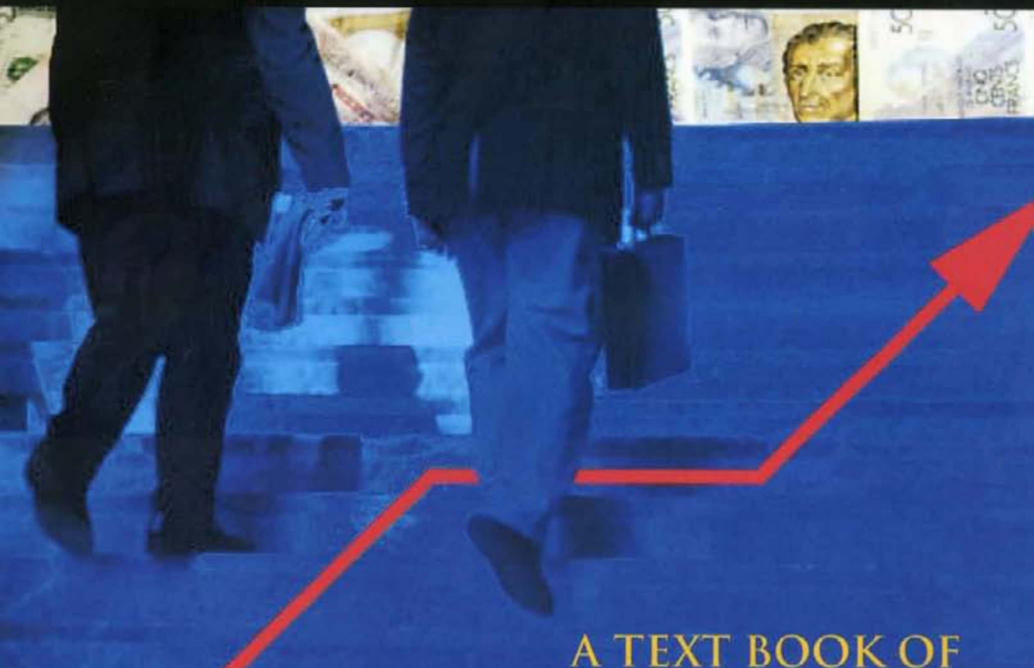
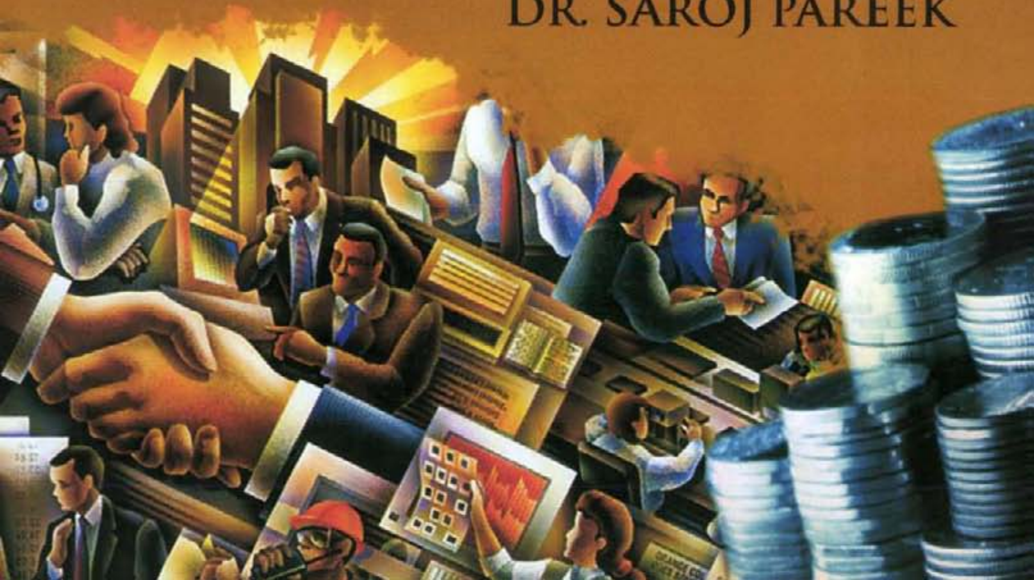
BUSINESS ECONOMICS



A TEXT BOOK OF

BUSINESS ECONOMICS

DR. SAROJ PAREEK



A TEXT BOOK OF
BUSINESS ECONOMICS

DR. SAROJ PAREEK

SUNRISE
PUBLISHERS & DISTRIBUTORS
E-566, Vaishali Nagar, Jaipur - 302021(Raj.)

