

MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS

Online Lecture Series

Topic: Nature and Scope of Managerial Economics Lecture-04



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TOPICS TO BE COVERED

- NATURE OF MANAGERIAL ECONOMICS
- SCOPE OF MANAGERIAL ECONOMICS
- INTER DISCIPLINARY NATURE

Theme of Managerial Economics

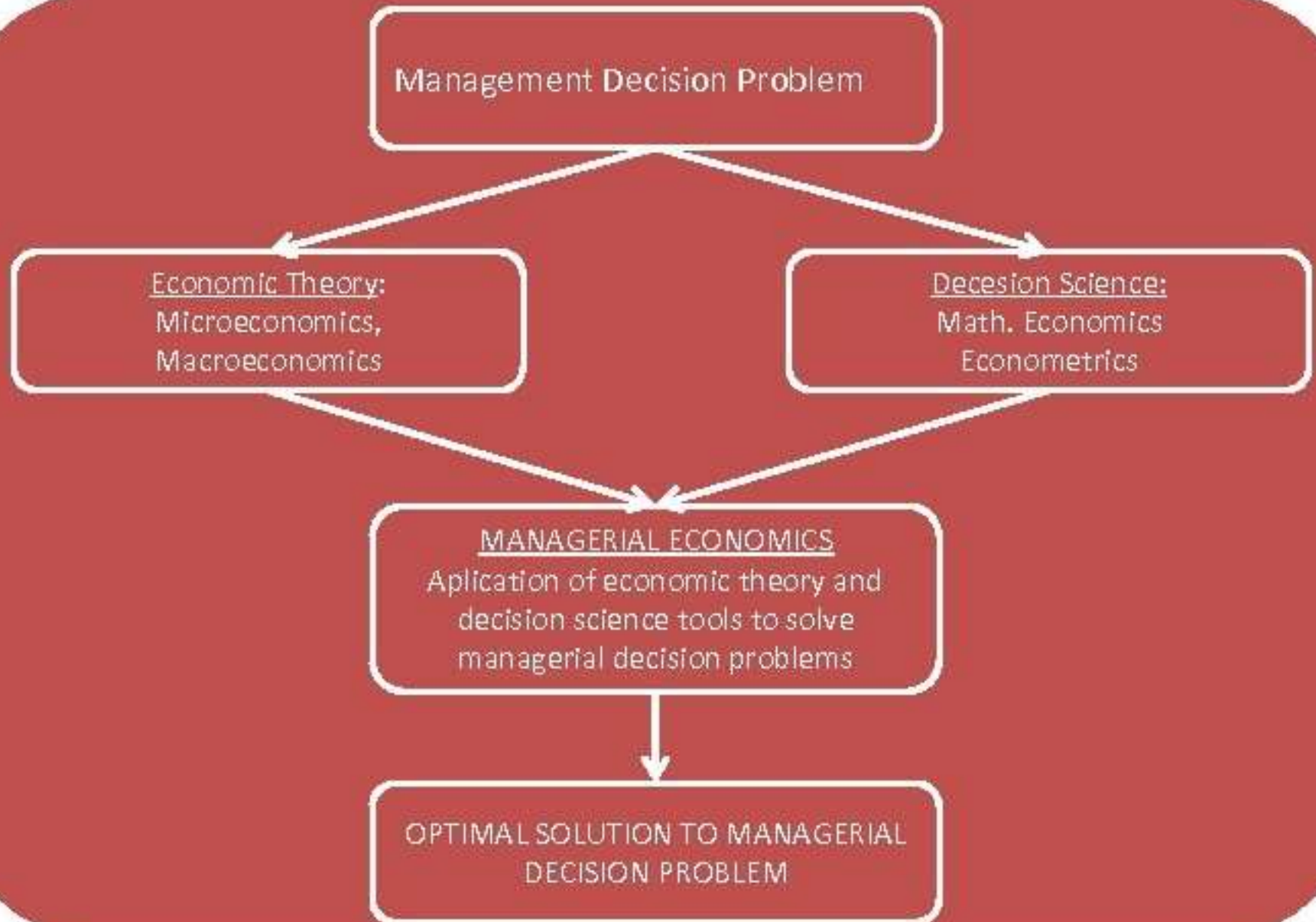
Managerial Economics is part of Economics

