Unit - 1

# Nature & scope of Mangrial Economics

* Mangrial Eco :- It may be define as a tool which analyies the Business enviroment & provides the simplfied information to top level of Mgt. for Business decssions making.

* Mangrial Eco is the combination of tradintional eco. statistics and Business Mathmatics to anlyies the Business problem and to provide optimum salution

* Nature of Mangrial Economics.

(1) **Applied Economics theory** :- Managerial eco. is application of Economics theory to Mangerial decision Making. However it mainly uses the concepts of Microeconomics

(2) **Pragmatic** :- Manaagerial eco. is pragmatic & is an applied economics. It suggests how the economical principle are applied to the formulation of palicies & pragrammes.

(3) · **Multi - Disciplinary** The Managerial eco is related with diff disciplines like mgt. operational research, Mathmatics. economics & psychalogy

(4) **Descriptive & prescritive** Managerial eco is both

Descriptive & prescriptive.

(5) Applied Science Managerial eco formulate theories in a systematic manner about possible cause & effect relationship. Thus it is a social science. It is applied social science

## Scope of Managerial Economics

The scope of Managerial Eco. is so wide that it embrance almost the problems & areas of the Manager & the firm It deals with demand analysis & forecasting production function cost analysis, inventory, Mgt, advertising price system, resources allocation Capital budgeting, profit etc.

(1) Demand Analysis & Forecasting A major part of firm's decision-making depends upon accurate estimates of demand. Thus, the Margerial Manger very carefully and systematically analyses the different types demands in the market.

(2) Production Function It is a the functional relationship b/w input & output of a firm The production $f^n$ is pressed service by Managerial eco

(3) cost Analysis It is yet another $f^n$ of

Managerial eco. For instance, the determination of cost, the method or estimating costs, the method are estimating costs, the relationship b/w cost & output; the forecast of cost & profit these are vital to a firm.

(4) **Inventory Mgt.** Managerial eco. will use such method as ABC analysis, a simple simulated exercise and also a mathematical model with a view to minimising the inventory cost. It also goes deeper into such aspect as the need for inventory control.

(5) **Advertising** It forms an Integral part of decision Making & forward planning.

(6) **Price system** as a concept, was developed by economists & is widely used in Managerial eco. The central f^n of an enterprise are not only production our pricing as well as.

(7) **Resource Allocation** we know that scarce resource have alternative use. How best can these scarce resources allocated to competing end? The aim of course, is to achieving optimisation

(8) **Capital Budgetting** Capital mgt. implies planning & control of capital expenditure. The main topic (deal with are: cost of capital, Rate of return & selection of projects.

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(9) Profit Mgt Managerial firms are generally organised for the purpose of making profits & in the long run, profits provide the chief measure of succss.

(10) Decision Theory under uncertainty A managerial manger has to take decisions under conditions of uncertainty Because of uncertanity like demand uncertainnty polic

★ Role of Managerial Economist.
A managerial economist is one who specialised in basic economic theory & with this knowledge he applies it to bussines propery

(1) Production scheduling
(2) Demand forecasting
(3) Market research
(4) Economic Analysis of the Industry
(5) Investment Appraisal
(6) Security Mgt analsis
(7) Advice of forgin exchange
(8) Advice on trade & public relations
(9) Economics Analysis of competing companies
(10) Capital projects
(11) pricing and Related Decisions
(12) Analysis & forecasting Envirmental Factors
(13) Advice on the purchase of raw materials & Invento-ry Building
(14) Market Survey to determine the nature & Extent of competition.

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(1) Utilazion of Natural & non-made Resource →
The role of managerial economics in order to direct the natural & non made resource in the desired manner managerial economics is now derived as a body of organised & sytematised knowledge comprision of thories.

(2) Solving Economics problem The modern society with is complex charctor exerisies tremndous infulence through tastes and attitudes on the goods and services. Ever increasing & changing of human wants & the existence of limited volume of resources gives rise to many economic problem such as what to produced how to produce & were to produce In this game managerial economical assumis the ~~cord~~ central role

(3) Application of traditional Economics : material economics present those aspects of traditional economics which are relevent for business desion making for this purpose. It calls form economic thory the concepts princpals & techanique of analyasis which have a bearing on the decision making process

(4) use of Ideas from other subjects Mangerial economics also incorporates useful & ideas from other subjects such as pschology socialogy, Mathamatics & statisticals etc.