Published by :
SUNRISE PUBLISHERS & DISTRIBUTORS
E-566, Vaishali Nagar,
Jaipur - 302021 (Raj.)
Ph. : 9413156675, 9772299149
Email : sunrisepd@gmail.com

First Published - 2009

ISBN : 978-93-80207-05-6

Printed at : Jaipur

PREFACE

The economic techniques have gained a wide application in the process of modern management decision, possible, because recent business problems have become so complex that manager's personal experience is no longer adequate to give an appropriate solution. The purpose of this book is to provide, in one volume, the different economic theories which are deemed to constitute the subject matter of managerial economics. This book is written especially for B.Com., B.B.A., M.Com., M.B.A., and C.A. students of our country.

This book is intended to explain in non-technical language, the economic concepts, tools of analysis, their relevance in management decision-making and also the influence of economic environment on management decisions. To facilitate an easy understanding of the subject, the timely help of illustrations, examples, diagrams, tables and charts has been taken, Important terms relevant to the business economics are given in a separate chapter. To my publisher, I am grateful for publishing the book with due care and skill in a very short time. I shall be thankful to the readers for pointing out discrepancies and errors in the text, which I hope to rectify in the next edition of the book. Suggestions for further improvement of this book will be highly appreciated.

Author

CONTENTS

1

INTRODUCTION

Managerial economics is economics applied to decision-making by the modern business managers. It is based on economic analysis for identifying problems, organising information, and evaluating alternatives. Managerial economics serves as a link between economic theories and managerial practice. Managerial economics can be defined as :

Managerial Economics is the integration of economic theory with business practice for the purpose for facilitating decision-making and forward planning by management of an organisation.

Features of Managerial Economics :

(i) It is concerned with decision-making of economic nature.

(ii) It deals with identification of economic choices and allocation of resources.

(iii) It deals, as to how decisions should be taken to achieve the organisational goals.

(iv) It provides a link between traditional economics and the decision sciences for managerial decision-making.

(v) It is concerned with these analytical tools which are helpful in improving the decision-making process.

Nature of Managerial Economics :

Managerial economics is concerned with the business unit and the economic problems of society. To understand the nature of managerial economics better, let us study the nature of economic theory relevant for managerial decision-making.

(a) Macro-economic Conditions : The decisions of the company are generally made within the broad framework of economic environment within which the company operates. These are known as macro-economic conditions. From this point of view these conditions are : working of the market, pace of economic change, economic policies of the government.

(b) Micro-economic Analysis : It deals with the problems of an individual company, industry etc. This helps in studying as to what is going on with in the company, how best to allocate scarce resources for various activities of the company. Some of the popular micro-economic concepts are the elasticity of demand, marginal cost, opportunity cost, market structure. Some of the common models used in micro-economic theory are mode) for monopoly price, mode for price determination and the behaviour and managerial models.

Integration of Economic Theory and Business Practice : Economic theory helps to understand the actual business behaviour. Economic theory is based on certain assumptions, therefore, conclusions drawn from such economic theory may not generally conform to what actually happens. Managerial economist modify the theoretical result to conform to actual business behaviour. Economists have developed a theory of company, which centers on the assumption of profit maximisation and the assumption that firms act rationally in persuit of their objectives.

Managerial economics attempts to estimate and predict the economic quantities and relationships. The estimates of demand, production relations etc. are necessary for forecasting, prediction about demand, cost, pricing etc., helps for decision-making and forward planning.

Business managers must also understand the environment and adjust to the external factors like, government intervention, taxation, etc.

Importance of Managerial Economics :

Managerial economics helps the decision-making process in the following ways :

(i) It gives a number of tools and techniques. These techniques are in the form of models, which helps the manager to establish essential relationships that represent the actual situation.

(ii) It provides most of the concepts that are required for the analysis .of the problems, concepts of elasticity of demand, fixed and variable costs, short and long-run costs, etc., help in understanding and then solving the decision problems.

(iii) It helps in taking decisions about, product-mix, level of output and price of the product, investment, how much to advertise, etc.

(iv) Managerial economics helps in taking decision of following subjects :

(a) Objectives of a business company

(b) Production and cost

(c) Profit

(d) Pricing and output

(e) Demand forecasting

(f) Competition

(g) Investment

(h) Sales promotion and market strategy.

Managerial Economics and Traditional Economics :

Managerial economics is an applied field, whereas economics provide certain basic concepts and analytical tools. Both of them are concerned with problems of scarcity and resource allocation, generally labour and capital in order to find the best way to utilize them for achieving the set goals of the company.

Main contributions of economics to managerial economics are:

(a) To help in understanding the market conditions and the general economic environment in which the company is working.

(b) To provide philosophy for understanding and analysing resource allocation problems.