© INNOVATIVE RESEARCH THOUGHTS | Refereed | Peer Reviewed | Indexed
ISSN : 2454 – 308X | Volume : 03 , Issue : 11 | October – December 2017

Meaning Nature and Scope of Managerial Economics

Alka, Assistant Professor of Commerce, Smt AAA govt. P. G. College, Kalka

ISSN 2454-308X

Abstract : The science of Managerial Economics has emerged only recently. With the growing variability and unpredictability of the business environment, business managers have become increasingly concerned with finding rational and ways of adjusting to an exploiting environmental change. The problems of the business world attracted the attentions of the academicians from 1950 onwards. Managerial economics as a subject gained popularity in the USA after the publication of the book "Managerial Economics" by Joel Dean in 1951. 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 function is being done by managerial economics.

Key words : Managerial, Economics ,business, Macroeconomics , Microeconomics etc.

Introduction : Economics is usually divided into two parts, Macroeconomics and Microeconomics. Macroeconomics is the study of the whole of the economic system. Through the help of macroeconomic theories analysis of the total output, total employment, the unemployment rate, the consumer index and the exports and imports. Although, in the newspaper and the television it's the macroeconomic issues which are discussed the most, the microeconomic factors of the economy are also important. Managerial Economics should be thought of as applied microeconomics. It helps the manager of the firm recognize the different economic factors at play and their affect on the firm and the consequences on the managerial behavior. It also helps in linking different economic concepts together for building a better tool for the manager's decision making. Managerial economics applies economic tools and techniques to business and administrative decision making to achieve business goal by effectively using the given business resources. Though we study economics in theory it would be of no use if the art of practical application doesn't exist. Therefore, the subject of managerial economics helps us bridge the gap between the theory and its practical application in economies. Managerial economics lays down rules that help in taking effective managerial decisions and also assist managers to identify how economic forces affect organizations and what could be the economic consequences of managerial behavior. It is an essential managerial talent to understand the principles that govern the economic behavior of firms and individuals which finally result in better managerial decisions, higher profits, and an increase in the value of the firm. Managerial economics has a number of applications; it can be used both for profit and non-profit sectors. For instance, in a limited staff, equipments, resources if a hospital wants to provide the best facilities and care to its patients it can readily make use of the concepts of managerial economics. Thus, we can see that managerial economics helps in meeting with the organizational goals effectively and efficiently. Managerial economics relates traditional economics with the decision sciences to develop vital tools for managerial decision making and helps in identifying ways to efficiently achieve goals. For instance, suppose a small business of mineral water want to rapidly grow and reach a size that permits efficient use of national media advertising. In this case Managerial economics can help in achieving this short-run objective swiftly and effectively by identifying pricing and production strategies. The tools and concepts offered in this chapter will help in the decision making process of the firms managers and will also increase the effectiveness of the decision making by expanding and sharpening the analytical framework used by mangers to make decisions.

DEFINATION

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.*"

Nature of Managerial Economics:

Managerial economics is a science applied to decision making. It bridges the gap between abstract theory and managerial practice. It concentrates more on the method of reasoning. In short, managerial economics is "Economics applied in decision making".

Decision Making*:*

Managerial economics is supposed to enrich the conceptual and technical skill of a manager. It is concerned with economic behaviour of the firm. It concentrates on the decision process, decision model and decision variables at the firm level. It is the application of economic analysis to evaluate business decisions.

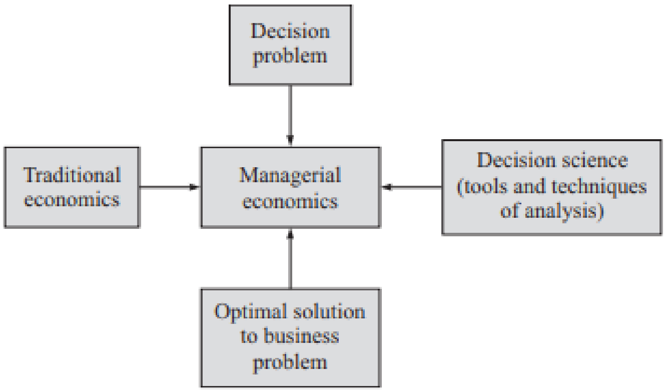
The primary function of a manager in business organisation is decision making and forward planning under uncertain business conditions. Some of the important management decisions are production decision, inventory decision, cost decision, marketing decision, financial decision, personnel decision and miscellaneous decisions. One of the hallmarks of a good executive is the ability to take quick decision. He must have the clarity of goals, use all the information he can get, weigh pros and cons and make fast decisions.

The decisions are taken to achieve certain objectives. Objectives are the motivating factors in taking decision. Several acts are performed to attain the objectives quantitative techniques are also used in decision making. But it may be noted that acts and quantitative techniques alone will not produce desirable results. It is important to remember that other variables such as human and behavioural considerations, technological forces and environmental factors influence the choices and decisions made by managers.

