A

Seminar report

On

Managerial Economics

Submitted in partial fulfillment of the requirement for the award of degree
Of MBA

SUBMITTED TO: **SUBMITTED BY:**

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Preface

I have made this report file on the topic **Managerial Economics;** I have tried my best to elucidate all the relevant detail to the topic to be included in the report. While in the beginning I have tried to give a general view about this topic.

My efforts and wholehearted co-corporation of each and everyone has ended on a successful note. I express my sincere gratitude to …………..who assisting me throughout the preparation of this topic. I thank him for providing me the reinforcement, confidence and most importantly the track for the topic whenever I needed it.

Acknowledgement

I would like to thank respected Mr…….. and Mr. ……..for giving me such a wonderful opportunity to expand my knowledge for my own branch and giving me guidelines to present a seminar report. It helped me a lot to realize of what we study for.

Secondly, I would like to thank my parents who patiently helped me as i went through my work and helped to modify and eliminate some of the irrelevant or un-necessary stuffs.

Thirdly, I would like to thank my friends who helped me to make my work more organized and well-stacked till the end.

Next, I would thank Microsoft for developing such a wonderful tool like MS Word. It helped my work a lot to remain error-free.

Last but clearly not the least, I would thank The Almighty for giving me strength to complete my report on time.

Content

Introduction

It is the discipline that deals with application of economic concepts, theories and methodologies to practical problems of businesses/firms.
Subject that uses the theories of economics and the methodologies of decision sciences for managerial decision-making is known as managerial economics.

What is Managerial economics

Managerial economics is the science of directing scarce resources to manage cost effectively. It consists of three branches: competitive markets, market power, and imperfect markets. A market consists of buyers and sellers that communicate with each other for voluntary exchange.

Why Managerial Economics?

A powerful "analytical engine".

A broader perspective on the firm.

- What is a firm?
- What are the firm's overall objectives?
- What pressures drive the firm towards profit and away from profit

The basis for some of the more rigourous analysis of issues in Marketing and Strategic Management.

Features of Managerial Economics

1. **Micro economic character:** Managerial economics is micro economic in character because it is a unit of study i.e. firm. It only deals the problems of firms but not deal with the entire economy as a unit of study. However, it takes the help of macroeconomic to understand and adjust to the environment in which the firm operates.
2. **Choice and Allocation:** Managerial economics is concerned with decision-making of economic nature. This implies that managerial economics deals with identification of economic choices and allocation of scarce resources.
3. **Goal oriented:** Managerial economics is goal-oriented and prescriptive. It deals with how decisions should be formulated by managers to achieve the organizational goals.
4. **Conceptual and Metrical:** Managerial economics is both ‘Conceptual and Metrical’. An intelligent application of quantitative techniques to business presupposes considered judgment and hard and careful thinking about the nature of the particular problem to be solved. Managerial economics provides necessary conceptual tools to achieve this. Moreover, it helps the decision-maker by providing measurement of various economic entities and their relationships. This metrical dimension of managerial economics is complementary to its conceptual framework.
5. **Pragmatic:** Managerial economics is pragmatic. It is concerned with those analytical tools, which are useful in improving decision-making. Economic theory appropriately ignores the variety of backgrounds and training found in individual firms but managerial economics considers the particular environment of decision making.
6. **Normative:** Managerial economics belongs to normative economics rather than positive economics. In other words, it is prescriptive rather than descriptive. The main body of economic theory confines itself to descriptive hypothesis, attempting to generalize about the relations among different variables without judgment about what is desirable or undesirable. Managerial economics firstly tells what aims and objectives a firm should pursue and secondly, it tells how best to achieve these aims in particular situations.
7. **Multi-disciplinary:** Managerial economics is related with different disciplines such as Statistics, Mathematics, Management, Operational Research, Psychology etc.

