algebra, calculus, or statistics beyond the elementary level.

In this edition I have attempted to incorporate some of the developments in the theory and practice of econometrics that have taken place since the publication of the third edition in 1995. With the availability of sophisticated and user-friendly statistical economic such as cost, monopoly oligopoly. perfect competition , etc it is now possible to discuss several econometric techniques that could not be included in the previous editions of the book. I have taken full advantage of these statistical packages in illustrating several examples and exercises in this edition.

I was pleasantly surprised to find that my book is used not only by economics and business students but also by students and researchers in several other disciplines, such as politics, international relations, agriculture, and health sciences. Students in these disciplines will find the expanded discussion of several topics very useful.

–Author

TABLE OF CONTENTS

ABOUT THE AUTHOR

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Sandhya singh MBA (HR & FINANCE) B.SC(cs).Pursuing P.hd from Venkateshwara group of institution, Meerut. she has been teaching Managerial Economics from last 4 years in renowned colleges of Uptu, Mtu.

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she has presented & published good no. of research papers in national & international seminars & conference & journals.

ABOUT THE BOOK

This Book applies economic theory and methods to business and administrative decision making. Managerial economics prescribes rules for improving managerial decisions. Managerial economics also helps managers recognize how economic forces affect organizations and describes the economic consequences of managerial behavior. It links economic concepts with quantitative methods to develop vital tools for managerial decision making.

Evaluating Choice Alternatives

Managerial economics identifies ways to efficiently achieve goals. For example, suppose a small business seeks rapid growth to reach a size that permits efficient use of national media advertising. Managerial economics can be used to identify pricing and production strategies to help meet this short-run objective quickly and effectively. Similarly, managerial economics provides production and marketing rules that permit the company to maximize net profits once it has achieved growth or market share objectives.

NATURE AND SCOPE

Unit

1

Nature and Scope: Nature and Scope of Managerial Economics, its relationship with other subjects. Fundamental Economic Tools-Opportunity cost concept, Incremental concept, Principle of time perspective, Discounting principle and Equimarginal principle.

1.0 INTRODUCTION

Managerial economics is the science of directing scarce resources to manage cost effectively. It consists of three branches: competitive markets, market power, and imperfect markets. A market consists of buyers and sellers that communicate with each other for voluntary exchange. Whether a market is local or global, the same managerial economics apply.

Mean of Economics

Economics is a tool & techniques of making optimum use of the available resources to achieve the given goal. A working knowledge of economics not necessary of a formal degree is essential the requirement of the managers..

According to Robbins: "Economics is concerned with the best possible use of limited resources."

Characteristics of Economics

The characteristics of Economics are as follow:

(i) Economics analysis is an aid (help) to understand business policy in given environment.

(ii) Economics is guide to management.

(iii) Economics provide a set of concept (thinking).

(iv) Economics concept is a tool & techniques of analysis.

1.1 MANAGERIAL ECONOMICS

Managerial Economics

Managerial Economics tells the way of how to use available economics for also achieve. Prefers to the integration of Economics theory with business practice. Economics provide a tool, managerial economics apply these tools to the Management of Business.

According to 'Jeal Dean'

The purpose of Managerial Economics is to how economics analysis can be used in formulating policies."

It is that body of economics knowledge, which is used in analyzing business. Problem for taking appropriate business decision & formulating forward plans.

Qualities of Manager

The basic qualities of a successful manager are as follows:-

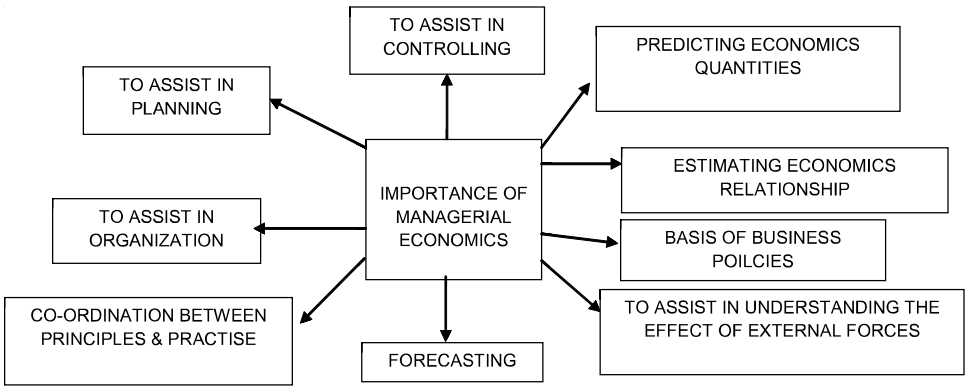
1. **Knowledge:** A substantial and expanding or basic knowledge of management is very important for a manager in the concerned field.
2. **Competent Application:** A manager should have skilled and judicious utilization of knowledge in the solution of complex and important problems.
3. **Professional body:** Manager have regulation of entry into the profession and conduct of members by the representative body.
4. **Self control:** An established code of conduct enforced by the profession membership.
5. **Social Responsibility:** Managers primarily motivated by the desire to serve others and the community. Managers recognize their social responsibility towards customers, workers and other groups.
6. **Director:** Directing is the qualities of good manager. Manager make directing of staffing, planning & controlling. It includes communication with subordinates, providing them leadership and also motivating them.
7. **Results through other:** The managers cannot do everything themselves. They must have the necessary ability and skills to get work accomplished through the efforts of other. They must

motivate the subordinates for the accomplishment of the tasks assigned to them.