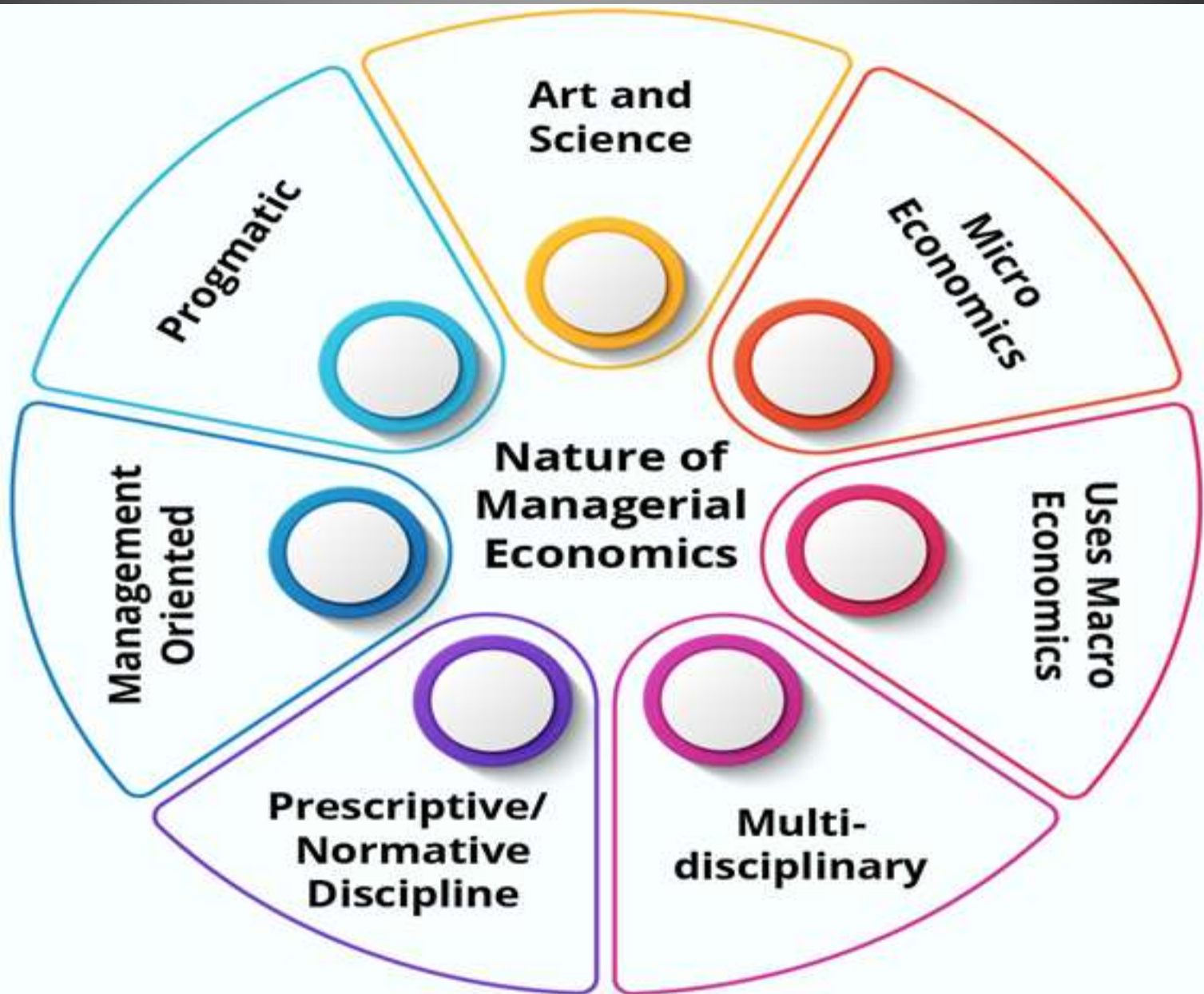


ECONOMICS

***MANAGERIAL
ECONOMICS***

The Nature of Managerial Economics





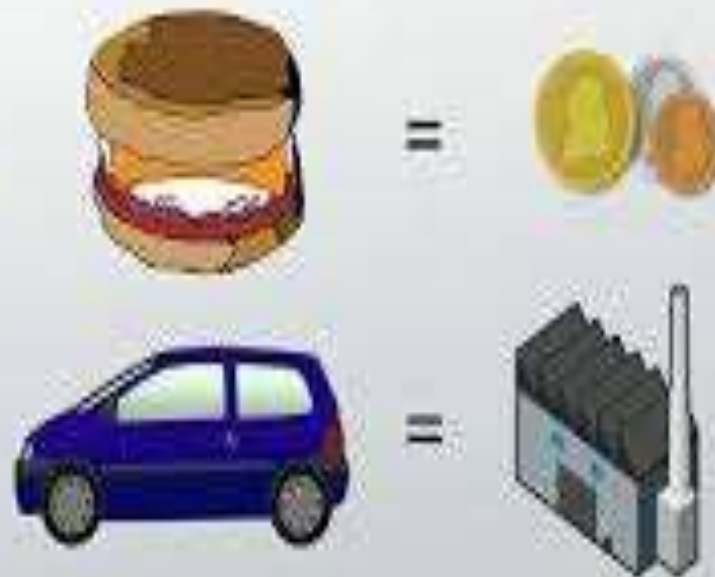
Nature of Managerial Economics

1. **Close to Micro-Economics** – finding solutions for different managerial problems of a particular firm (production schedules)
2. **Operates against the backdrop of Macro-Economics** – macroeconomic conditions of the economy are also seen as limiting factors for a firm to operate. (industrial policy and Inflation)
3. **Normative Statements** – one problem with normative statements is that they cannot be verified by looking at the facts, because they mostly deals with the future. (agreement or disagreement – L.P.G.)
4. **Prescriptive Action** – suggest the course of action from the available alternatives for optimal solution. (mention concept to given context)
5. **Applied in Nature** – case study method to conceptualize problem
6. **Offers scope to evaluate each alternative** - cost and revenue
7. **Interdisciplinary** – drawn from different subjects (as mentioned)
8. **Assumptions and Limitations** – validity is not universal (changes)

