

# MANAGERIAL ECONOMICS: A DECISION SCIENCE AND BUSINESS MANAGEMENT

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**Abstract:** Managerial economics is pragmatic. It is concerned with analytical tools and techniques of economics that are useful for decision making in business. Managerial economics is, however, not a branch of economic theory but a separate discipline by itself, having its own selection of economics principles and methods. In essence, managerial economics rests on the edifice of economics. Knowledge of economics is certainly useful to business people. Businessmen/ business managers must know the fundamentals of economics and economic theories for a meaningful analysis of business situations. Managerial economics is a science that deals with the application of various economic theories, principles, concepts and techniques to business management in order to solve business and management problems. It deals with the practical application of economic theory and methodology to decision-making problems faced by private, public and non-profit making organizations.

Managerial economics is essentially applied economics in the field of business management. It is the economics of business or managerial decisions. It pertains to all economics aspects of managerial decision making. Here I will this paper is having its prime focus in discuss Introduction & what is Managerial Economics, Features of Managerial Economics, The Nature and Role of Managerial Economics, Uses/objective of Managerial Economics, Managerial economics analysis, Managerial decision analysis, managerial optimizing strategies and conclusions & findings.

**Keyword:** Managerial economics, optimizing strategies, science, decisions making business management,

## INTRODUCTION :

In management studies, the terms 'Business Economics' and Managerial economics are often synonyms. Both the terms, however involve 'economics' as a basic discipline useful for certain functional areas of business management.

Economics is the study of men as they live, behave, move and think in the ordinary business of life. Economics in essence pertains to an understanding of life's principle preoccupation. It is a religion of the day-in-living for the want satisfying activity. Economics, as a social science, studies human behavior as a relationship between numerous wants and scarce means having alternative uses.

Managerial economics is a science that deals with the application of various economic theories, principles, concepts and techniques to business management in order to solve business and management problems. It deals with the practical application of economic theory and methodology to decision-making problems faced by private, public and non-profit making organizations. The same idea has been expressed by Spencer and Seigelman in the following words. "Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by the management". According to Mc Nair and Meriam, "Managerial economics is the use of economic modes of thought to analyze business situation". Brighman and Pappas define managerial economics as, "the application of economic theory and methodology to business administration practice". Joel dean is of the opinion that use of economic analysis in formulating business and management policies is known as managerial economics.

## FEATURES OF MANAGERIAL ECONOMICS:

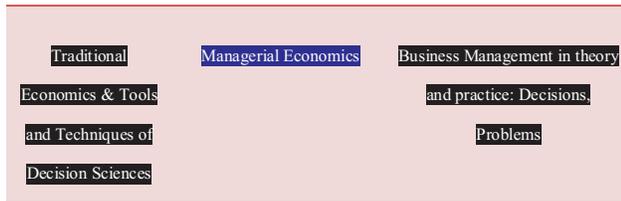
- It is more realistic, pragmatic and highlights on practical application of various economic theories to solve business and management problems.
- It is a science of decision-making. It concentrates on decision-making process, decision-models and decision variables and their relationships.
- It is both conceptual and metrical and it helps the decision-maker by providing measurement of various economic variables and their interrelationships.
- It uses various macroeconomic concepts like national income, inflation, deflation, trade cycles etc to understand and adjust its policies to the environment in which the firm operates.
- It also gives importance to the study of non-economic variables having implications of economic performance of the firm. For example, impact of technology, environmental forces, socio-political and cultural factors etc.
- It uses the services of many other sister sciences like mathematics, statistics, engineering, accounting, operation research and psychology etc to find solutions to business and management problems.

It should be clearly remembered that Managerial Economics does not provide ready-made solutions to all kinds of problems faced by a firm. It provides only the logic and methodology to find out answers and not the answers themselves. It all depends on the manager's ability, experience, expertise and intelligence to use different tools of economic analysis to find out the correct answers to business problems.