(5) variety of Business decisions : The Managerial economics aids in researching a variety of Business decision in complicating Environment - The main business problem are as following how to produce . How much to produce whom to produce , where to produce.

(6) An Intergrating agents At the level of the firm where various fn areas ; functional specialists or functional department exist such as finance Marketing , personal , research ; production etc the managerial economist serves can an intergr-al agent by co-ordinating the different agent.

(7) Revenue of the Govurment . with the emergence of Mangeri-ial Economics , various business firms have become Instrumental in contributing a good deal of revenue to Govt.

(8) Social Benefit Mangerial Economics provide complete studies about the cost & benefits of the business & also study the social impact the business & tries to overcome bad impacts by providing the goods of social benefits like Employment , utilization of Resource & the Creation of public Infrastuture.

(9) Advertising Media Managerial Economics has helped the various business firms for adapting Various methods for promotion of sale . Many firms now use various us strategies to shift

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the demand curves.

(10) **Other uses** Beside the other mentioned uses of Managerial economics, the other uses can be summarised as follow

(1) Minimise the unsertaincity
(2) demand forecasting
(3) forward planning
(4) understanding of external Environmental
(5) fiscal policy
(6) Monitory policy.

★ limitations of Managerial Economics

Although mangerial economics has done a commendable job in the field of business & provided a praiseworthy tool to the Business Community. It has also played mitual role in decision making resources, Mobilization; business planning, demand forecasting, Minimization of uncertainties and rish, cost control etc. Yet the other side of the picture can't be ignored It main limitation are as follows

(1) Managerial economics has led to the emergence of Monopolies is the free Market economics for the production of some important products of services eg electricity producing and consumer by charging high prices and making excessive profits

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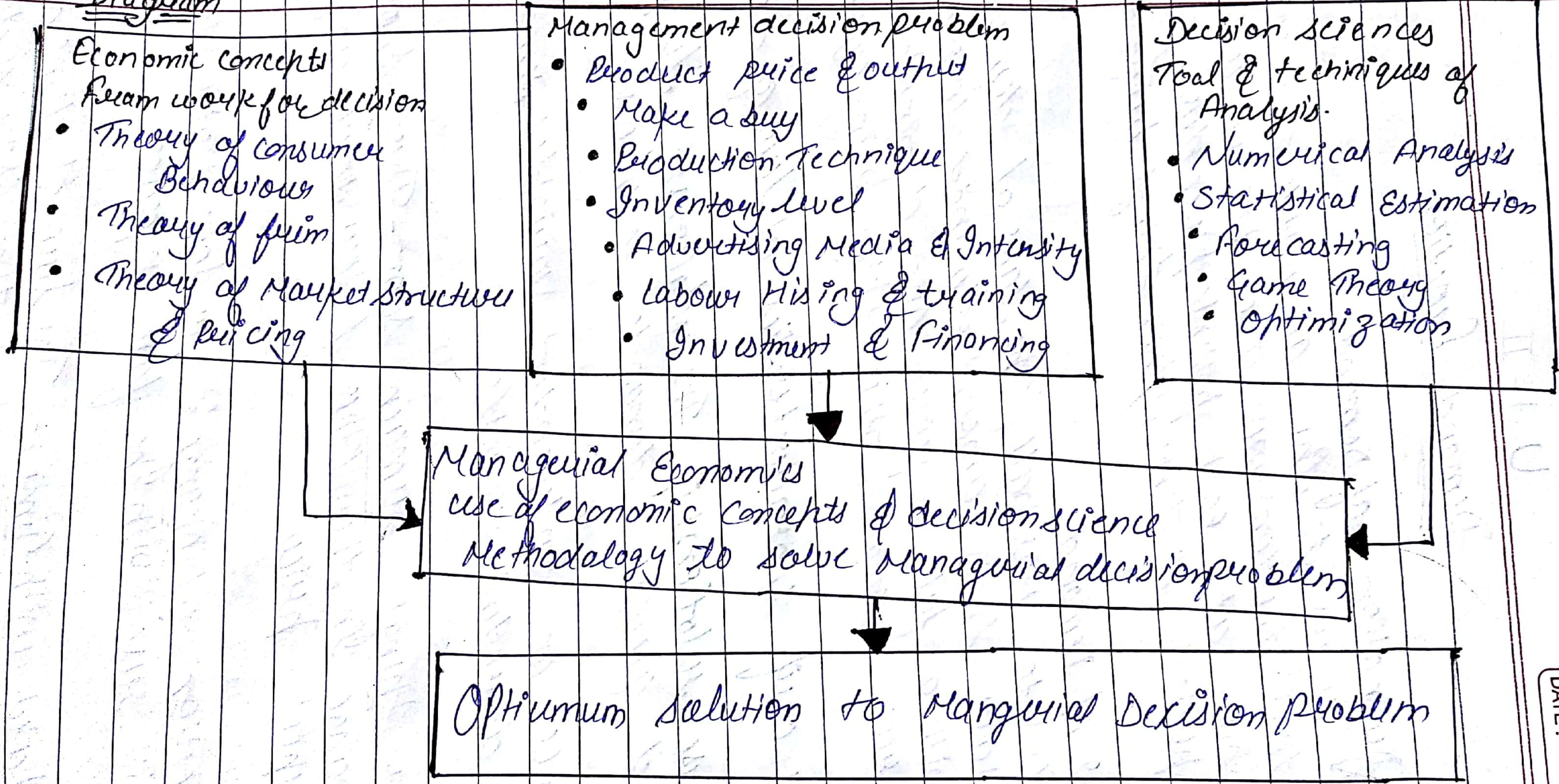
(2) It has also led to the emergence of oligopoly whereby few producer or firms formally collude with each other or form a cartel and this charge high price and restrict output.

