

Nature and Scope of Managerial Economics

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What is economics about ?

Today you stood first in your class and your mother gave you Rs. 1000 as gift. Now this is depend on you, how u would like to spend this money ?

You may have many alternative such as

1. You may give party to your friends and can spend entire money.
2. You may buy a dress for you up to Rs. 1000
3. You may go watching a movie and you may have dinner at a restaurant.
4. You may buy a book for your self and save money.

⌘ Now you may have lots of alternative .You want to get enjoy using all the alternative but you cannot, why because your mother has given you only Rs. 1000 if your mother gives you Rs 1500 so you might have satisfied your more than one desired and now you are in dilemma that which desire you should satisfy first because you have budget constraint. Hence in every day life every person has to face the same type of dilemma.

⌘ Every society or every country in the world face the same situation as an individual and this is life because we can not fulfill our all the desire and always we would have problem to choose the right thing. Here there are fundamental two perspective

1. The need of human is endless or infinitive
2. The resources of fulfilling the need would be limited or certain and these fact constitute the economics subject.

⌘ A good definition of economics

⌘ Study of choice under conditions of scarcity

⌘ Scarcity

⌘ Situation in which the amount of something available is insufficient to satisfy the desire for it

Economics, Scarcity, and Choice

What is economics

- ⌘ Economics is the study of how economic agents or societies choose to use scarce productive resources that have alternative uses to satisfy wants which are unlimited and of varying degree of importance. In short, economics includes the study of labor, land, and investments, of money, income, and production, and of taxes and government expenditures.
- ⌘ The source of any economic problem is scarcity. Scarcity of resources forces economic agents to choose among alternative. Therefore economic problem can be said to be a **problem of choice and valuation of alternative**. The problem of choice arises because limited resources with alternative are to be utilized to satisfy unlimited wants.

What is scarcity

Scarcity is a crucial concept and this concept has to be discussed. It can be defined as **excess demand** such as **demand more than the supply**.

For example –

1. Unemployment is essentially the scarcity of jobs,
2. Uses of Motor vehicle is high but scarcity of Petrol and Diesel.
3. Uses of Kerosene or LPG is high but scarcity of the petroleum product.
4. Large no of student and scarcity of teacher.
5. Large no of student in the institute and scarcity of books in the library
6. Lot of desire in the heart of human and scarcity of money in the pocket

⌘ **Economics can be isolated in four area such as**

1. Science of wealth
2. Science of material well being
3. Science of choice making
4. Science of dynamic growth and development

↳ **Science of wealth** : some of the very famous economist indicated that 'economics is the science of wealth'. Adam smith is known as the father of modern economics, he had made published a research paper in 1776 '***An enquiry into the nature and causes of wealth of nations***' he explored that 'economics is the science of discovery nature and wealth of nation'

Adam smith

↳ **Justification –**

↳ Every country in the world want to save the wealth and want to be richest country.

↳ Hence, poverty, unemployment such type of problem can be solved and when wealth are earned so it is distributed among the all with equality. The credit goes for the principle only Adam smith and his followers.

↳ **Science of material well-being** – the new group of economist emphasized that economics is the science of material well-being.

Economics study general business of human and it also study of human part personal and social which is core part of gaining all the physical facility for human, it is way of earning wealth as well as the study of human and his or her physical facility. (Alfred Marshall)

Science of choice making – Prof. Leonal Robins (london school of economics) wrote in his famous book “**Nature and significance of economics**” which was published year 1931. in which he wrote that *economics is science which study to make the relationship between objective of human behavior and limited and alternative available resources.*

- ⌘ **Science of dynamic growth and development:** A modern economist such as Paul A. Samuelson explored the new concept of economics as:
- ⌘ "Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future amongst various people and groups of society". **Paul A. Samuelson**
- ⌘ The above definition is very comprehensive because it does not restrict to material well-being or money measure as a limiting factor. But it considers ***economic growth over time***.

↳ Micro

↳ Micro comes from Greek word *mikros*, meaning “small”

↳ Microeconomics

↳ Study of behavior of individual households, firms, and governments

↳ Choices they make

↳ Interaction in specific markets

↳ Focuses on individual parts of an economy, rather than the whole

Microeconomics

- ⌘ Macro

- ⌘ Macro comes from Greek word, *makros*, meaning “large”

- ⌘ Macroeconomics

- ⌘ Study of the economy as a whole

- ⌘ Focuses on big picture and ignores fine details

Macroeconomics

⌘ To understand the world better

⌘ You'll begin to understand the cause of many of the things that affect your life

⌘ To gain self-confidence

⌘ You'll lose that feeling that mysterious, inexplicable forces are shaping your life for you