**THE NATURE AND ROLE OF MANAGERIAL ECONOMICS:**

Managerial Economics is evolved by establishing links on integration between economic theory and decision science along with business in theory and practice- for the optimal solutions to business/managerial decision problems. This means, Managerial Economics pertains to the overlapping area of economics along with the tools of decision science such as mathematical economics, statistics and econometrics as applied to business management problems. The idea is presented in a Figure 1.1

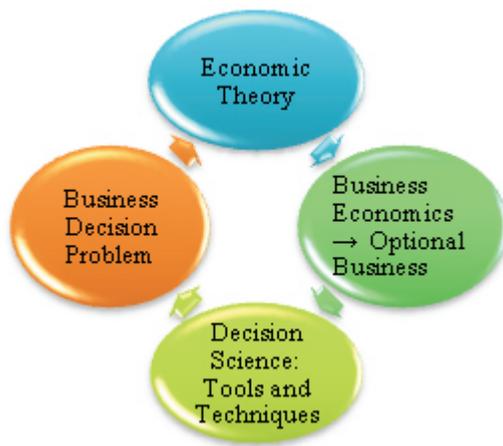
*The Nature of Managerial Economics in Fig 1.1*



**ROLE OF MANAGERIAL ECONOMICS:**

Managerial Economics essentially implies the application of economics principles and methodologies to the decision-making process within the firm under conditions of uncertainty; 'it seeks to establish rules and principles to facilitate the attainment of the desired economics goals of management. These economics goals relate to costs, revenues and profits, and are important within both the business and non-business institution' (E.J.Douglas)

The role of managerial economics in the decision-making process is illustrated in Fig 1.2



To appreciate the point narrated in Fig. 1.2 let us consider hypothetical case of a business firm. The firm's business behavior depends on its objective. Suppose the firm, objective is profit maximization. Its output decision towards profit maximization is based on application of economics theory that the firm needs to equal its Marginal Cost (MC) with Marginal Revenue (MR). To meaning the MR, the firm has to trace the empirical relationships of cost function and revenue function using econometric models

(decisions science tools).

Once optional output level is produced the business marketing etc. should be carried on accordingly as per the market structure.

This suggests that the knowledge in business economics is very useful in rational decision-making in modern business.

**USES/OBJECTIVE OF MANGERIALECONOMICS:**

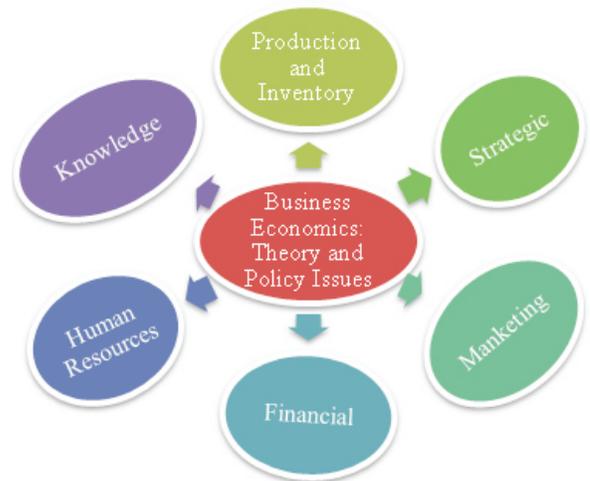
Managerial economics is pragmatic. It is concerned with analytical tools that are useful for decision-making in business. Managerial economics is a selection from the tool box of economic principles, methods and analysis applied to business management and decision- making. It follows, thus, that economic theories are very useful in business analysis and practice for decision-making and forward planning by management.

Managerial economics may be useful in the following respects: Fig 1.3



Business economics is applicable to several areas of business and management in practice, such as production management, inventory management, marketing management, finance management, human resources and knowledge management.

Managerial economics may be useful in the following respects: Fig. 1.4



Application Areas of Managerial Economics in Business Decision-making

The application of Managerial economics in business

decisions, problems and allied areas of management are pinpointed in Fig. 1.4.