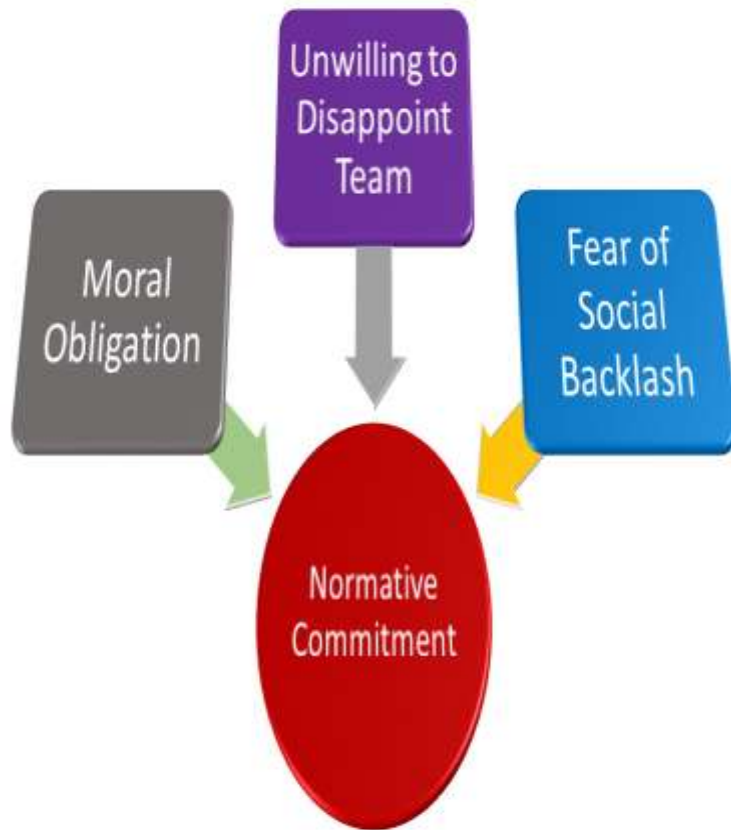
Close to Micro Economics



Importance Of Microeconomics



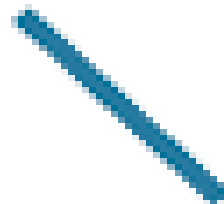
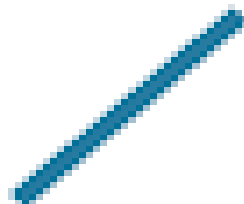
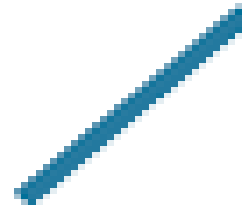
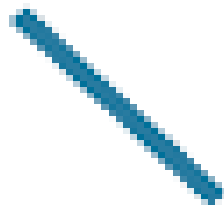
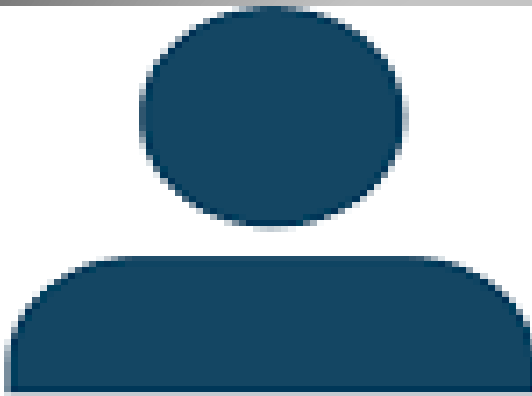
NORMATIVE STATEMENTS



Normative Decision Theory

A prescriptive theory for how decisions *should* be made to maximize the value of decision outcomes for an individual

Evaluate each alternative



Prescriptive Action



Economic Assumptions

Assumptions that companies and economists make about the economy or business environment.

Cost-benefit: we act rationally by comparing the costs & benefits of each choice.

Models/graphs: we use them to explain and analyze real-life situations.

ASSUMPTIONS

Scarcity: unlimited wants and limited resources.

Trade-off: every choice has a cost.

Self-interest: we make choices to maximize satisfaction.

Assumptions and Limitations

- ① Consumers are not always rational
- ② Consumers don't quantify utility
- ③ Many goods can't be split into units
- ④ Utility of goods depends on others

Scope of Managerial Economics

- 1. Demand Analysis and Forecasting
- 2. Cost Analysis
- 3. Production and Supply Analysis
- 4. Pricing Decisions, Policies and Practices
- 5. Profit Management, and
- 6. Capital Management

Scope of Managerial Economics (Cont..)

1. **Demand Decisions** – Forecasting demand, Demand response with the changes of price and supply, impact of income and alternatives on demand , profit and demand relation etc..
2. **Input-Output Decisions** – Input relation with Output to maximize profit, production function, factors of production, cost and production relationship, analyze cost – output relation in the short run and long run etc..
3. **Price -Output Decisions** – production to determine price, understand price at different market structures, pricing policies, methods and strategies etc...
4. **Profit related Decisions** – BEP Analysis, Cost reduction and control, Ration Analysis, production needed to gain profit, reduce wastage etc...

Scope of Managerial Economics (Cont..)

- 5. Investment Decisions** – Capital Budgeting decision, allocation and utilization of Investment, cost of capital, capital structure, to maximize return on capital etc.....
- 6. Economic Forecasting and Forward Planning** – understanding major external factors like, government policy, competition, employment, labour, price and income levels and so on. Internal factors like finance, people, market and products. It is necessary to forecast the trends in the economy to plan for the future in terms of investments, profits, products and markets.

