

Lecture notes on Managerial Economics for academic use of M.com 3rd semester by Dr.Neha Mathur

Managerial economics generally refers to the integration of economic theory with business practice. Economics provides tools managerial economics applies these tools to the management of business. In simple terms, managerial economics means the application of economic theory to the problem of management. Managerial economics may be viewed as economics applied to problem solving at the level of the firm.

It enables the business executive to assume and analyse things. Every firm tries to get satisfactory profit even though economics emphasises maximizing of profit. Hence, it becomes necessary to redesign economic ideas to the practical world. This

Definition:

Managerial economists have defined managerial economics in a variety of ways:

According to E.F. Brigham and J. L. Pappas, Managerial Economics is “the application of economic theory and methodology to business administration practice.”

To Christopher Savage and John R. Small: “Managerial Economics is concerned with business efficiency”.

Milton H. Spencer and Lonis Siegelman define Managerial Economics as “the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management.”

In the words of Me Nair and Meriam, “Managerial Economics consists of the use of economic modes of thought to analyse business situations.”

D.C. Hague describes Managerial Economics as “a fundamental academic subject which seeks to understand and analyse the problems of business decision making.”

In the opinion of W.W. Haynes “Managerial Economics is the study of the allocation of resources available to a firm or other unit of management among the activities of that unit.”

According to Floyd E. Gillis, “Managerial Economics deals almost exclusively with those business situations that can be quantified and dealt with in a model or at least approximated quantitatively.”

The above definitions emphasise the interrelationship of economic theory with business decision making and forward planning.

Scope of Marginal Economics:

Managerial Economics is a developing subject. The scope of managerial economics refers to its area of study. Managerial economics has its roots in economic theory. The empirical nature of managerial economics makes its scope wider. Managerial economics provides management with strategic planning tools that can be used to get a clear perspective of the way the business world works and what can be done to maintain profitability in an ever changing environment.

Managerial economics refers to those aspects of economic theory and application which are directly relevant to the practice of management and the decision making process within the enterprise. Its scope does not extend to macro-economic theory and the economics of public policy which will also be of interest to the manager. While considering the scope of managerial economics we have to understand whether it is positive economics or normative economics.

Positive versus Normative Economics:

Most of the managerial economists are of the opinion that managerial economics is fundamentally normative and prescriptive in nature. It is concerned with what decisions ought to be made.

The application of managerial economics is inseparable from consideration of values or norms, for it is always concerned with the achievement of objectives or the optimization of goals. In managerial economics, we are interested in what should happen rather than what does happen. Instead of explaining what a firm is doing, we explain what it should do to make its decision effective.

Positive Economics:

A positive science is concerned with ‘what is’. Robbins regards economics as a pure science of what is, which is not concerned with moral or ethical questions.

Economics is neutral between ends. The economist has no right to pass judgment on the wisdom or folly of the ends itself.

He is simply concerned with the problem of resources in relation to the ends desired. The manufacture and sale of cigarettes and wine may be injurious to health and therefore morally unjustifiable, but the economist has no right to pass judgment on these since both satisfy human wants and involve economic activity.

Normative Economics:

Normative economics is concerned with describing what should be the things. It is, therefore, also called prescriptive economics. What price for a product should be fixed, what wage should be paid, how income should be distributed and so on, fall within the purview of normative economics?

It should be noted that normative economics involves value judgments. Almost all the leading managerial economists are of the opinion that managerial economics is fundamentally normative and prescriptive in nature.

It refers mostly to what ought to be and cannot be neutral about the ends. The application of managerial economics is inseparable from consideration of values, or norms for it is always concerned with the achievement of objectives or the optimisation of goals.

In managerial economics, we are interested in what should happen rather than what does happen. Instead of explaining what a firm is doing, we explain what it should do to make its decision effective. Managerial economists are generally preoccupied with the optimum allocation of scarce resources among competing ends with a view to obtaining the maximum benefit according to predetermined criteria.

To achieve these objectives they do not assume *ceteris paribus*, but try to introduce policies. The very important aspect of managerial economics is that it tries to find out the cause and effect relationship by factual study and logical reasoning. The scope of managerial economics is so wide that it embraces almost all the problems and areas of the manager and the firm.