(3) There is an exploitation of workers by the undesirable activity of private business due to unequal bargaining child about labour and women are employed at a very low wage while a lot of work is obtained from them

(4) Business activity has imposed a heavy social cost on the economy the productive activities of certain business firms have created ~~an~~ on acute problem of environmental pollution

(5) Multinational corporation have given rise to cut throat competion whereby crossing the future prospects of small business interprise.

Diagram

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# Unit-II

## Demand Function

Ans Defination of Demand:
It refers to the quantities of a commodity that the consumer are able and willing to buy at each possible price during the given period of time, other things being equal.

Ans Law of Demand
Acc. to Marshall, "The law of demand states that amount demanded increases with a fall in prices and diminishes when price increase, other thing being equal."

Ans The chief characteristics of law of demand.

1. Inverse relationship The relationship b/w price and quantity demanded is inverse.

2. Price an Independent variables demand a dependent variable.

3. Other things remain same - There show be no change in the other factors infulencing demand expect price.

4. Direction of change :-> The law states the demand will rise with the fall in price.

5. Related with Time :- The law of demand is related with a pt of time say a day or a

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week or a month for that matter a decade.

Assumption of Demand of law

$Dx = f(Px, Pr, P.Y, T, E)$

- No change in the price of related goods
- No change income.
- No change in the tast & preference
- The consumer does not expect any change in the price of commodity in the near future
- No change in govt. policy.
- No change in weather condition

**Demand Schedule** is a table that shows different prices of a good and quantity of that good demanded at each of these prices.

**Demand Schedule has two aspects**

- Individual Demand Schedule
- Market Demand Schedule

**Individual demand Schedule** :- It is defined as the table ~~with cost~~ which shows quantities of a given commodity which an individual consumer will buy at all possible prices at a given time.

| Price / unit (in Rs) | quantity Demand (units) |
|---|---|
| 1 | 4 |
| 2 | 3 |
| 3 | 2 |
| 4 | 1 |

Individual Demand Schedule.