Managerial Economics-A Decision Making Process

Managerial Economics serves as a link between traditional economics and the decision making sciences for the purpose of business decision making. It directly deals with real people and real business situations. It facilitates the decision making process by applying economic principles and methodologies and helps in attaining desired economic goals which could be related to minimization of cost, maximization of revenue or profit and many more. Managerial economics rely on traditional economics and decision sciences to analyze any business problem and study the impact of alternative courses of action on the optimum utilization of resources. It deals with the application of knowledge and understanding of economic principles, concepts, tools and techniques to facilitate a decision making process in the presence of uncertainty. It also bridges the gap between pure analytical problem dealt in economic theory and the real business problem faced in day to day business situations. It provides tools and techniques to make the manager competent enough to take effective decision in real business situations. Well said by Milton H. Spensor and Louis Seigelman that "Managerial Economics is the integration of economic theory with the business practice for the purpose of facilitating decision making and forward planning in management". problems in the economy. The basic business problems that arise in any decision making or forward planning process involves operational and environmental issues.

© INNOVATIVE RESEARCH THOUGHTS | Refereed | Peer Reviewed | Indexed
ISSN : 2454 – 308X | Volume : 03 , Issue : 11 | October – December 2017



Role of managerial Economics in Decision making

Scope of Managerial economics

Managerial Economics provides strategic planning tool that helps in analyzing the problem and formulating rational managerial decisions. Decision making is a crucial aspect in any business problem. It is an evolutionary science which correlates the understanding and application of economic knowledge with the emerging business problems in the economy. The basic business problems that arise in any decision making or forward planning process involves operational and environmental issues.

Resource Allocation: economics is first and foremost, like traditional economic theory is concerned with the problem of optimum allocation of resources. The problem of determining optimum level of output that maximizes profit is taken care by the marginal analysis. On should ensure the most effective use of scare resources to get the optimal results. Linear programming technique is the most effective tool in decision making used to solve optimization problems.

Demand Estimation- It is very important for the firm to accurately estimate the market demand and to cater to the respective demand at the right time with right quantity. The basic understanding of demand is crucial for demand forecasting or demand estimation. Demand analysis helps to identify the factors responsible for influencing the market demand. There are many factors that contribute in influencing the market demand, namely, income of an individual, price of the commodity and price of the related goods and many more. It has increasing becoming easy to forecast the demand with the help of many computer softwares like SPSS , SAS etc.

Managing Inventory and handling Queuing problem -Managing inventory requires the correct estimation about the holding of the inventory stocks of raw material and also of the finished goods over time. These decisions are based upon the demand analysis by considering the demand and supply conditions. For instance, suppose a firm expects a rise in the future demand for its product, it has to plan accordingly whether it need to hire more labors or need to install more machinery, to cope with the increased demand. Such problems are termed as queuing problems.

Cost Analysis – Cost analysis is a very crucial in decision making. Pricing policy along with the cost analysis forms the base of profit planning. It also deals with the concept of cost benefit analysis.

Pricing and Competitive strategy- Pricing plays a very crucial role when you are not the only supplier of a good in the market. The pricing strategy depends on the type of market structure, may be oligopolistic, monopolistic or monopoly market. Price theory explains how the prices are determined in these different markets. Competitive strategy anticipates price determination by taking into consideration other players strategies regarding pricing, advertising and marketing

Profit Analysis – Economist defines profit as the reward for uncertainty bearing and risk taking abilities. The manger is successful if it can reduce uncertainty and earn higher profits. Profit estimating and measuring is the most challenging aspect of managerial economics. Profit earning is the main yardstick to measure the success of a firm in the long run.

Conclusion :

Economics not only helps us to better understand the human behavior and the activities of the firm but it also provides valuable insights and tools to businessmen. Managerial economics is the science of directing scarce resources to manage cost effectively. Managerial Economics provides strategic planning tool that helps in analyzing the problem and formulating rational managerial decisions. Management is about making choices. Economics is the study of decision making thus it helps the manager in taking the correct decision. A firm produces either what the consumer demands or what it thinks the consumer requires. Thus, consumer satisfaction helps in the production of new and innovative products. Economist defines profit as the reward for uncertainty bearing and risk taking abilities. The manger is successful if it can reduce uncertainty and earn higher profits

REFRENCES

[1] Managerial Economics by Atmananad, Excel Books.
[2] Managerial economics by DM Mithani, Himalys Publishing House
[3] Managerial economics by Ivan Png and Dale Lehman, Blackwell Publishing
[4] The Nature of the Firm', by R.H. Coase, Economica, November 1937.
[5] Chopra O.P. -Managerial economics, Tata MC graw hill N. Delhi
[6] Dean Joel - Managerial economics, Prentice hall, N.Delhi