Characteristics of Managerial Economics

1. **Micro Economics:** Micro Economics is the study of the behaviour and problem of individual economic unit (firm). To read (study) only one firm.
2. **Macro Economics:** Macro Economics is analysis & understand the general business(firm) must operate environment in which the business operate. Study the environment of many firms.
3. **Economics of firm:** Managerial Economics use that body of economics, concepts & principles which is known as the 'Theory of firm' or 'Economics of the firm.'
4. **Managerial Economics is Normative:** It deals, with future planning, policies making, decision making & how to make full use of economic principles.

Importance of Managerial Economics



1. **Predicting Economics quantities:** A manager has to take most of his decisions in the environment. Economics analyses makes prediction about economic event possible by analyzing various economic data such as cost, profit, demand, capital, price and output.
2. **Estimating Economics relationship:** Economics analyses the estimate of relationship between economic variables of income elasticity, price elasticity cost elasticity.

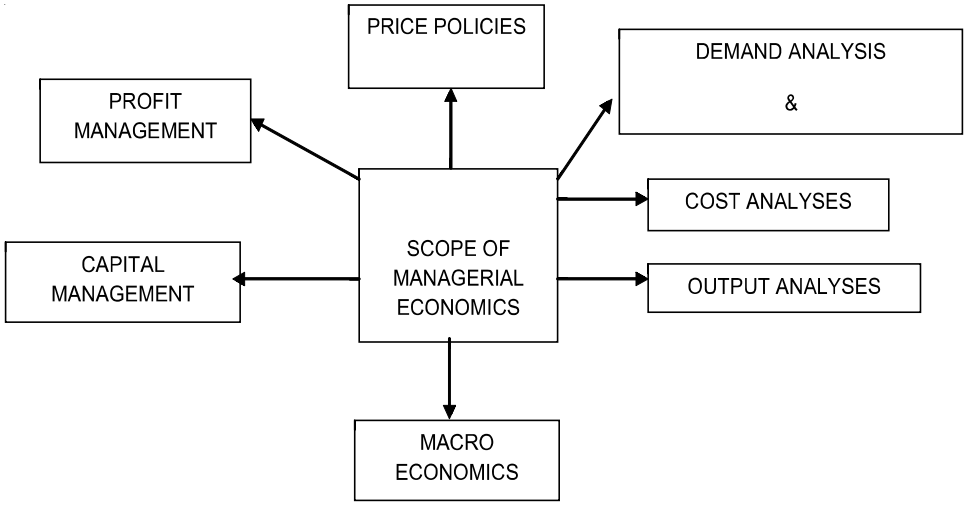
3. **Basic of business policies:** Economics analysis on the basis of business policy manager takes all the decision for the firm and formulate plans for profit, capital, cost and price.
4. **To assist in planning:** Business Economics helps in decision making maximizing the profit of the firm.
5. **To assist in Organization:** It is the function of organization managerial economics helps in this work efficiently of whole firms or department can be checked out by the calculation of rate of return. The efficiency of department can be improved after checking the efficiency.
6. **To assist in controlling:** For the purpose of controlling, business activities, business unit & their actual performance are compare with there pre-determine goal.
7. **Forecasting:** Forecasting is necessary for the success of the firm.
8. **To assist in understanding the effect of External Force:** The external force at the time of policies formulating of the firm, such as business cycle, industrial policies, licensing etc.
9. **Co-ordination between principle and practice:** Many schemes seems the best but these schemes cannot be applied in practical form in the firm. Conditions of firm has always changed so it must co-ordination between principle and practice

Scope of Managerial Economics

Demand analyses & Demand forecasting: It is the most important scope of Managerial Economics because all future activities and decision depends on it, law of demand, demand curve, elasticity of demand determination of demand, types of demand and demand forecasting are include in demand analyses & demand forecasting.

1. **Cost analyses:** The knowledge of different cost element is necessary for every successful businessman. This part of subject includes the concept of cost, cost curves, cost analyses under the cost analyses. We analysis the cause of change in cost.
2. **Output analyses:** Output analysis also an important part of Managerial Economics for the efficient organization of the production process, output analyses is necessary for prefer profit planning output analyses always measured in physical

unit.