Market demand schedule
It is defined as the quantities of a given commodity which all consumers will buy at all possible prices at a given movement of time

| Price of commodity | Demands of (A) | Demands of (B) | Market demand (units) |
|---|---|---|---|
| 1 | 4 | 5 | 4+5 = 9 |
| 2 | 3 | 4 | 3+4 = 7 |
| 3 | 2 | 3 | 2+3 = 5 |
| 4 | 1 | 2 | 1+2 = 3 |

Market demand ~~sh~~ schedule.

## * Demand curve

The demand curve represent the maximum quantities per unit of time that consumers will take at various price.

The curve which shows the relation b/w the price of a commodity and the amount of the commodity that the consumer wishes to purchase is called demand curve

(i) Individual demand curve It's a curve that shows different quantities of a commodity demanded by an individual demand curve

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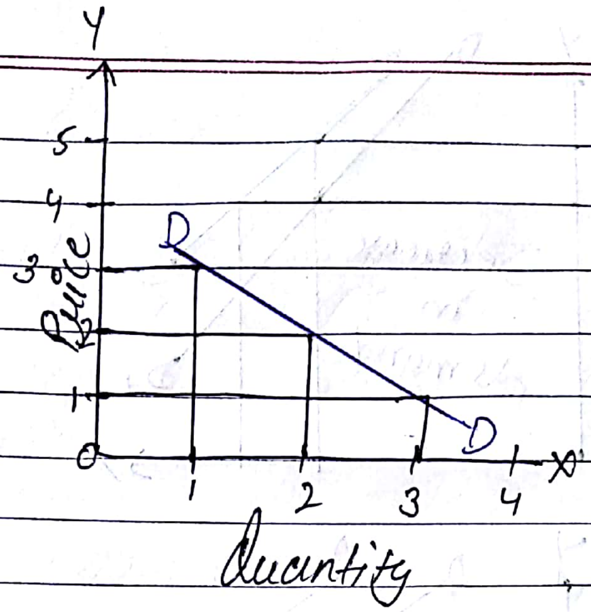
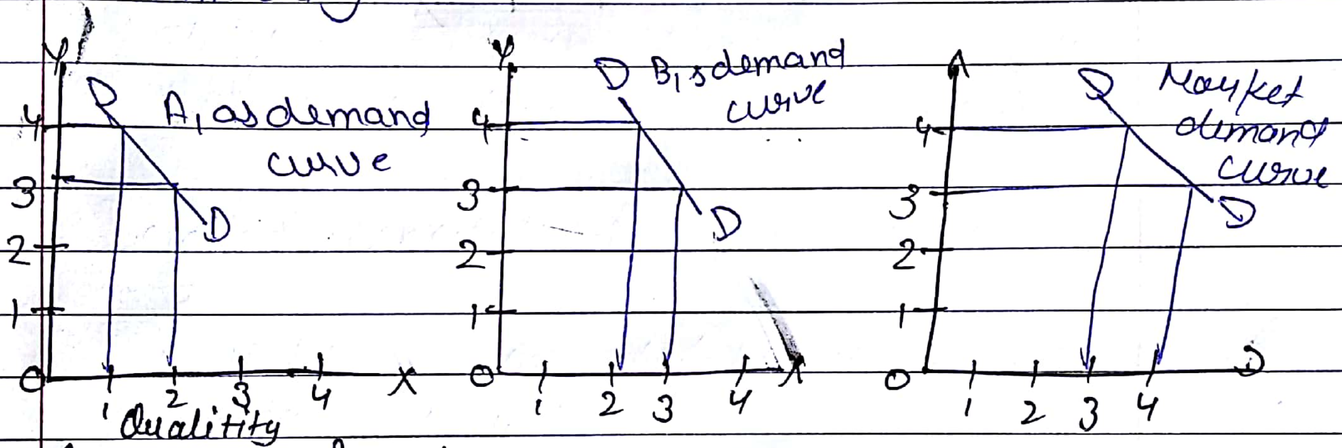



② Market demand curve. It is a curve thats represents the aggregate demand of all the the consumer in the market at different prices of a particular Commodity.