Why Study Economics

- ⌘ To achieve social change
 - ⌘ You'll gain tools to understand origins of social problems and design more effective solutions
- ⌘ To help prepare for other careers
 - ⌘ You'll discover that a wide range of careers deal with economic issues on many levels
- ⌘ To become an economist
 - ⌘ You'll begin to develop a body of knowledge that could lead you to become an economist in the future

Why Study Economics

Managerial Economics (Introduction)

- ↳ Managerial Economics is a branch of economics that is applied micro economics analysis to take decision toward the a business unit or an individual.
- ↳ Micro managerial economics consists of that part of economic theory which helps the business manager to take rational decisions. Managerial Economics integrates economic theory with business practice.
- ↳ It deals with the use of economic concepts and principles for decision making in a business unit It is over wise called Business Economics or Economics of the Firm.

Definition of Business Economics

- ⌘ **According to Spencer and Siegelman**, Business economics is "the integration of economic theory with business practice for the purpose of facilitating decision-making and forward planning by management".
- ⌘ **According to Mc Nair and Meriam**, "Business economics deals with the use of economic modes of thought to analyze business situation".

Characteristics or Nature of Managerial economics

1. Micro economics
2. Normative (prescriptive) science
3. Pragmatic (Practical)
4. Uses Macro economics
5. Uses theory of firm
6. Management oriented
7. Multi disciplinary
8. Art and science

1. **Micro economics:** Managerial economics micro economic in character or in nature. This is so because it studies the problems of an individual business unit. It does not study the problems of the entire economy of the world or nation.
2. **Normative (prescriptive) science:** Managerial economics is a normative science. It is concerned with what management should do under particular circumstances. It determines the goals of the enterprise. Then it develops the ways to achieve these goals. Managerial economics is prescriptive rather than descriptive. It prescribes solutions to various business problems.
3. **Pragmatic (practical) :** Managerial economics is pragmatic. It concentrates on making economic theory more application oriented. It tries to solve the managerial problems in their day-today functioning.

4. **Uses macro economics:** Macro economics is also useful to business economics. Macro-economics provides an intelligent understanding of the environment in which the business operates. Managerial economics takes the help of macro-economics to understand the external conditions such as business cycle, national income, economic policies of Government etc.
5. **Uses theory of firm:** Managerial economics largely uses the body of economic concepts and principles towards solving the business problems. Managerial economics is a special branch of economics to bridge the gap between economic theory and managerial practice.
6. **Management oriented:** The main aim of managerial economics is to help the management in taking correct decisions and preparing plans and policies for future. Managerial economics analyses the problems and give solutions just as doctor tries to give relief to the patient.

7. **Multi disciplinary:** Managerial economics makes use of most modern tools of mathematics, statistics and operation research. In decision making and planning principles such accounting, finance, marketing, production and personnel etc.
8. **Art and science.-**Managerial economics is both a science and an art. As a science, it establishes relationship between cause and effect by collecting, classifying and analyzing the facts on the basis of certain principles. It points out **to the objectives and also shows the way to attain the said objectives.**
9. **Fundamental academic subject:-** It is an academic subject that deserve a serious and scientific treatment. As science involve generalization, law and prediction.

OBJECTIVES OF MANAGERIAL ECONOMICS

The basic objective of managerial economics is to analyze economic problems of business and suggest solutions and help the managers in decision-making. The objectives of business economics are outlined as below:

1. To integrate economic theory with business practice.
2. To apply economic concepts: and principles to solve business problems.
3. To employ (utilize) the most modern instruments and tools to solve business problems.
4. To allocate the scarce resources in the optimal manner.
5. To make overall development of a firm.

6. To help achieve other objectives of a firm like attaining industry leadership, expansion of the market share etc.
7. To minimize risk and uncertainty
8. To help in demand and sales forecasting.
9. To help in formulating business policies.
10. To help in profit maximization.

SCOPE OF MANAGERIAL OR BUSINESS ECONOMICS

1. Demand analysis and forecasting
2. Cost and production analysis
3. Pricing decisions, policies and practices
4. Linear programming and theory of games
5. Environmental issues
6. Profit management
7. Business cycles
8. Inventory management
9. Capital management

1. **Demand analysis and forecasting.** The foremost aspect regarding scope is demand analysis and forecasting. A business firm is an economic unit which transforms productive resources into saleable goods. Since all output is meant to be sold, accurate estimates of demand help a firm in minimizing its costs of production and storage. A firm must decide its total output before preparing its production schedule and deciding on the resources to be employed. Demand forecasts serves as a guide to the management for maintaining its market share in competition with its rivals, thereby securing its profit.

