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Department: Management

Subject: Principles of Economics

Unit: 1

Topic: Introduction to managerial economics

Managerial Economics-

Managerial Economics refers to the firm's decision making process. It could be also interpreted as "Economics of Management" or "Industrial economics" or "Business economics".

Nature of managerial Economics

1. Close to microeconomics

Managerial economics is concerned with finding the solutions for different managerial problems of a particular firm. Thus, it is more close to microeconomics.

2. Operates against the backdrop of macroeconomics

The macroeconomics conditions of the economy are also seen as limiting factors for the firm to operate. In other words, the managerial economist has to be aware of the limits set by the macroeconomics conditions such as government industrial policy, inflation and so on.

- **3. Normative statements:**

- A normative statement usually includes or implies the words 'ought' or 'should'. They reflect people's moral attitudes and are expressions of what a team of people ought to do
- Such statements are based on value judgments and express views of what is 'good' or 'bad', 'right' or 'wrong'.
- One problem with normative statements is that they cannot be verified by looking at the facts, because they mostly deal with the future. Disagreements about such statements are usually settled by voting on them.

- **4. Prescriptive actions**

- Prescriptive action is goal oriented
- Given a problem and the objectives of the firm, it suggests the course of action from the available alternatives for optimal solution.
- It also explains whether the concept can be applied in a given context or not. For instance, the fact that variable costs are marginal costs can be used to judge the feasibility of an export order

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- **5. Applied in nature:**

- 'Models' are built to reflect the real life complex business situations and these models are of immense help to managers for decision-making.
- The different areas where models are extensively used include inventory control, optimization, project management etc.
- In managerial economics, we also employ case study methods to conceptualize the problem, identify that alternative and determine the best course of action.

- **6. Offers scope to evaluate each alternative:**

- Managerial economics provides an opportunity to evaluate each alternative in terms of its costs and revenue.
- The managerial economist can decide which is the better alternative to maximize the profits for the firm.

- **7. Interdisciplinary**



The contents, tools and techniques of managerial economics are drawn from different subjects such as economics, management, mathematics, statistics, accountancy, psychology, organizational behavior, sociology and etc.

- **REFERENCE**

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