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Management Economics: Definition, Range and Relevance

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Abstract

A sound business choice is grounded on economic theory. Sound economic reasoning is helpful for any manager of a business, whether they are in charge of production and operations, marketing, finance, or corporate strategy, despite the common misconception that only a small group of academicians and policy analysts who call themselves economists find the field of economics to be of practical relevance. In addition to improving judgement, economics also provides a shared lexicon and framework for understanding and discussing events both inside and between businesses and their external environments.

Meaning

Managerial economics is a relatively new field of study. Corporate managers are increasingly worried about finding sensible and exploitable strategies to adapt to the more unpredictable and variable business environment. As early as the 1950s, academics began to take an interest in the issues facing the corporate sector. The release of Joel Dean's Managerial Economics in 1951 helped to popularise the study of managerial economics in the United States.

The term managerial economics is commonly used to describe the study of how economic principles might be used in the business world. Managerial economics takes the framework provided by economics and applies it to the realm of business management. Managerial economics, in its simplest form, refers to the study of how economic principles may be effectively applied to the management process. One definition of managerial economics is the study of economics as it relates to business problem-solving. That executive's ability to assume and analyse situations is much enhanced. Even though maximisation of profit is emphasised in economics, all businesses aim for a reasonable return on investment. Therefore, it's important to rethink economic concepts in light of real-world constraints. Managerial economics now serves this purpose.

Key word: Economics, Decision Making

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Definition:

According to E.F. Brigham and J. L. Pappar, *Managerial Economics is "the application of economic theory and methodology to business administration practice."*

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:

Decision-making science is what managerial economics is all about. It connects theoretical management concepts with real-world application. "Reasoning itself is the main focus. What we mean when we say Economics applied to decision making is a concise definition of management economics.

Decision Making:

Management economists aim to improve managers' ability to think critically and implement solutions. Issues related to the firm's economic behaviour are the focus of this field. The decision making procedure, decision model, and decision factors are all given primary attention. It's the practise of using economic analysis to weigh the pros and cons of certain actions in a commercial setting. In a corporate setting, a manager's main responsibility is making decisions and formulating plans for the future, often in the face of ambiguity. The management team must make several crucial choices every day, including those involving production, inventories, costs, marketing, finances, employees, and other factors. The capacity to make snap choices is a characteristic of a successful CEO. He needs to be able to see the whole picture, utilise all available data, assess options, and act swiftly.

There are goals in mind when making these choices. Decisions are pushed along by a set of goals. In addition to using quantitative methods, decision making necessitates a series of actions. It's important to keep in mind, though, that legal mandates and scientific methods by themselves won't lead to the desired outcomes. Managers' decisions and actions are affected by a wide range of elements, including but not limited to human and behavioural factors, technical pressures, and environmental considerations.

Scope of Marginal Economics:

The field of managerial economics is still in its infancy. Managerial economics covers a wide range of topics, or scope. Economics theory is the foundation of managerial economics.

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Managerial economics may cover more ground because of its empirical approach. Managerial economics equips top-level executives with the analytical skills they need to see the big picture of their businesses and make informed decisions about how to keep them profitable despite a volatile economy.

The term managerial economics is used to describe the subfield of economics that focuses on topics that are directly applicable to business management and decision making. While the manager will likely find macroeconomic theory and public policy economics fascinating, these topics fall outside the book's purview. Identifying whether management economics is a positive or normative field of study is essential for determining its scope.

Positive versus Normative Economics:

The vast majority of economists who specialise in management hold the view that managerial economics is essentially normative and prescriptive. The focus is on the right course of action to take.

Because management economics is constantly concerned with the attainment or optimization of objectives, it is impossible to separate it from consideration of values or standards. We focus on what ought to happen rather than what really occurs in management economics. Our focus is on what a company ought to do to implement its choice, rather than on describing what it is really doing.

Positive Economics:

The focus of a positive science is on the present. According to Robbins, economics is a pure science of what is, meaning that it is not concerned with moral or ethical issues. As a method, economics is dispassionate. Economists should refrain from passing judgement on the merits of a certain means.

He is mostly worried about the insufficiency of available means in light of the intended goals. The economist has no business passing judgement on the production and sale of cigarettes and alcohol despite the fact that both satisfy human demands and entail economic activity.

Normative Economics:

Economics from a normative perspective seeks to define ideal states of affairs. Therefore, it is also known as prescriptive economics. Questions such as what price should be set for a product, what wage should be paid, and how money should be distributed are under the scope of normative economics.

It's important to remember that normative economics necessitates making value determinations. The field of management economics is generally agreed upon by the field's most prominent experts to be essentially normative and prescriptive in character. You can't be objective about the goals while discussing what ought to be. Because management economics is constantly concerned with the attainment or optimization of objectives, it cannot be separated from examination of values or standards.

We focus on what ought to happen rather than what really occurs in management economics. Our focus is on what a company ought to do to implement its choice, rather than on describing what it is really doing. For the most part, managerial economists are concerned with maximising utility according to some set of criteria, which often involves allocating limited resources among conflicting objectives.

They don't assume everything else stays the same and instead strive to implement policies to reach their goals. Using empirical research and rational analysis, management economics seeks to understand the dynamics at play in every given business situation. Almost every issue that arises for a manager or touches on some facet of a company is under the purview of management economics.

