MANAGERIAL ECONOMICS OVERVIEW

A close interrelationship between management and economics had led to the development of managerial economics. Economic analysis is required for various concepts such as demand, profit, cost, and competition. In this way, managerial economics is considered as economics applied to “problems of choice’’ or alternatives and allocation of scarce resources by the firms.

Managerial economics is a discipline that combines economic theory with managerial practice. It helps in covering the gap between the problems of logic and the problems of policy. The subject offers powerful tools and techniques for managerial policy making.

Managerial Economics − Definition

To quote Mansfield, “Managerial economics is concerned with the application of economic concepts and economic analysis to the problems of formulating rational managerial decisions.

Spencer and Siegelman have defined the subject as “the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management.”

Micro, Macro, and Managerial Economics Relationship

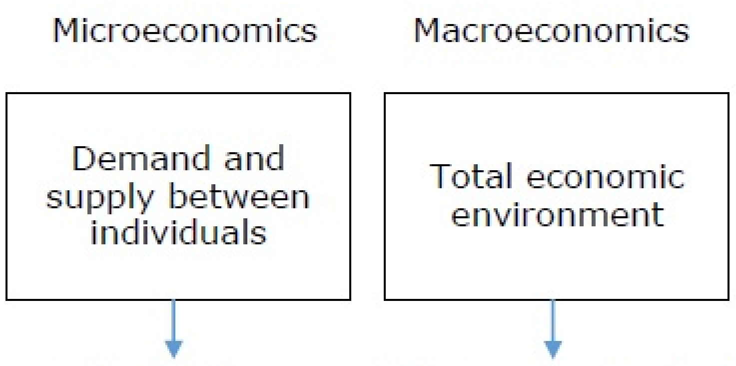
Microeconomics studies the actions of individual consumers and firms; **managerial economics** is an applied specialty of this branch. **Macroeconomics** deals with the performance, structure, and behavior of an economy as a whole. Managerial economics applies microeconomic theories and techniques to management decisions. It is more limited in scope as compared to microeconomics. Macroeconomists study aggregate indicators such as GDP, unemployment rates to understand the functions of the whole economy.

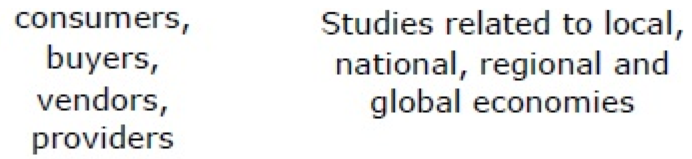
Microeconomics and managerial economics both encourage the use of quantitative methods to analyze economic data. Businesses have finite human and financial resources; managerial economic principles can aid management decisions in allocating these resources efficiently. Macroeconomics models and their estimates are used by the government to assist in the development of economic policy.

Nature and Scope of Managerial Economics

The most important function in managerial economics is decision-making. It involves the complete course of selecting the most suitable action from two or more alternatives. The primary function is to make the most profitable use of resources which are limited such as labor, capital, land etc. A manager is very careful while taking decisions as the future is uncertain; he ensures that the best possible plans are made in the most effective manner to achieve the desired objective which is profit maximization.

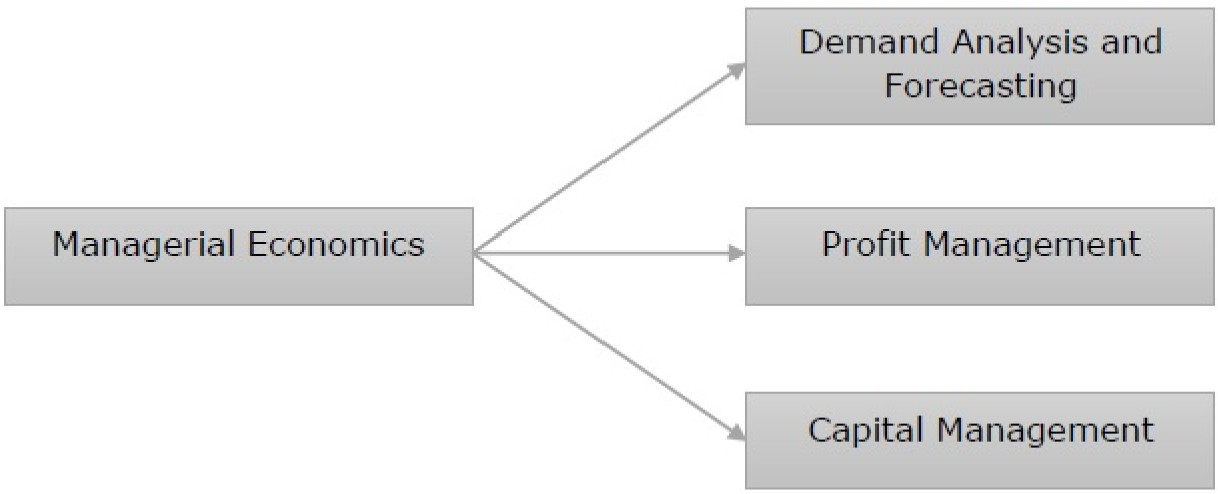
- Economic theory and economic analysis are used to solve the problems of managerial economics.
- Economics basically comprises of two main divisions namely Micro economics and Macro economics.





- Managerial economics covers both macroeconomics as well as microeconomics, as both are equally important for decision making and business analysis.
- Macroeconomics deals with the study of entire economy. It considers all the factors such as government policies, business cycles, national income, etc.
- Microeconomics includes the analysis of small individual units of economy such as individual firms, individual industry, or a single individual consumer.

All the economic theories, tools, and concepts are covered under the scope of managerial economics to analyze the business environment. The scope of managerial economics is a continual process, as it is a developing science. Demand analysis and forecasting, profit management, and capital management are also considered under the scope of managerial economics.



Demand Analysis and Forecasting

Demand analysis and forecasting involves huge amount of decision-making! Demand estimation is an integral part of decision making, an assessment of future sales helps in strengthening the market position and maximizing profit. In managerial economics, demand analysis and forecasting holds a very important place.

Profit Management

Success of a firm depends on its primary measure and that is profit. Firms are operated to earn long term profit which is generally the reward for risk taking. Appropriate planning and measuring profit is the most important and challenging area of managerial economics.

Capital Management

Capital management involves planning and controlling of expenses. There are many problems related to capital investments which involve considerable amount of time and labor. Cost of capital and rate of return are important factors of capital management.

Demand for Managerial Economics

The demand for this subject has increased post liberalization and globalization period primarily because of increasing use of economic logic, concepts, tools and theories in the decision making process of large multinationals.

Also, this can be attributed to increasing demand for professionally trained management personnel, who can leverage limited resources available to them and maximize returns with efficiency and effectiveness.

Role in Managerial Decision Making

Managerial economics leverages economic concepts and decision science techniques to solve managerial problems. It provides optimal solutions to managerial decision making issues.