Nature of Managerial Economics

- The primary function of management executive in a business organisation is decision making and forward planning.
- Decision making and forward planning go hand in hand with each other. Decision making means the process of selecting one action from two or more alternative courses of action. Forward planning means establishing plans for the future to carry out the decision so taken.
- The problem of choice arises because resources at the disposal of a business unit (land, labour, capital, and managerial capacity) are limited and the firm has to make the most profitable use of these resources.
- The decision making function is that of the business executive, he takes the decision which will ensure the most efficient means of attaining a desired objective, say profit maximisation. After taking the decision about the particular output, pricing, capital, raw-materials and power etc., are prepared. Forward planning and decision-making thus go on at the same time.
- A business manager's task is made difficult by the uncertainty which surrounds business decision-making. Nobody can predict the future course of business conditions. He prepares the best possible plans for the future depending on past experience and future outlook and yet he has to go on revising his plans in the light of new experience to minimise the failure. Managers are thus engaged in a continuous process of decision-making through an uncertain future and the overall problem confronting them is one of adjusting to uncertainty.
- In fulfilling the function of decision-making in an uncertainty framework, economic theory can be, pressed into service with considerable advantage as it deals with a number of concepts and principles which can be used to solve or at least throw some light upon the problems of business management. E.g are profit, demand, cost, pricing, production, competition, business cycles, national income etc. The way economic analysis can be used towards solving business problems, constitutes the subject-matter of Managerial Economics.
- Thus in brief we can say that Managerial Economics is both a science and an art.

Scope of Managerial Economics

The scope of managerial economics is not yet clearly laid out because it is a developing science. Even then the following fields may be said to generally fall under Managerial Economics:

1. Demand Analysis and Forecasting
2. Cost and Production Analysis
3. Pricing Decisions, Policies and Practices
4. Profit Management
5. Capital Management

These divisions of business economics constitute its subject matter.

Recently, managerial economists have started making increased use of Operation Research methods like Linear programming, inventory models, Games theory, queuing up theory etc., have also come to be regarded as part of Managerial Economics.

1. **Demand Analysis and Forecasting**: A business firm is an economic organisation which is engaged in transforming productive resources into goods that are to be sold in the market. A major part of managerial decision making depends on accurate estimates of demand. A forecast of future sales serves as a guide to management for preparing production schedules and employing resources. It will help management to maintain or strengthen its market position and profit base. Demand analysis also identifies a number of other factors influencing the demand for a product. Demand analysis and forecasting occupies a strategic place in Managerial Economics.
2. **Cost and production analysis:** A firm's profitability depends much on its cost of production. A wise manager would prepare cost estimates of a range of output, identify the factors causing are cause variations in cost estimates and choose the cost-minimising 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 is supposed to carry out the production function analysis in order to avoid wastages of materials and time. Sound pricing practices depend much on cost control. The main topics discussed under cost and production analysis are: Cost concepts, cost-output relationships, Economics and Diseconomies of scale and cost control.
3. **Pricing decisions, policies and practices:** Pricing is a very important area of Managerial Economics. In fact, price is the genesis of the revenue of a firm ad as such the success of a business firm largely depends on the correctness of the price decisions taken by it. The important aspects dealt with this area are: Price determination in various market forms, pricing methods, differential pricing, product-line pricing and price forecasting.
4. **Profit management:** Business firms are generally organized for earning profit and in the long period, it is profit which provides the chief measure of success of a firm. Economics 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 likely to accrue to the firm at different levels of output. The more successful a manager is in reducing uncertainty, the higher are the profits earned by him. In fact, profit-planning and profit measurement constitute the most challenging area of Managerial Economics.
5. **Capital management:** The problems relating to firm's capital investments are perhaps the most complex and troublesome. Capital management implies planning and control of capital expenditure because it involves a large sum and moreover the problems in disposing the capital

assets off are so complex that they require considerable time and labour. The main topics dealt with under capital management are cost of capital, rate of return and selection of projects.

Techniques or Methods of Marginal Economics

(i) Scientific Method:

Scientific method is a branch of study which is concerned with observed facts systematically classified and which includes trustworthy method for the discovery of truths. It refers to a procedure or mode of investigation by which scientific and systematic knowledge is acquired.