Demand analysis and forecasting



Input-Output decisions



Price-Output Decisions

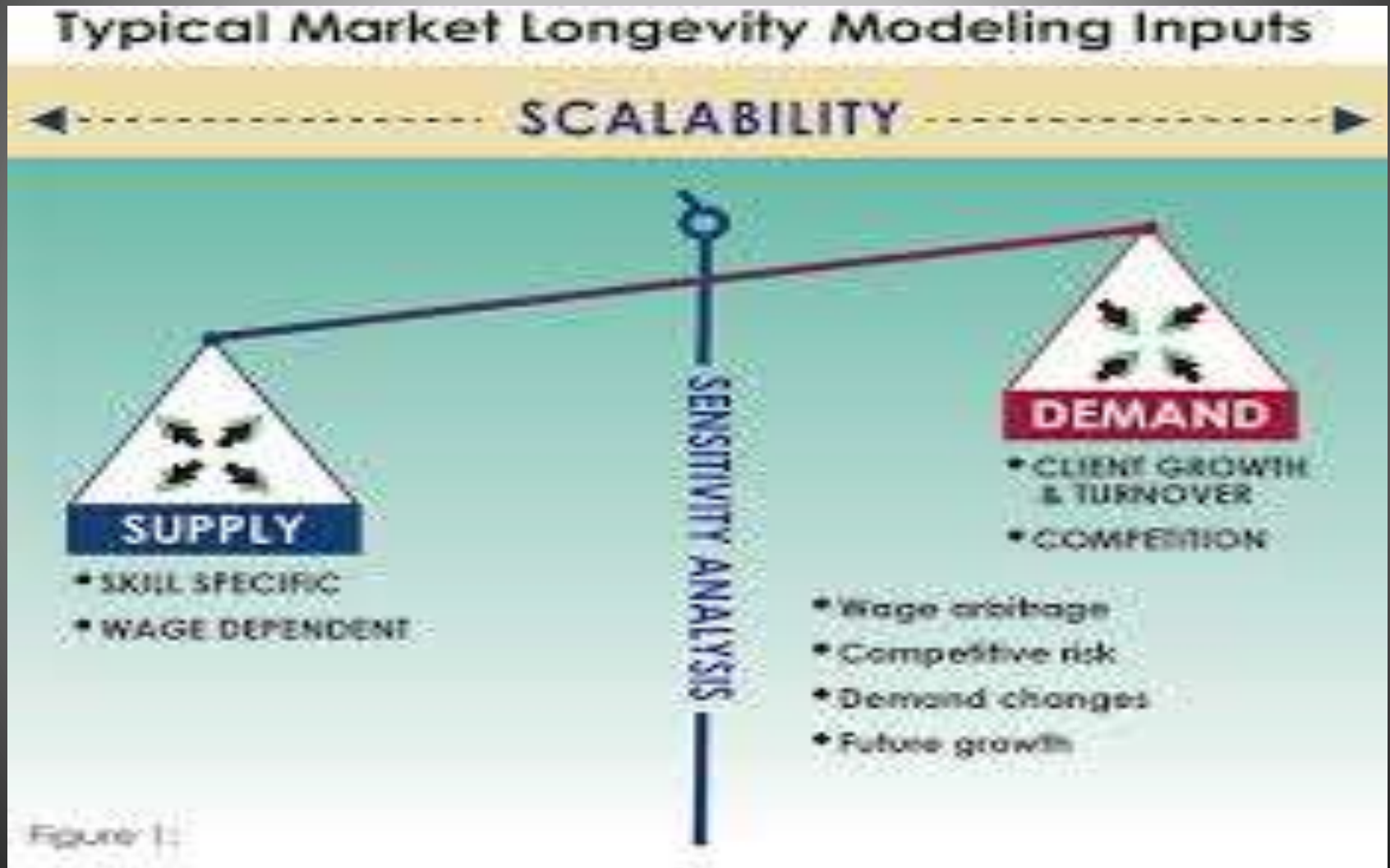
OBJECTIVES

1. Understand the conceptual issues
2. Understand how price related decisions are taken under monopolistic competition and oligopoly

