

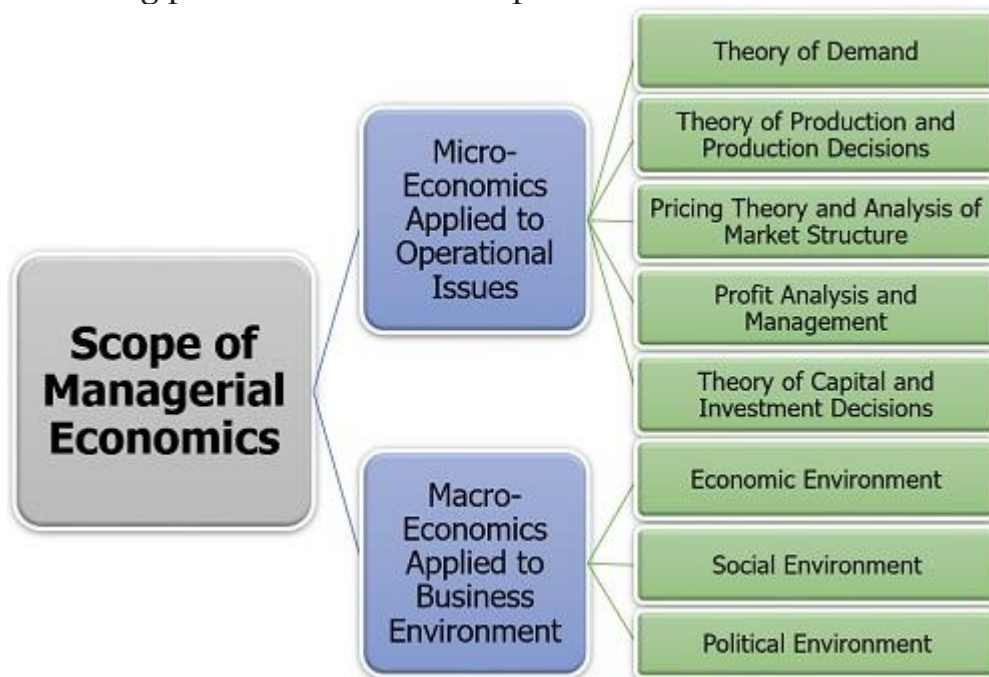
Lecture notes on Managerial Economics for students academic use only By Dr Neha Mathur ma'am

Managerial economics is a stream of management studies which emphasises solving business problems and decision-making by applying the theories and principles of microeconomics and macroeconomics. It is a specialised stream dealing with the organisation's internal issues by using various economic theories.

Scope of Managerial Economics

Managerial economics is widely applied in organizations to deal with different business issues. Both the micro and macroeconomics impact the business and its functioning.

Following points illustrate its scope:



Micro-Economics Applied to Operational Issues

To resolve the organisation's internal issues arising in business operations, the various theories or principles of microeconomics applied are as follows:

- **Theory of Demand:** The demand theory emphasises on the consumer's behaviour towards a product or service. It takes into consideration the needs, wants, preferences and requirement of the consumers to enhance the production process.
- **Theory of Production and Production Decisions:** This theory is majorly concerned with the volume of production,

process, capital and labour required, cost involved, etc. It aims at maximising the output to meet the customer's demand.

- **Pricing Theory and Analysis of [Market Structure](#):** It focuses on the price determination of a product keeping in mind the competitors, market conditions, cost of production, maximising sales volume, etc.
- **Profit Analysis and Management:** The organisations work for a profit. Therefore they always aim at profit maximisation. It depends upon the market demand, cost of input, competition level, etc.
- **Theory of Capital and Investment Decisions:** Capital is the most critical factor of business. This theory prevails the proper allocation of the organisation's capital and making [investments](#) in profitable projects or venture to improve organisational efficiency.

Macro-Economics Applied to Business Environment

Any organisation is much affected by the environment it operates in. The business environment can be classified as follows:

- **Economic Environment:** The economic conditions of a country, GDP, economic policies, etc. indirectly impacts the business and its operations.
- **Social Environment:** The society in which the organisation functions also affects it like employment conditions, trade unions, consumer cooperatives, etc.
- **Political Environment:** The political structure of a country, whether authoritarian or democratic; political stability; and attitude towards the private sector, influence organizational growth and development.

Managerial economics provides an essential tool for determining the business goals and targets, the actual position of the organization, and what the management should do fill the gap between the two.