

# A Review of Nature and Scope of Managerial Economics

Bindia Garg

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## ABSTRACT

*Economics impacts our day-to-day lives. Economics also influences the decisions taken by managers of business firms. Any business is part of an economy. As we know, economic conditions heavily impact business activities and vice versa. The per capita income of the citizens will define the purchasing power on the basis of which, the business enterprises will decide what products to manufacture and sell. A new enterprise has to forecast the demand for the product, which it wants to sell. The day to day product market has to decide a viable price depending upon the interaction between the demand and the supply. Thus, management practitioners and academicians brought economics to their perspective and developed 'Managerial Economics'.*

## 1. Introduction

Managerial economics is a discipline that handles the use of economic theory to company management. It handles the usage of financial ideas and ideas of business decision making. Previously it was recognized as "Business Economics" though the phrase has now been forgotten in favour of Managerial Economics.

Managerial Economics might be described as the research of economic theories, logic and strategy that are usually put on to seek means to fix the practical issues of business. Managerial Economics is thus constituted of that aspect of financial theories or financial understanding that can be used as something of analysing company problems for logical business decisions. Managerial Economics is usually called as Business Economics or perhaps Economic for Firms.

## 2. Definition of Managerial Economics:

"Managerial Economics is economics used in decision making. It's an unique department of economics bridging the gap between abstract theory and also managerial practice." - Haynes, Paul and Mote.

"Business Economics involves the usage of economic modes of thought to analyse business situations." - Meriam and McNair

"Business Economics (Managerial Economics) is the integration of economic principle with business training for the goal of facilitating decision making and advanced planning by management." - Spencer and Seegelman.

## 3. Nature of Managerial Economics:

- The main feature of management executive in a company organisation is decision making and advanced planning.
- Decision making and advanced preparing go hand in hand with one another. Decision making means the method of choosing 1 action from 2 plus alternative courses of action. Forward planning means developing blueprints for future years to handle the decision so taken.
- The issue of preference arises because materials at the discretion of a business unit (land, capital, labour,

plus managerial capacity) are restricted plus the firm needs to make most rewarding usage of these materials.

- The decision making function is the fact that of the company executive, he takes the decision that is going to ensure the most effective ways of following a preferred objective, say profit maximisation. After shooting the decision about the specific output, pricing, capital, raw materials and power etc., are ready. Forward planning and decision-making therefore go on at the very same time.
- A professional manager's process is made hard by the uncertainty that surrounds company decision making. No one is able to anticipate the future course of business conditions. He readies the very best plans for the future based on future perspective and previous experience but he's going on revising the plans of his in the brightness of experience that is brand new to minimise the failure. Managers are so interested in a constant practice of decision making through an uncertain future as well as the general issue confronting them is one of setting to uncertainty.
- In satisfying the performance of decision making within an uncertainty framework, economic theory may be, pressed into service with substantial benefit as it deals with a selection of principles plus concepts that can be employed to fix and at minimum throw some light upon the issues of company management. E.g are profit, business cycles, competition, production, pricing, cost, demand, national income etc. The way economic analysis work towards solving business problems, comprises the subject matter of Managerial Economics.
- Thus in short we are able to say that Managerial Economics is equally an art form plus a science.

## 4. Scope of Managerial Economics:

The scope of managerial economics is not even clearly presented since it's a growing science. Quite possibly then the following fields might be stated to typically fall under Managerial Economics:

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

## 5. Capital Management

These divisions of business economics make up its subject matter.

Recently, managerial economists have begun producing increased usage of Operation Research methods like Linear programming, inventory models, Games theory, queuing up theory etc., also have become viewed as a part of Managerial Economics.

1. **Demand Analysis and Forecasting:** A business firm is a financial association which is occupied with changing profitable assets into merchandise that are to be sold in the market. A noteworthy piece of administrative decision making relies upon precise assessments of demand. A conjecture of future deals fills in as a manual for management for getting ready production plans and utilizing assets. It will assist management with maintaining or reinforce its market position and profit base. Demand examination likewise distinguishes various different elements impacting the demand for an item. Demand examination and forecasting possesses a vital spot in Managerial Economics.
2. **Cost and production investigation:** An association's profitability depends much on its cost of production. A shrewd administrator would plan cost evaluations of a scope of yield, recognize the variables causing are cause varieties in cost assesses and pick the cost-limiting yield level, thinking about additionally the level of vulnerability in production and cost figurings. Production forms are under the charge of designers yet the business director should do the production work examination so as to maintain a strategic distance from wastages of materials and time. Sound pricing rehearses depend much on cost control. The primary subjects talked about under cost and production examination are: Cost ideas, cost-yield connections, Economics and Diseconomies of scale and cost control.
3. **Pricing decisions, strategies and works on:** Pricing is a significant region of Managerial Economics. Actually, cost is the beginning of the income of a firm advertisement all things considered the achievement of a business firm to a great extent relies upon the accuracy of the value decisions taken by it. The significant angles managed this region are: Price assurance in different market shapes, pricing techniques, differential pricing, product offering pricing and value forecasting.
4. **Profit management:** Business firms are commonly sorted out for acquiring profit and in the significant lot; it is profit which gives the central proportion of achievement of a firm. Financial matters disclose to us that profits are the reward for vulnerability bearing and hazard taking. A fruitful business supervisor is one who can shape pretty much right gauges of costs and incomes liable to accumulate to the firm at various dimensions of yield. The more effective a chief is in decreasing vulnerability, the higher are the profits

earned by him. Truth be told, profit-arranging and profit estimation comprise the most testing region of Managerial Economics.

5. **Capital management:** The issues identifying with association's capital speculations are maybe the most perplexing and inconvenient. Capital management suggests arranging and control of capital use since it includes a huge total and in addition the issues in arranging the capital resources off are complex to the point that they require significant time and work. The primary themes managed under capital management are cost of capital, rate of return and choice of tasks.
6. **Production Possibility bends:** The production plausibility bends is a speculative portrayal of the measure of two distinct merchandise that can be acquired by moving assets from the production of one, to the production of the other. The bend is utilized to depict a general public's decision between two distinct products. Figure 1, demonstrates the two products as utilization and speculation. Venture merchandise are products that are engaged with the production of further utilization products. They incorporate physical capital, for example, machines, structures, streets and so forth and human ventures, for example, instruction and preparing.
7. **Opportunity Cost:** Opportunity cost is unique in relation to bookkeeping cost, and tragically isn't so effectively determined. Opportunity cost has an abstract component. For example, to decide the opportunity cost of another parkway, incorporates the conspicuous cost of materials, of work, of land, (these are the effectively decided bookkeeping cost), however there are additionally impalpable cost, for example, the cost to the network of the interruption required with new development, and the adjustment in the networks affected by the thruway. Additionally there might be costs associated with increment contamination (with wellbeing impacts), expanded clamor, and an expansion when all is said in done ugliness. These costs are genuine, yet are hard to both measure and assess. Putting dollar esteem on this cost adds an emotional component to the assessment. Accordingly now and then they are disregarded.

## 5. Conclusion:

The different perspectives laid out above speak to the significant vulnerabilities which a business firm needs to figure with, viz., demand vulnerability, cost vulnerability, value vulnerability, profit vulnerability, and capital vulnerability. We can, along these lines, presume that the topic of Managerial Economics comprises of applying financial standards and ideas towards modifying with different vulnerabilities looked by a business firm.

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