2. Cost and production analysis. A firm's profitability depends much on its costs of production. A wise manager would prepare cost estimates of a range of output, identify the factors causing variations in costs and choose the cost-minimizing output level, taking also into consideration the degree of uncertainty in production and cost calculations. Production processes are under the charge of engineers but the business manager works to carry out the production function analysis in order to avoid wastages of materials and time. Sound pricing policies depend much on cost control.

3. **Pricing decisions, policies and practices-** Another task before a business manager is the pricing of a product. Since a firm's income and profit depend mainly on the price decision, the pricing policies and all such decisions are to be taken after careful analysis of the nature of the market in which the firm operates. The important topics covered in this field of study are : Market Structure Analysis, Pricing Practices and Price Forecasting.
4. **Linear programming and theory of games :** Linear programming and theory of games have come to be regarded as part of managerial economics recently.
5. **Environmental issues:** There are certain issues of macroeconomics which also form a part of managerial economics. These issues relate to general business, social and political environment in which a business enterprise operates.

6. **Profit management.** Each and every business firms are tended for earning profit, it is profit which provides the chief measure of success of a firm in the long period. Economists tells us that profits are the reward for uncertainty bearing and risk taking. A successful business manager is one who can form more or less correct estimates of costs and revenues at different levels of output. The more successful a manager is in reducing uncertainty, the higher are the profits earned by him. It is therefore, profit-planning and profit measurement constitute the most challenging area of business economics.
7. **Business cycles:** Business cycles affect business decisions. They refer to regular fluctuations in economic activities in the country. The different phases of business cycle are depression, recovery, prosperity, boom and recession.

- 8. Inventory management:** A firm should always keep an ideal quantity of stock. If the stock is too much, the capital is unnecessarily locked up in inventories. At the same time if the level of inventory is low, production will be interrupted due to non-availability of materials. Hence, a firm always prefers to have an optimum quantity of stock. Therefore, managerial economics will use some methods such as ABC analysis, inventory models with a view to minimizing the inventory cost.
- 9. Capital management.** Still another most challenging problem for a modern business manager is of planning capital investment. Investments are made in the plant and machinery and buildings which are very high. Therefore, capital management requires lot of efforts for the right decision.

Significance of Managerial Economics

- ↳ **Building of analytical models:-** that help to recognize the structure of managerial problems, eliminate the minor details that can obstruct decision making, and help to concentrate on the main problem area.
- ↳ **Making available a set of analytical methods:-** for business analyses thereby, enhancing the analytical capabilities of the business analyst.
- ↳ **Clarification of the various concepts used in business analysis,** enabling the managers avoid conceptual pitfalls.

- ↳ **Estimating Economic Relationship:-** Managerial economics estimates economics relationship between different business factors such as income, elasticity of demand and cost volume profit analysis etc.
- ↳ **Predicting Relevant Economic Quantities:-** Managerial economics helps the management in predicting various economic quantities such as- cost, profit, demand, capital, production, prices etc.
- ↳ **Basis of Business Policies:-** Managerial economics is the foundation of business policies. Business policies are prepared on the basis of studies and finding of managerial economics which warns the management against all the turning points in national as well as international economy.

Introduction

- ⌘ A managerial economist plays a vital role in modern business. He helps the management of a firm in decision making and forward planning by using his skills and techniques.
- ⌘ In advanced countries like U.S.A., U.K. and Canada, almost all big firms employ managerial economists. In leading business firms are employing business economists. Tatas, Hindustan Lever and Reliance have managerial economists on their staff.
- ⌘ The role of a managerial economist is that of a business analyst and of an advisor. It is a part and parcel of modern business activities. Accordingly, his responsibilities are also heavy. Let us explain his role any responsibilities in detail.

- ↳ **Study of the business environment**
- ↳ **Business Plan and Forecasting**
- ↳ **Study of business operations**
- ↳ **Economic intelligence**
- ↳ **Specific functions**
- ↳ **Participation in Public Debates**

Role of Managerial economist

Role of Managerial Economist

1. Study of the business environment. Every firm has to take into **consideration such** external factors as the growth of national income, volume of trade and the general price trends, for its policy decision. A firm works within a business environment. The basic element of business environment for a firm are the trend of growth of national economy and world economy and phase of the business cycle in which the economy is moving. At what rate and where is population getting concentrated? Where are the demand prospects for established and new products? Where are the prospective markets? These questions lead the economists into purposeful studies of the economic environment.

2. Business Plan and Forecasting. The business economists can help the management in the formation of their business plan by forecasting and economic environment. The management can easily decide the timing and locating of their specific action. The managerial economists has to interpret the national economic trends and industrial outlook for their relevance to the firm in which he is working. He advises top management by means of short, business like practical notes. In a partially controlled economy like India, the business economists translates the government's intentions in business jargon and also transmits the reaction of the industry to propose changes in government policy.