RELATIONSHIP WITH ECONOMIC THEORY

Managerial economics is most closely connected to microeconomics, the subfield of economics that studies the functioning of markets and the interplay between the economy's many parts. the following topics from microeconomics are very pertinent

- theory of the firm
- theory of consumer behaviour (demand)
- production and cost theory (supply)
- price theory
- market structure and competition theory

Managerial Economics and Statistics:

Managerial economics relies heavily on statistical analysis. It allows for theory to be put to the test in the real world. Statistics is useful since it can quantify the proper functional connection in a business's decision-making process. Because of the reliance of businesses on estimations and probabilities, statistics is a valuable discipline for corporate leaders.

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Economic management relies heavily on the resources provided by statistics. Let's pretend you need to perform some predicting. Predictions of future tendencies are employed for this purpose. Multiple regression analysis is employed in a similar fashion. The mean, median, and mode, as well as measures of dispersion, correlation, regression, least square, and estimators, are often employed in management economics. Managers in the field of economics must constantly weigh the pros and cons of using models that do not account for uncertainty vs those that do.

In order to address administrative issues, statisticians frequently employ statistical methods. Data collecting is greatly aided by sampling. In managerial economics, correlation and multiple regression are used to analyse business problems with a cause-and-effect dynamic.

Managerial Economics and Mathematics:

Another crucial field that shares tight ties with management economics is mathematics. Economic analysis calls for a set of mathematical tools for its derivation and presentation. Mathematical economics has emerged as a vital subfield of economics thanks to its role in the development of economic theory.

When economic theories are analysed mathematically, they become more accurate and consistent. Mathematical methods are quite useful for estimating and predicting economic elements for decision making and planning ahead. A management economist typically makes extensive use of geometry, algebra, and calculus.

Logarithms and exponentials, vectors and determinants, and input-output tables are only some of the mathematical ideas employed by management economists." Mathematical analysis is at the heart of operations research, a field with close ties to management economics.

Review of literature

(Levy 1959) studied "managerial economics" discovered, and There is a strong link between economics and management, the two fields that govern the progress of managerial economics. An area of study that bridges the gap between economic theory and management decision making is known as managerial economics. In order to help managers make better choices, economic analysis is applied to their most important decisions. Numerous choices relating to output, quantity, quality, supply, profit, and so on are constantly thrust upon managers. When it comes to making judgments in the actual world of business and the marketplace, managers rely heavily on the economic tools and approaches they've learned in management economics.

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Thus, the field of management economics may be defined as a body of knowledge that guides corporate leaders in developing effective strategies.

(Alwosabi and Alwosabi n.d.) studied "managerial economics" learned that Economics is the study of human behaviour at the national and individual levels. Economic activities include whatever we do to generate money and anything we buy with that money to meet our needs and wants. Economist Adam Smith, known as the Father of Economics, did not give economics its modern definition until the 1800s.

(Anon n.d.) studied "managerial economics" discovered that and Managerial Economics may be thought of as the integration of economic theory with business practise for the purpose of streamlining management's decision making and long-term planning. With the help of Managerial Economics, business leaders may find practical answers to the challenges their company faces. It applies standard economic principles and theory. It's a useful tool for coming up with well-reasoned managerial policies. When it comes to managerial economics, the microeconomic theory of the company is crucial. It helps bridge the gap between textbook economics and real-world application. In managerial economics, the goal is to make the most of limited resources. It directs management in making choices that affect the firm's external environment (including its relationships with consumers, rival businesses, and suppliers) as well as its internal processes. It applies statistical and analytic methods to evaluate economic theories in the service of fixing real-world business issues. The study of managerial economics may improve one's capacity for analysis, logical problem solving, and configuration. Macroeconomics examines how the economy as a whole functions, whereas microeconomics focuses on the details of individual markets and how resources are allocated and commodities and services are priced (i.e. entire industries and economies).

(Bypass and Nagar 1800) studied "Managerial Economics" discovered, and When economic theory and business practise are brought together, we get managerial economics. Economics supplies us with means The field of managerial economics takes these theories and techniques and applies them to corporate management. Managerial economics, in its simplest form, refers to the study of how economic principles may be effectively applied to the management process. One definition of managerial economics is the study of economics as it relates to business problem-solving. The executive in business is given the ability to speculate and evaluate. Despite economics' emphasis on maximising profit, every company strives to achieve a

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tolerable level of profit. This calls for a rethinking of how economic concepts are used in the real world. Managerial economics now serves this purpose.

(Story 2011) studied "Nature and Scope of Managerial Economics" determined that Macroeconomics and Microeconomics are the two main subfields of Economics. To put it simply, macroeconomics examines economies as a whole. By analysing GDP, employment, unemployment, the consumer price index, and trade balance with the use of macroeconomic theory. Microeconomic aspects are often overlooked in favour of macroeconomic ones, although they are just as crucial to the economy. One way to see managerial economics is as an extension of microeconomics into the business world.

CONCLUSION

You may have a better understanding of the economic factors that influence business decisions with the help of managerial economics, a branch of management science. For a market economy to function, profits play a critical role, hence this is of paramount importance. Below-average earnings signal contraction while above-average profits signal growth. A wide variety of micro and macroeconomic analytical methods, business economics aids in managerial decision making and the resolution of company issues. Demand analysis, production and cost analysis, breakeven analysis, pricing theory, technological advancement, site selection, and capital budgeting are all examples of microeconomic tools utilised here.

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