The method of enquiry is a very important aspect of science, perhaps this is the most significant feature. Scientific method alone can bring about confidence in the validity of conclusions. It concentrates on controlled experiments and investigates the behaviour of preconceived elements in a highly simplified environment.

The experimental method may be usefully applied to those aspects of managerial behaviour which call for accurate and logical thinking. The experimental methods are of limited use to managerial economics. A managerial economist cannot apply experimental methods to the same extent and in the same way as a physicist can in physical sciences.

We usually adopt an inductive as well as deductive approach in any analysis of managerial behaviour. The deductive method begins with postulates and hypotheses which are arbitrary. For the rationalists, there stands at the head of the system, a set of self-evident propositions and it is from these that other propositions (theorems) are derived by the process of reasoning.

At the other end are inductionist (empiricists) who believe that science must construct its axioms from the same data and particularly by ascending continually and gradually till it finally arrives at the most general axioms.

It is often asked what the method of science is, whether induction or deduction? The proper answer to this is, both. Both the methods are interdependent and hold an equally important place in any scientific analysis.

(ii) The Statistical Method:

Statistical methods are a mechanical process especially designed to facilitate the condensation and analysis of the large body of quantitative data. The aim of statistical method is to facilitate comparison, study relationships between the two phenomena and to interpret the complicated data for the purpose of analysis.

Many a time comparison has to be made between the changes and results which are due to changes in time, frequency of occurrence, and many other factors. Statistical methods are used for such comparison among past, present and future estimates.

For example, such methods as extrapolation can be applied for the purpose of making future forecast about the trends of say, demand and supply of a particular commodity. The statistical method of drawing inference is mathematical in nature. It not only establishes causal connection between two variables but also tries to establish a mathematical relationship between them.

Statistical approach is a quantitative micro-approach. Certain important correlation and association of attributes can be found with the help of statistics. It is useful for the study of management, economics, etc. and it is very helpful to bankers, state, planners, speculators, researchers, etc.

Though statistical methods are the handmaid of managerial economics, they should be used with care. The most significant peculiarity of the statistical method is that it helps us to seek regularities or patterns in economic data and permits us to arrive at generalizations that cannot be reached by any other method.

(iii) Method of Intellectual Experiment:

The fundamental problem in managerial economics is to find out the nature of any relationship between different variables such as cost, price and output. The real world is also invariably complex. It is influenced by many factors such as physical, social, temperamental and psychological. It is difficult to locate any order, sequence or law in such a confused and complex structure. In this context, it is essential for the managerial economist to engage in model building.

At times, to analyse behaviour we use models. A model is an abstraction from reality. A model may be in the form of diagram, a verbal description or a mathematical description. It can be classified into three categories such as iconic, analogue and symbolic.

Managerial economics may be viewed as economics applied to problem solving at the level of the firm. The problems relate to choices and allocation of resources is faced by managers all the time. Managerial economics is more concrete and situational and mainly concerned with purposefully managed process of allocation. For this purpose the managerial economist can and does use an abstract model of the enterprise.

Models are approximate representations of reality. They help us in understanding the underlying forces of the complex world of reality through approximation. Model building is more useful in managerial economics, as it helps us to know the actual socio-economic relationship prevailing in a firm.

Firms have only limited resources at their disposal which they must utilise to make profit. The managers of these firms must make judgements about the disposition of their resources and decide which priorities among the various competing claims they have upon them. Models can guide business executives to predict the future consequences.

(iv) The Method of Simulation:

It is an extension of the intellectual experiment. This method has gained popularity with the development of electronic computers, calculators and other similar equipment and internet services. We can programme a complex system of relationship with the help of this method. Computer is not only used for scientific or mathematical applications, it may also be used for some business applications, document generations and graphical solutions. Computer is a fast electronic calculating machine capable of absorbing, processing, integrating, relating and producing the resultant output information within a short span of time.