3. Study of business operations. The business economist can also help the management in decision making relating to the internal operations of a firm, i.e., in deciding about price, rate of operations, investment and growth of the firm for offering this advice ; the economist has specific analytical and forecasting techniques which yield meaningful conclusions. What will be the reasonable sales and profit budget for the next year? What are the suitable production schedules and inventory policies? What changes in wage and price policies are imperative now? What would be the sources of finance? Thus, he is trained to answer such questions posted by the top management.

- 4 Economic intelligence.** The business economist also provides **general intelligence** services by supplying the management with economic information of general interest so that they can talk intelligently in conferences and seminars. They are also supplied the facts and figures for preparing the annual reports of the firm. Those facts and figures are collected by the business economist as he understands the literature available on business activities.
- 5 Specific functions.** Business economists are now performing **specific functions** as consultants also. Their specific functions are demand forecasting, industrial market research, pricing problems of industry, production programmes, investment analysis and forecasts. They also offer advice on trade and public relations, primary commodities and foreign to capital projects in agriculture, industry, transport and tourism and also of the export environment.

6. Participation in Public Debates. The business economists participate in public debates organized by different agencies. Both governments and society seek their advice. Their practical experience in business and industry gives value to their observation. In nut shell a business economist can play a multi-faceted role. He is not only an analyst of current trends and policies for his employers but also a bridge between the businessmen in the specific industry and the Govt.

Responsibility of Managerial economics

⌘ A business economist is well familiar with his responsibilities. He must keep in the mind the main objective of making a reasonable profit on the invested capital in his firm. Firms are not always after profit-maximization, but to continue in business, every firm has to operate for profit. Therefore, a business economist has the main responsibility of helping the management to make more profits than before. All his other responsibilities flow from this basic obligation. The responsibilities of a business economists are summarized below :

- ↳ **Making successful Forecasts**
- ↳ **Maintaining Relationships**
- ↳ **Earning full Status on the Managerial team**
- ↳ **To Measure the increase in the earning capacity of a firm**
- ↳ **To Perform function sincerely**
- ↳ **To Contact the source of economic information and Experts**
- ↳ **To Keep the Management informed of all the possible economic trends**
- ↳ **To achieve Respectable status in the firm:**

Responsibility of managerial economist

1. Making successful Forecasts. Managements have to take decisions concerning the future and it is uncertain. This uncertainty cannot be eliminated altogether but it can be reduced through scientific forecasts of the economic environment to his employers. This is required for business planning. If a business economist can make successful forecasts about business trends, the management will hold him in great esteem. A wise managerial economist will revise his forecasts from time to time keeping in view new developments in his business. As soon as he finds a change in his forecasts, he has to alert the management about it. He assists the management in making the needed adjustments. This will help him to strengthen his position as a member of the managerial team.

- 2. Maintaining Relationships.** The managerial economists must establish and maintain contacts with data sources for his analysis and forecasts. He makes contacts with individual who are specialists in the different fields. He must join professional associations and subscribe to the journals giving him fresh and latest information. In other words, his business biggest quality is his ability to obtain information quickly by establishing contacts with the sources of such information.
- 3. Earning full Status on the Managerial team.** A business economist has to participate in decision-making and forward-planning. For this he must be able to earn full status on the business team. He must be prepared to take up assignments on special project also. He should be able to express himself clearly so that his advice is understood and accepted. Finally, he must be in tune with the industry's thinking, and not lose the national perspective in giving advice to the management.

- ↳ **To Measure the increase in the earning capacity of a firm:-** a managerial economist has a great responsibility to achieve an object of earning maximum profit. If he does not do this property, the capacity of the firm can not be utilized fully and the firm can not achieve its objects. Therefore manager should continue his efforts in increasing the earning capacity of the firm
- ↳ **To make successful forecasting:-** by analyzing all the internal and external factors and by assessing their impact on profitability and working of the firm. Managerial economist must forecast or predict for the prosperous future of the firm.
- ↳ **To Perform function sincerely :-** the managerial economist should perform his function most sincerely.

- ↳ **To Contact the source of economic information and Experts:-** a managerial economist is responsible for providing all the relevant economic information to the management so that the plans and programme of the firm may be checked out before taking these into consideration.
- ↳ **To Keep the Management informed of all the possible economic trends:-** a managerial economist should keep himself in touch with the latest development of national economy and business environment so that he can keep the management informed with these development and expected trends of the economy
- ↳ **To achieve Respectable status in the firm:-** Managerial economist should earn his status in performing his duties and responsibilities sincerely and seriously. He should be helpful to the management in successful decision making