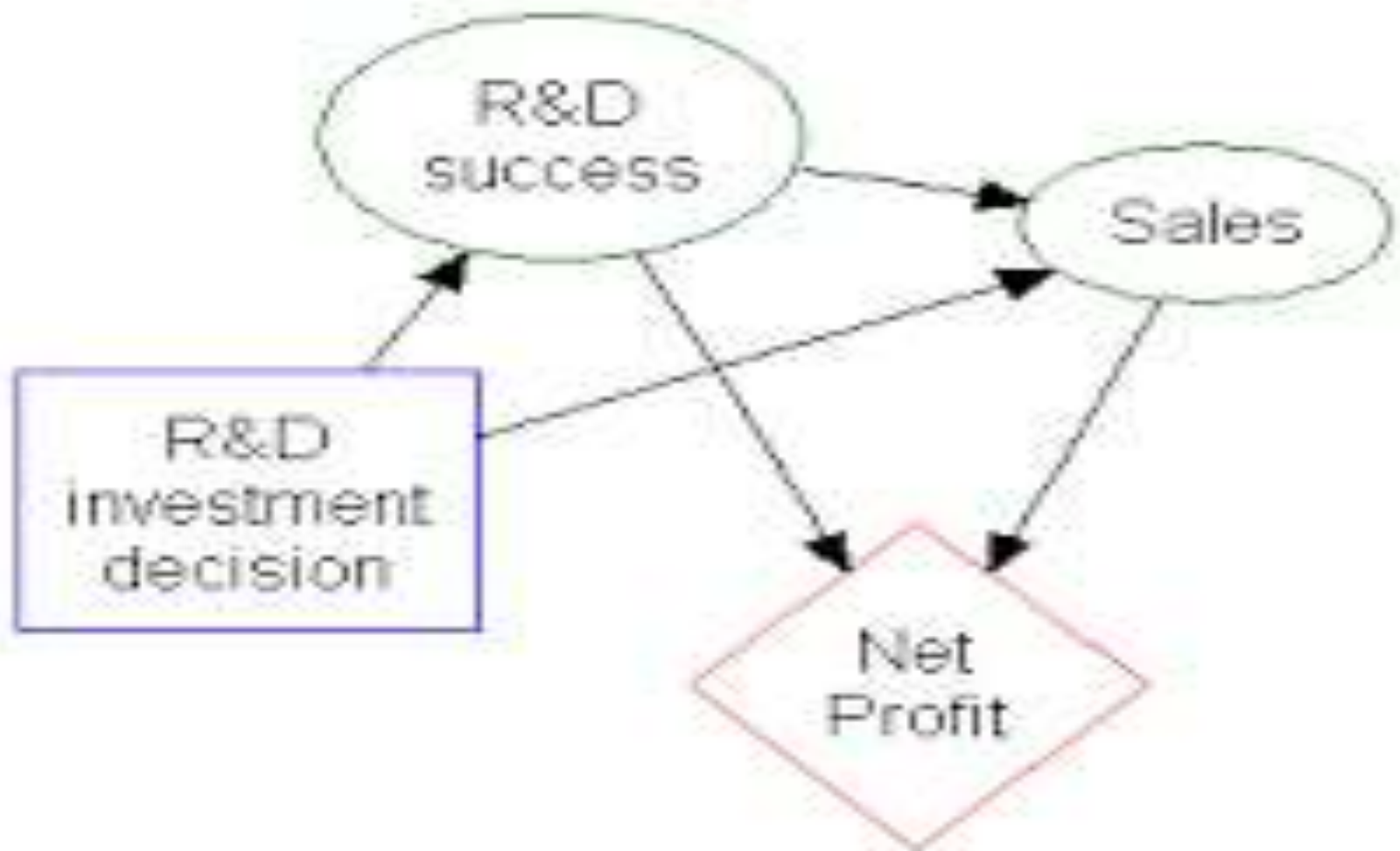
Make or Buy Decisions



Supply and Demand Decisions



Investment Decisions



Economic Forecasting and Forward Planning

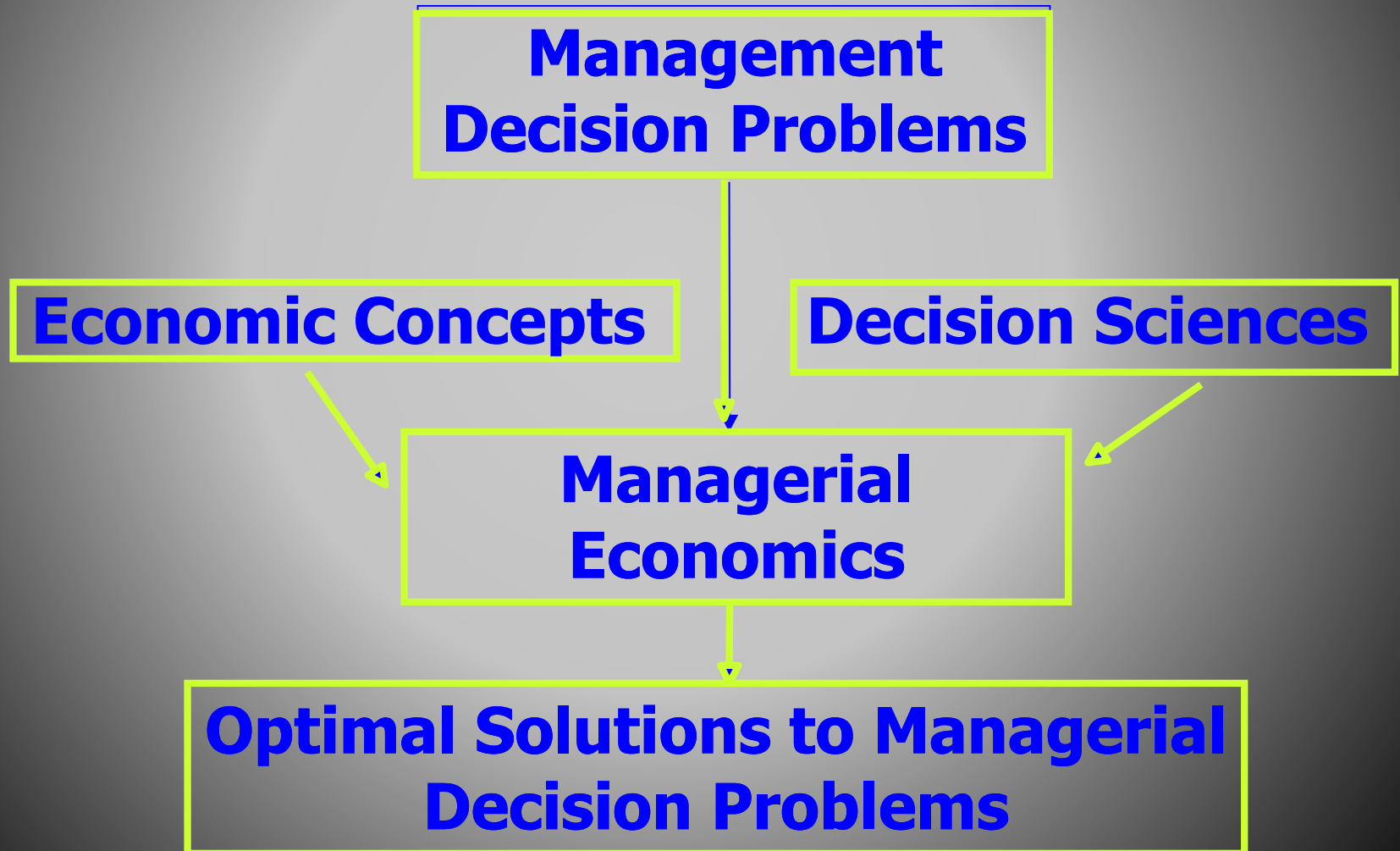