3. **Price Policies:** Influence the demand conditions & earning of a firm, price policies are necessary for every firm.

Price policies	Demand	Earning of firm
High	→ Low	→ Low
Low	→ High	→ High

4. **Profit Management:** To earn the profit is the first object of each firm. Profit is the measurement of success of each firm under it profit are forecasting after taking into consideration the various effecting factor. All the efforts are make for maximum profit of the firm.

15. **Capital Management:** Capital is the Life power of the business. We can't think about any business without capital. Capital Management of firm is a complex topic. Stable success of the firm depends on a good capital Management.

6. **Macro Economics:** - The activity of a firm are also affected by external forces, such as trade cycle, national income, industrial policy, tax policy.

1.2 OTHER DISCIPLINE OF MANAGERIAL ECONOMICS

1. **Managerial Economics & Statistic:** Statistic tools are a great aid in business decision making. Statistic techniques are used

in concerning collecting processing & analyzing data, testing the validity of the economics low, they are applied to business analyzing. It is the use in future forecasting & decision making.

2. **Mathematics:** The major problem of a business man is how to a minimum cost or how to maximum profit. Mathematics concept & techniques are widely used in finding out answer to these question.
3. **Accounting:** The profit & loss statement of a firm tells how well the firm has done.
4. **Operation research:** Linear programming model, game theory, Inventory models transportation problems, assignment problems.
5. **Economics:** Managerial Economics the fundamental problems of a economic. It is economics applied to firm in decision making such as demand, production, cost, price, profit analysis.
6. **Decision making:** Decision theory has been developed for solving of the problem.

1.3 MEANING OF MANAGERIAL ECONOMISTS

Managerial Economists is that administrator (officer) of business organization who is appointed to give advice on economics matter of business organization in developed country is managerial economics is known as professional person and economist having specialization in management is able to solve the completed problem of decision making and forward planning by his special knowledge.

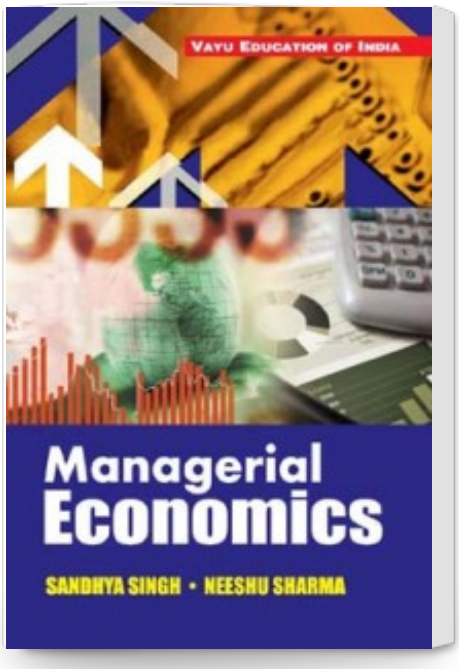
"A person who helps in the process of decision making & forward planning is know as Managerial Economics"

Role of Managerial Economics

1. Setting the objectives
2. Analysis of problem
3. To reduce risk
4. Economy of Effort
5. Economy performance of the jobs
6. Achievement of the objectives
7. Selection of the best alternatives.
8. Implementing the decision.

1. **Setting of the objectives:** First step is setting of objectives is every organization have some duties, that have to be completed to make a organization successful. Objective of business cannot be attend because lack of time and material.
2. **Analysis of problem:** The duties of business economics is to analysis the problem to reduce that what is the problem in real situation. By understanding the correct meaning of problem, its become easy to find out the solution of that problem.
3. **To reduce risk:** The most important duties of a business economists is to reduce the risk by his capability normally in business the risk cannot be complete reduced because business activities are conducted uncertain environment.
4. **Economy of effort:** It is the duty of a business economist that he must keep in mind, while evaluating the business alternatives that which of the alternatives is helpful forgetting maximum result with minimum effort.
5. **Economy performance of the jobs:** While making evaluation of objective, It is the duty of business economist to keep in mind the view that which of the objectives takes less time in performance & of the objectives takes less time in performance & of jobs because management have to take decision immediately in this way time factor is importance service of performance of job, saving to time is very necessary efficiently. [To achieving their objective by performance in some time.]
6. **Achievement of the objectives:** A business economist can achieve success in management science only when he keeps in his mind that resource are limited. An objective should be achieved with these limited resources. Therefore, performance of job should be in such a way so that the minimum resources should be used. [To achieve their object by limited resources.]
7. **Selection of the best alternatives:** After collecting various alternatives be have to choose best alternatives. So to achieve the target of business. Business economist choose the best alternative on the basis of experience & research in real situation.

Managerial Economics By Sandhya Singh



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