A manager has to take numerous decisions in the management of business which may be minor or major, simple or complex. They have to ensure that once the decision is taken, it is to be implemented within the minimum time and cost. The electronic gadgets will enable the manager to understand business problems in a better perspective and increase his ability to solve the business problems facing him in the management of business.

(v) The Historical Method:

Past knowledge is considered to be a pre-requisite for present knowledge. This is the main argument for the adoption of historical method in the present day managerial economics. In order to discover some basis for business activity, the method becomes generic in character.

The main objective of this method is to apply mind in the matter of various business problems by discovering the past trend regarding facts, events and attitudes and by demarcating the lines of development of thought and action. If we have an idea of the past events, we can understand the current economic problems much better. The wisdom of a particular economic policy is an inevitable product of its past.

The historical method requires experience not only in collecting data but also in finding out their relations and significance in the particular context. The managerial economist must take up the analytical view in order to get perfect control over facts and the synthetic view of facts.

He should be able to find out the relations between events and events and between events and environment. It is necessary to make an objective approach both in discovering facts and interpreting them. But in order to be objective, the approach must be based on relevant, adequate and reliable data.

For applying historical method, the managerial economist should be familiar with the general field of his topic and be clear with regard to his own objective. A good deal of imagination is required to apply the historical method.

(vi) The Descriptive Method:

The descriptive method is simple and easily applicable to various business problems, particularly in developing countries. It is a fact finding approach related mainly to the present and abstract generalisations through the cross sectional study of the present situation.

This method is mainly concerned with the collection of data. To some extent, the descriptive method is also concerned with the interpretation of data. In order to apply the descriptive method, the data should be accurate and objective and if possible quantifiable.

Since the descriptive method wants to relate causality of the collected facts, it is necessary for it to make comparisons between one situation with the other and among different aspects of the same situation. Thus, situational comparability is an essential element of this method.

This method is used to describe the organisation and functioning of institutions and the policies which have economic significance. To analyse the impact of the organisational structure in the working of business enterprises, it is widely used by the managerial economist.

The best descriptive studies are observational in nature. This method provides the empirical and logical basis for drawing conclusions and gaining knowledge. Thus it enables the managerial economists to describe or present the picture of a phenomenon or phenomena under investigation.

Role of managerial economist

1. He studies the economic patterns at macro-level and analysis its significance to the specific firm he is working in.
2. He has to consistently examine the probabilities of transforming an ever-changing economic environment into profitable business avenues.
3. He assists the business planning process of a firm.
4. He also carries cost-benefit analysis.
5. He assists the management in the decisions pertaining to internal functioning of a firm such as changes in price, investment plans, type of goods /services to be produced, inputs to be used, techniques of production to be employed, expansion/ contraction of firm, allocation of capital, location of new plants, quantity of output to be produced, replacement of plant equipment, sales forecasting, inventory forecasting, etc.

6. In addition, a managerial economist has to analyze changes in macro- economic indicators such as national income, population, business cycles, and their possible effect on the firm's functioning.
7. He is also involved in advicing the management on public relations, foreign exchange, and trade. He guides the firm on the likely impact of changes in monetary and fiscal policy on the firm's functioning.
8. He also makes an economic analysis of the firms in competition. He has to collect economic data and examine all crucial information about the environment in which the firm operates.
9. The most significant function of a managerial economist is to conduct a detailed research on industrial market.
10. In order to perform all these roles, a managerial economist has to conduct an elaborate statistical analysis.
11. He must be vigilant and must have ability to cope up with the pressures.
12. He also provides management with economic information such as tax rates, competitor's price and product, etc. They give their valuable advice to government authorities as well.
13. At times, a managerial economist has to prepare speeches for top management.

Conclusion

A managerial economist has a very important role to play by helping the management in successful decision making and forward planning. But to discharge his role successfully, he must recognize his responsibilities and obligations. Managerial economists can contribute significantly to the profitable growth of firms and effective solution of their problems.

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