

The Meaning, Scope and Methods of Managerial Economics

Meaning

Managerial Economics

is the application of Economic Theory to managerial practice.

It relates to the use of tools and techniques of economic analysis to solve managerial problems.

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- is the application of Economic Theory to managerial practice.
- is the integration of economic theory with business practice to facilitate decision making and forward planning.

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Managerial Economics

- is the application of Economic Theory to managerial practice.
- is the integration of economic theory with business practice to facilitate decision making and forward planning.
- is the application of economic theory and methodology to business administration practice

The Meaning, Scope and Methods of Managerial Economics

Meaning

Last three definitions tell us that, from wide subject of Economics, that body of knowledge, which emerges to facilitate the process of decision making in shaping destiny of a firm, is the subject matter of *Managerial Economics*.

The Meaning, Scope and Methods of Managerial Economics

Features of Managerial Economics :

- Micro Economics oriented
- Normative approach
- Only a part of the Science of Economics
- Knowledge of Macro Economics Essential

The Meaning, Scope and Methods of Managerial Economics

Features of Managerial Economics :

- Micro Economics oriented

There are two approaches to study of Economics. Macro and Micro.

Macro economic approach deals with the economy as a whole.

National Income, Trade Cycles etc. are its themes.

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Features of Managerial Economics :

- Micro Economics oriented

Micro economic approach deals with individual economic behavior. This is close to analysis of the decision making aspects of the unit of management at the firm level.

And it provides *Micro Economics* orientation to Managerial Economics.

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Features of Managerial Economics :

- Micro Economics oriented
- Normative approach

For study of science, there is positive approach and normative approach.

In positive approach, we are concerned with the situation 'as it is.'

In normative approach, we are concerned with the situation 'as it ought to be.'

Aim of managerial Economics is not only to describe, but also to prescribe. Hence it has *normative approach*.

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Features of Managerial Economics :

- Micro Economics oriented
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- Only a part of the Science of Economics

Study of Economics covers issues like welfare, money, agriculture, international trade, public finance, etc.

Managerial Economics deals with decision taking of managerial cadre at the level of the firm .

Thus it becomes only a part of the subject of Economics.

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Features of Managerial Economics :

- Micro Economics oriented
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- Knowledge of Macro Economics Essential

Since firms do not work in isolation, managers have to consider competition, government intervention, tariffs, trade & monetary policies, liberalization etc.

This makes knowledge of macro Economics essential for a student of Managerial Economics.

The Meaning, Scope and Methods of Managerial Economics

Scope and Subject Matter –

The subject matter of Managerial Economics revolves around the Theory of the firm.

This theory has two aspects

Financial aspect and

Physical aspect

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Scope and Subject Matter –

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Financial aspect

itself comprises of the cost side and the revenue side.

Between the revenue and the cost, the firm aspires to gain profits ... maximum possible profits.

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Scope and Subject Matter –

Financial aspect

Between the revenue and the cost, the firm aspires to gain profits ... maximum possible profits. Towards this end, the firm

1. has to fix price.
2. predict or forecast demand.
3. consider market morphology.

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condition for profit maximization
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3. consider market morphology.
4. work out price output relations
 condition for profit maximization
 condition for loss minimization
5. Work out means for survival or decide to shut-down.

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Scope and Subject Matter –

Financial aspect

Physical aspect requires managers to consider

- Input-output relationships or production process
- Optimization of the available resources to produce maximum, desirable output
- Project planning
- Capital budgeting
- Use of mathematical tools like diagrams, derivatives, correlation, regression, probability theory etc

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Scope and Subject Matter –

Financial aspect

Physical aspect

‘ Management without Economics has no roots

&

Economics without management bears no fruits!

The Meaning, Scope and Methods of Managerial Economics

Methods

In the study of Managerial Economics we utilize

The Scientific Method or Experimental Method.

The Statistical Method

The Method of Intellectual Experiment

The Method of Simulation

The Descriptive Method

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The Scientific Method or Experimental Method.

this method is of limited use because it is difficult to carry out experiments to test the validity of managerial behavior,

as it deals with human aspects & behavior which is complex.

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We can think of a blend of inductive or deductive methods.

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The Statistical Method

Is a device by which quantitative data are collected
and scientifically analyzed for a clear picture.

The data is classified, tabulated, compared,
correlated and finally interpreted.

Model building is another tool used.

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Model building is another tool used.

Offers best results in demand forecasting and sales promotion.

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The Statistical Method

The Method of Intellectual Experiment

The Method of Simulation

has acquired prominence on arrival of computers.

now we can program complex relationships

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Methods

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The Statistical Method

The Method of Intellectual Experiment

The Method of Simulation

The Descriptive Method

In the study of Managerial Economics we employ anyone or more of these available methods

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Methods

In the study of Managerial Economics, often Facts and figures of the firm provide complete information after co-ordination and compilation.

Firms form voluntary associations to obtain and analyze data.

They act on published data , or arrange surveys and investigations.

“Case Studies” offers one more invigorating method in learning Managerial Economics.