Increase & decrease in demand curve

① Increase in demand. It refers to rise to demand in response to change in determinants of demend other than the price. It is expressed by the upward shift of the entrire demand curve.

② Decrease in demand → It means fall in demand in response to change in determinates of demand other than the price. It is expressed by a downward shift of the entire demand curve

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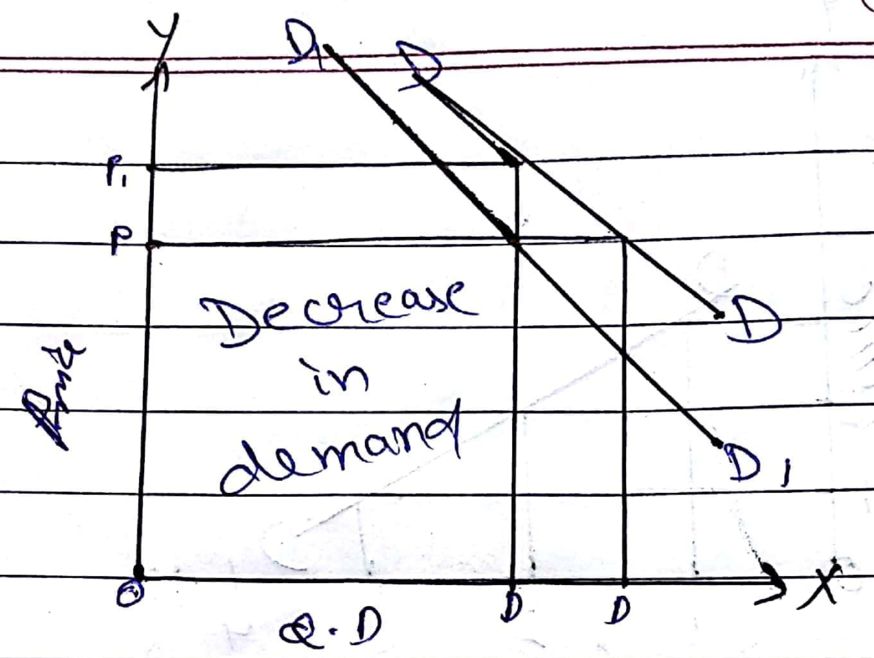
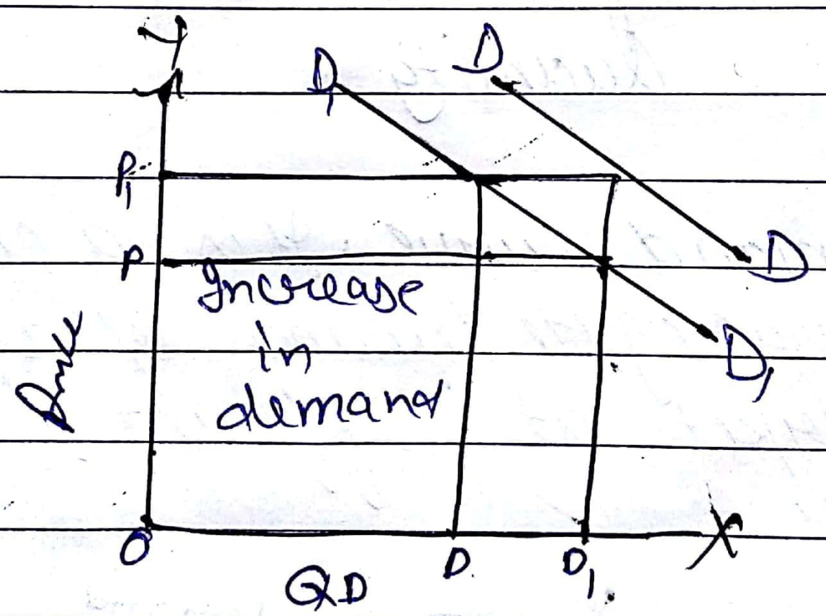


Y
$D_1$
D
$P_1$
P
Price
Decrease in demand
D
$D_1$
O
Q.D
D
D
X

Y
$D_1$
D
$P_1$
P
Price
Increase in demand
D
$D_1$
O
QD
D
$D_1$
X