UNIT -1

- Economics is a study/science of the choice making behaviour of the people
- The social science which studies how individuals, households, firms and nations can maximise their gains from their limited resources that have alternative uses is known as economics.
- Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses—Lionel Robbins

Importance of Economics in Management

- Managers are essentially practicing economists
- Economics provides analytical tools and techniques that managers need to achieve the goals of the organisation
- Managers with working knowledge of economics can perform their functions more efficiently than those without it.
- The basic task of management is to optimize the use of the resources which is guided by Economics.

Nature of Economics

- Production decisions
- Exchange decisions
- Consumption decisions

Types of Economics

- Descriptive Economics
- Economic Theory
- Applied Economics

Characteristics

- Aid to understand business practices
- Guide to Management
- It provides a set of concepts and percepts
- Analytical tools and techniques, economic laws and theories constitute economics as a whole.

Scope of Economics

- **Microeconomics:- It means Small—Not aggregative but a selective study.**

Focussed on:-

- **Product pricing**
- **Consumer behaviour**
- **Factor pricing**
- **Economic conditions of a section of the people**
- **Study of firms**

Macroeconomics

- It means Large –deals with the aggregates and averages of the system.

Focussed on-:

- National income and output
- General price level
- Balance of trade and payments
- External value of money
- Savings and investment
- Employment and economic growth

Importance

- In Microeconomics:-
- Formation of economic policies
- Operation of an economy
- Prediction
- Managerial decisions
- Economic welfare

Macro economics

- Helpful in understanding the functioning of an economy
- Formulation of economic policy
- Control over business cycles
- Helpful in economic planning
- Helpful in controlling Inflation

Limitation

- In Micro Economics:-

The functioning of economy on the whole basis cannot be explained.

Many economic variables are assumed to be constant.

It has limited scope.

Study of many important economic policies and problems are outside its scope.

In Macro Economics

- Several conclusions of macroeconomics are based on the sum total of individual units
- It is difficult to measure various aggregates of macroeconomics.
- Most of the macroeconomic models have very little use in practical life.

Difference

- **In Micro economics:-**
- It is the study of economic actions of individuals and small groups of individuals
- It aims at optimum allocation of resources
- The basis of microeconomics is the price mechanism
- It is based on different assumptions concerned with rational behaviour of individuals
- Microeconomics is based on partial equilibrium analysis
- The study of equilibrium conditions is analysed at a particular period

Macro Economics

- **It deals with aggregates of economic quantities**
- **It aims at determination of aggregate output, national income, price level, employment level in the economy.**
- **The basis of macroeconomics is national income, output and employment**
- **It bases its assumptions on aggregate volume of the output of an economy**
- **Macroeconomics is based on general equilibrium analysis**
- **Macroeconomics is based on time lags.**

Science, Engineering, Technology

What is Science?

- A special kind of approach for acquiring knowledge about everything that we can think of in this universe.
- Values and Standards: Accuracy, Objectivity, Scepticism, Open-mindedness.
- Scientific principles are formulated, Innovations, Commercial production

What is technology?

- Technology is means, skills, knowledge or procedure for making, using and doing useful things
- Types of technology: Labour Intensive technology, Capital Intensive technology, Neutral Technology, Intermediate technology
- Technology enables the production of higher output with the same quantity and combination of factor inputs.

What is Enginerring?

- Engineering deals with design, building and maintenance of machines, devices and structure
- Engineering helps in economic development by Mechanisation of production process, Development of Infrastructure

Combined role of Science, Engineering and Technology in Economic Development

- Better utilisation of existing natural resources
- Use of existing resources in an efficient manner to get greater outputs
- New resources and substitutes for production process
- Minimization of wastages
- Removing scarcity of various goods as also the basic requirements of human beings
- Improvement in quality of produced goods
- Cost reduction of finished as well as intermediate goods
- Generation of employment opportunities
- Improve public services and living standards of people

Managerial Economics

- Managerial economics is concerned with application of economic analysis to the problem of formulating rational managerial decisions.
- It is micro economic in character.
- Managerial economic adopts, modifies and reformulates economic models
- Managerial economics involves application of economic principles
- Managerial economics though micro in character, deals only with the firm and has nothing to do with an individual's economic problem
- In managerial economics these assumptions disappear due to practical situations
- Managerial economics is essentially normative in nature
- Managerial economics studies both economic and non-economic aspects.