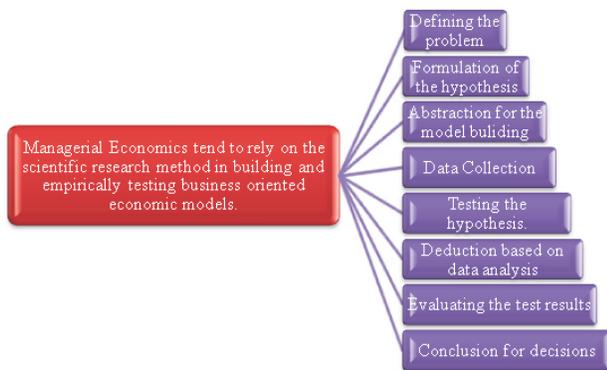
**MANAGERIAL ECONOMICS ANALYSIS:**

The evolution of managerial economics may be attributed to an integrated interrelationship between business management and economics in the dynamic of modern times. Managerial economics adopts the scientific approach of economic analysis, which involves:

- Reasoning for economic events and behavior of business and economic entities
- Tracing the cause-effect relationships among business economic variables and predicting economic behavior.
- Building economic models and testing them empirically for making sound inferences towards decision making based on theoretical framework.

Managerial Economics uses the logic of economic analysis to apply to allied business economic problems. It seeks to examine, investigate and explore behavior of consumers and producers pertaining to a business situation. It is basically concerned with the process of decision making in business.

Managerial Economics tend to rely on the scientific research method in building and empirically testing business oriented economic models. This scientific approach consists of the following steps in Fig. 1.5.



**MANAGERIAL DECISION ANALYSIS:**

Economic theories, concepts and analytical tools are of great help to businessman in arriving at better decisions in actual business life. The following economic concepts are fundamental to business analysis and decision-making, viz,:

- Opportunity cost;
- Optimization technique: equi-marginal principle;
- Incremental principle;
- Time perspective; and
- Discounting principles.

**MANAGERIAL OPTIMIZING STRATEGIES:**

Total Quality Management :( TQM): is widely recognized philosophy of management strategy. Its focus is

to improve quality and productivity in a significant way to enhance the competitiveness of an organization.

Fundamentally, the TQM has its focus on the quality. Its genesis lies in quality control.

**The core principles of TQM:**

- Genuine management commitment towards quality and customer satisfaction. Create value for customer.
- Process improvement
- Collect and analyze data
- Cooperation and teamwork in all business operations
- SPDAS(Study, Plan, Act, System) for innovation and improvements
- Continuous efforts for improvement
- Zero defect prevention
- Clear documentation for execution
- Change in organizational culture
- Fundamental paradigm shift
- Top management leadership with positive thinking and relationship building. Elimination of management by fear and control by enemas.
- Planning and programming for infrastructure building and human resources development. Thus, to improve the quality level of both hardware and software of the organization.
- Customize the TQM programmed specifically for particular firm. These cannot be a standardization of the TQM process applicable to all.

**CONCLUSION:**

Managerial Economics is an evolutionary science; it is a journey with continuing understanding and application of economic knowledge- theories, models, concepts and categories in dealing with the emerging business/managerial situations and problems in a dynamic economy. Managerial Economics is a decision making is an art as well as science. Many managerial decisions are addressed in a routine in a manner. Rules of thumb or the tried-and-true decision rules are, however, invalidated by the changes in routine situations. Dynamic changes in business situations need that decisions are to be addressed in a proactive manner. In proactive decision-making, many alternatives have to be explored; conditions and assumptions have to be reviewed and structured in a perspective manner. Managerial Economics offers an understanding of business and economic perspectives, jargons, tools, technique and tactics that will facilitate manager's development as a proactive decision-maker-a decision maker who addresses dynamic business situations in a critical, comprehensive and careful manner, right in time, using formal analytical tools and skills that are guided by the knowledge, judgment, experience and intuition.

**FINDINGS:**

The significance of economic models and micro macro analysis lies in the logical framework created by them for the decision making process in business management. Managerial Economics. Thus, becomes useful as it makes the task of successful business management easier through characterization of business with a scientific blending of

economic theory and business experience in practice.

It is a science as well as art facilitating better managerial discipline. It explores and enhances economic mindfulness and awareness of business problem and managerial decisions.

It is concerned with firm's behavior in optimal allocation of resources, it provides tools to help in identifying the best course among the alternatives and competing activities in any productive sector whether private or public.

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