INTER DISCIPLINARY

Economics is linked with subjects like

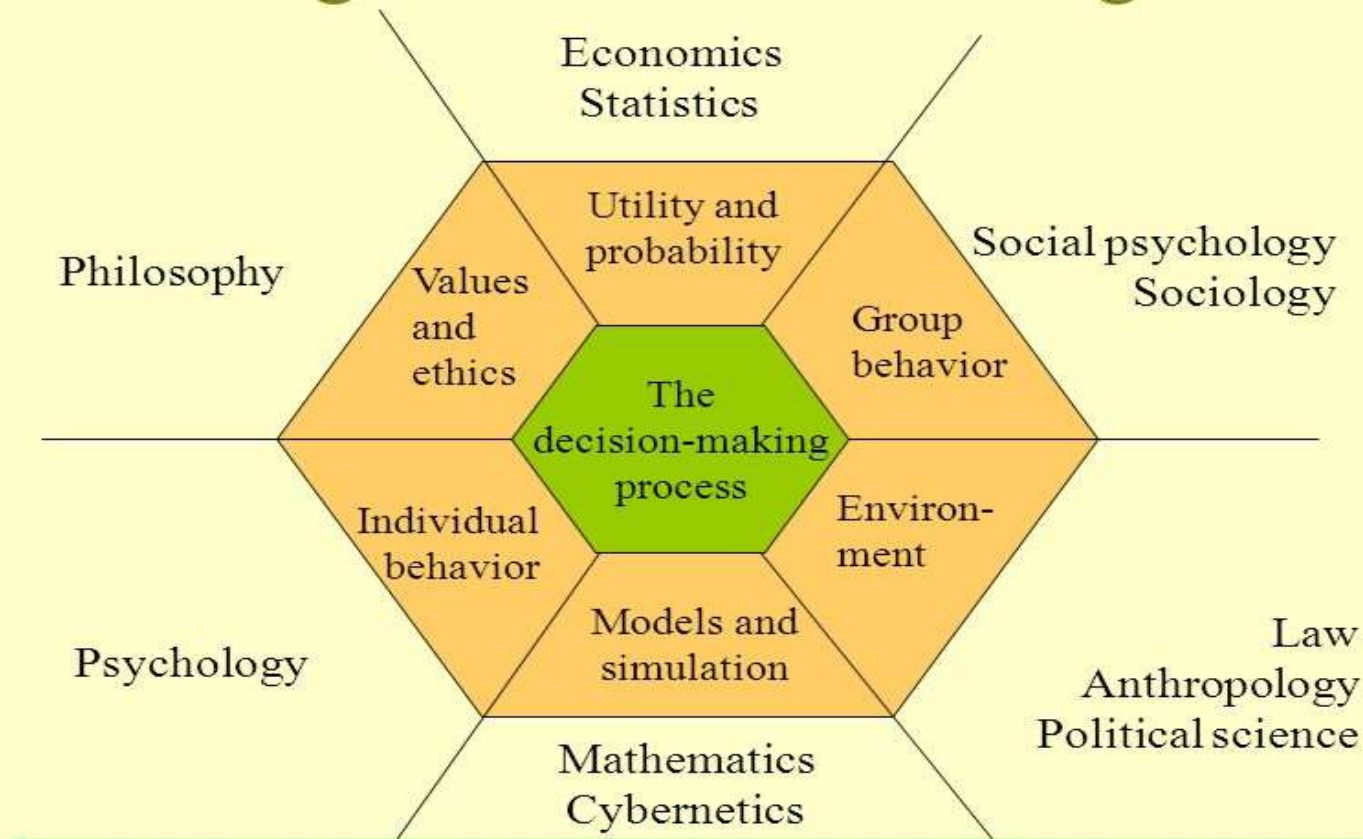
- Mathematics
- Statistics
- Computer science
- Economics
- Accounts
- Operations research

Relationship between Managerial Economics and Related Disciplines



INTER DISCIPLINARY NATURE

The Interdisciplinary Aspects of Managerial Decision Making



Thank You