Nature of Managerial Economics

- Managerial Economics is a Science
- Managerial Economics is an Art
- Managerial Economics is Microeconomics
- Managerial Economics is a Normative Science
- Managerial Economics is Pragmatic

Characteristics of Managerial Economics

- Managerial economics belongs to normative economics rather than positive economics.
- Managerial economics is microeconomic in character
- Managerial economics is pragmatic
- Managerial economics largely uses that body of economic concepts and principles which is known as theory of the firm or economics of the firm.
- Macroeconomics is also useful to managerial economics since it provides an intelligent understanding of the environment in which business must operate.
- Main aim of managerial economics is to help the management in taking correct decisions and preparing plans and policies for future.

Scope of Managerial Economics

- Demand analysis and forecasting
- Inventory and queuing problem
- Pricing problems
- Resource allocation
- Profit management
- Investment problem
- Analysis of business environment

Importance of Managerial Economics

- Reconciling traditional theoretical concepts to the actual business behaviour and conditions
- Estimating economic relationships
- Predicting relevant economic quantities
- Understanding significant external forces
- Building of competent managers
- Helps in attainment of social and economic welfare
- Basis of business policies

Manager Economics and other Disciplines

- Managerial Economics and Operations Research
- Managerial Economics and Accounting
- Managerial Economics and Statistics
- Managerial Economics and Mathematics
- Managerial Economics and Psychology
- Managerial Economics and Politics

Role or Function of Managerial Economists

- Managerial economists studies and analyses all the internal and external factors that may influence the activities of a firm so that the uncertainties may be predicted and business risks may be minimised.
- Factors Effect Managerial Economics:
- Internal Factors
- External Factors

Internal Factors

- What should be the sales budget for the next year?
- What should be the policy regarding inventory for next year?
- What should be the production schedule for next year?
- What changes should be introduced in pricing policy of the enterprise during the next year?
- What should be the wage policy for next year?
- What types of changes are required in the credit policy of the enterprise?
- What should be the policy regarding cash for next year?
- What should be the profit budget for next year?

External Factors

- What changes have taken place in economic policies of the government and what more changes are expected in near future in this field?
- What types of cyclic fluctuations are expected in national economy in future?
- What are the expectations of demand of goods being produced by the enterprise?
- What policies are expected to be adopted by competitors during the coming period?
- What changes are expected to take place in the prices of raw material in the coming period?
- What changes are expected in the wage policy of Government in coming year?

- What is the outlook of taxation policy, foreign trade policy, industrial policy of the government?
- What is the outlook of market and customers during coming period?
- What are the main components of the five year plan. What changes are expected to take place in the cost of production?
- What is the outlook of national economy for coming year? What are important economic trends of national economy that may affect activities of the firm

Functions of Managerial Economists

- Sales forecasting
- Individual market research
- Economic analysis of competing companies
- Pricing Policy of industry
- Capital projects
- Production programmes
- Security/investment analysis and forecasts
- Advice on trade and public relations
- Advice on primary commodities
- Advice on foreign exchange
- Economic analysis of agriculture
- Analysis of undeveloped economies
- Environmental forecasting

Responsibilities of Managerial Economists

- To search the measure for the Increase in the Earning Capacity of Firm
- To Make Successful Forecasting
- To establish Contact with the Source of Economic Information and Experts
- To keep the Management Informed of all the Possible Economic Trends
- To make his Status Respectable in the firm
- To Perform Specific Functions

Basic Principles or Economic tools of Managerial Economics

- Opportunity Cost
- Discounting principle
- Equi-marginal principle
- Marginal analysis
- Incremental cost principle