Managerial Economics:

Definition and Meaning of Managerial Economics:

Managerial economics, used synonymously with business economics. It is a branch of economics that deals with the application of microeconomic analysis to decision-making techniques of businesses and management units. It acts as the via media between economic theory and pragmatic economics. Managerial economics bridges the gap between "theory and practice". Managerial economics can be defines as:

According to **Spencer and Siegelman:**

“The integration of economic theory with business practice for the purpose of facilitating decision-making and forward planning by management”.

According to **McGutgan and Moyer:**

“Managerial economics is the application of economic theory and methodology to decision-making problems faced by both public and private institutions”.

Managerial economics studies the application of the principles, techniques and concepts of economics to managerial problems of business and industrial enterprises. The term is used interchangeably with micro economics, macro economics, monetary economics.

Characteristics of Managerial Economics:

(i) It studies the problems and principles of an individual business firm or an individual industry. It aids the management in forecasting and evaluating the trends of the market.

(ii) It is concerned with varied corrective measures that a management undertakes under various circumstances. It deals with goal determination, goal development and achievement of these goals. Future planning, policy making, decision making and optimal utilization of available resources, come under the banner of managerial economics.

(iii) Managerial economics is pragmatic. In pure microeconomic theory, analysis is performed, based on certain exceptions, which are far from reality. However, in managerial economics, managerial issues are resolved daily and difficult issues of economic theory are kept at bay.

(iv) Managerial economics employs economic concepts and principles, which are known as the theory of Firm or 'Economics of the Firm'. Thus, its scope is narrower than that of pure economic theory.

(v) Managerial economics incorporates certain aspects of macroeconomic theory. These are essential to comprehending the circumstances and environments that envelop the working conditions of an individual firm or an industry. Knowledge of macroeconomic issues such as business cycles, taxation policies, industrial policy of the government, price and distribution policies, wage policies and antimonopoly policies and so on, is integral to the successful functioning of a business enterprise.

(vi) Managerial economics aims at supporting the management in taking corrective decisions and charting plans and policies for future.

(vii) Science is a system of rules and principles engendered for attaining given ends. Scientific methods have been credited as the optimal path to achieving one's goals. Managerial economics has been is also called a scientific art because it helps the management in the best and efficient utilization of scarce economic resources. It considers production costs, demand, price, profit, risk etc. It assists the management in singling out the most feasible alternative. Managerial economics facilitates good and result oriented decisions under conditions of uncertainty.

(viii) Managerial economics is a normative and applied discipline. It suggests the application of economic principles with regard to policy formulation, decision-making and future planning. It not only describes the goals of an organization but also prescribes the means of achieving these goals.

Scope of Managerial Economics:

The scope of managerial economics includes following subjects:

(i) Theory of Demand

(ii) Theory of Production

(iii) Theory of Exchange or Price Theory

(iv) Theory of Profit

(v) Theory of Capital and Investment

Importance of Managerial Economics:

Business and industrial enterprises aim at earning maximum proceeds. In order to achieve this objective, a managerial executive has to take recourse in decision making, which is the process of selecting a specified course of action from a number of alternatives. A sound decision requires fair knowledge of the aspects of economic theory and the tools of economic analysis, which are directly involved in the process of decision-making. Since managerial economics is concerned with such aspects and tools of analysis, it is pertinent to the decision making process.

Spencer and Siegelman have described the importance of managerial economics in a business and industrial enterprise as follows:

(i) Accommodating traditional theoretical concepts to the actual business behavior and conditions: Managerial economics amalgamates tools, techniques, models and theories of traditional economics with actual business practices and with the environment in which a firm has to operate. According to Edwin Mansfield, “Managerial Economics attempts to bridge the gap between purely analytical problems that intrigue many economic theories and the problems of policies that management must face”.

(ii) Estimating economic relationships: Managerial economics estimates economic relationships between different business factors such as income, elasticity of demand, cost volume, profit analysis etc.

(iii) Predicting relevant economic quantities: Managerial economics assists the management in predicting various economic quantities such as cost, profit, demand,
capital, production, price etc. As a business manager has to function in an environment of uncertainty, it is imperative to anticipate the future working environment in terms of the said quantities.

(iv) Understanding significant external forces: The management has to identify all the important factors that influence a firm. These factors can broadly be divided into two categories. Managerial economics plays an important role by assisting management in understanding these factors.

(a) External factors: A firm cannot exercise any control over these factors. The plans, policies and programs of the firm should be formulated in the light of these factors. Significant external factors impinging on the decision making process of a firm are economic system of the country, business cycles, fluctuations in national income and national production, industrial policy of the government, trade and fiscal policy of the government, taxation policy, licensing policy, trends in foreign trade of the country, general industrial relation in the country and so on.

(b) Internal factors: These factors fall under the control of a firm. These factors are associated with business operation. Knowledge of these factors aids the management in making sound business decisions.

(v) Basis of business policies: Managerial economics is the founding principle of business policies. Business policies are prepared based on studies and findings of managerial economics, which cautions the management against potential upheavals in national as well as international economy. Thus, managerial economics is helpful to the management in its decision-making process.