DR. MANGLA SRIVASTAVA

DEPTT OF COMMERCE, JCC, JAMSHEDpur

SUB: MANAGERIAL ECONOMICS, ITS NATURE,SCOPE AND APPLICATION IN DECISION MAKING.

For most purposes, economics can be divided into two broad categories such as micro economics and macro economics. Macro economics is the study of economic system as a whole. It includes techniques for analyzing changes in total output,total employment ,the consumer price index, the employment rate and exports & imports.

Micro economics focuses on the behaviour of the individuals on the economic stage, that is, firms and individuals and their interaction in markets

**Managerial Economics** should be thought of as applied micro economics.It includes demand,production,cost,pricing,market structure,and government regulations A strong understanding of the principles that govern the economic behaviour of firm and individuals is an important managerial talent. The rational application of these principles should result in better managerial decisions, higher profits, and an increase in the value of the firm.

Now we will discuss about the **nature of managerial economics:**

1. **Fundamental Academic Subject:** it is a fundamental academic discipline, and follows the rule of science. Science is the systematized body of knowledge. It is governed by a method of its own. Economic problem is a fundamental problem faced by humanity,and simultaneously, it is an academic subject that deserves a serious and scientific treatment.
2. **Economic Rationale of Business Administration:** It applies the economic theory and methodology to practice.So any decision will have to be tested on the basis of economic reasoning.
3. **Allocation of Resources:** Optimum utilization of resources is one of the major challenges faced by the managerial economics As resources are scarce and they have alternate uses one must aim at making the best possible use of these resources.
4. **Micro-economic Nature:** Managerial economics is micro-economic in character. The subject area of managerial economics is business firm. A business firm is the smallest decision-making unit on the side of productionin micro-economic theory. Since the unit of study is the firm, the problems facing the business firm are also within the area of micro-economics.
5. **Theory of the firm:** It uses almost all the concepts and and principles of theory 0f firm. It has served to enrich the content scope and applicability of the discipline of managerial economics.
6. **Profits and Pricing:** Profitability is simultaneously the goal as well as the test of efficiency of a firm. The growth of profits depends partly upon the pricing practices followed by firms.
7. **Market Conditions:** Market is the place of trying strength. It poses a challenge as well as opportunity of proving a firm’ efficiency
8. **Macro Setting:** A firm has to operate within the macro-setting of a given economy. Its prospects are governed by the trends in aggregate income ,in consumption patterns and in the investment and saving levels of the economy.
9. **Basis for Decision Making:** Managerial economics provides the basis for decision making. These decisions are taken scientifically. Many criteria like conditions of equilibrium are abstract and need modifications while being applied in practice . Managerial economics indicates such modifications.
10. **Help of Quantitative Techniques:** Like many other natural and social sciences, managerial economics also has to take the help of quantitative techniques provided by mathematicsand statistics.

**1. Micro Economics and Macro Economics:**

 **Micro economics:** Micro stands for millionth part or just small part of the whole. In micro economics we analyse the part of a unit of the whole system, e.g., the behavior of an individual, firm or industry in the national economy. It is thus a study of a particular unit rather than all the units combined. The study covers chiefly:

1. Product pricing,
2. Consumer behavior,
3. Factor pricing,
4. Economic conditions of a section of the people,
5. Study of firms; and
6. Location of an industry.

 **Macro economics:** It is aggregative economics wherein the overall conditions of the economy such as total production, total consumption, total saving and total investments are studied. It is aggregative economics wherein the overall conditions of the economy such as the total production, total consumption, total savings and the total investments are studied. The distinction between the two approaches to the study of economics is not clear cut. What is macro from national stand point is micro in the world context. Similarly what is micro from a national angle becomes macro from a regional angle. Unless we define what is he whole, we cannot say about a phenomenon whether it is macro or micro.

It is difficult to say which is more important. In most of the cases they play a complementary role, e.g. national income cannot grow unless the production in individual firms and factories rises. But in some cases, such a complementary role is not there: e.g. an increase in personal savings of a section of people may not lead to an increase in personal savings of the community as a whole. Also a general rise in the price level has varying effect on different sections of the community. All these complicated inter-relationships require a study of both macro and micro aspects of economics.

**2. Positive and Normative approach:**

**(i) Positive Approach :** It has already been indicated that economics is science. As regards the nature of science there is a school of thoughts which says that economics should confine itself to pure science so that it may not give satisfaction in value judgement . In case of pure and positive science the analysis is confined to cause and effect relationship. In other words, it states **"what is and not what ought to be”**. It is said economics is not to suggest but simply state in terms of cause and effect relations and leave the matter of choice to the individual concerned whether it suits his requirements or not.

**3. Marginal Analysis:** Marginal unit is one which makes an addition to the total number of units. E.g. A firm employing nine workers , so the ninth worker will be marginal unit or worker. In economics decisions are taken at the margin. Concept of marginal analysis provides valuable guidance for decision making at various levels. Positive aspect of economics: Neutrality between Ends. According to Robbins economics is concerned only with the study of the economic decisions of individuals and the society as positive facts but not with the ethics of these decisions. Economics should be neutral between ends. Neutrality between ends denotes lack of concerns about objectives or goals, which be solid or otherwise. It is not for economists to pass value may judgements and make pronouncements on the goodness or otherwise of human decisions. An individual with a limited amount of money may use it for buying liquor and not milk, but that is entirely his business. Economists only studies facts and make generalizations from them. It is a pure and positive science, which excludes from its scope the normative aspect of human behavior.

Complete neutrality between ends is neither feasible nor desirable. It is not possible because in many matters the economist have to suggest measures for achieving certain socially desirable ends. He advocates the adoption of certain policies for increasing employment and raising the rates of wages. When he makes these proposals, he is making value judgements.

**(ii) Normative Approach:**  If economics is a normative science it would work for finding out and prescribing certain course of action which is desirable and necessary to achieve certain social goals. The focus in such a case would be on welfare of the people and how best it can be achieved. Opinions differ whether economics should suggest and prescribe. There is a very strong opinion in favour of its fruit-giving aspect. Some economists maintain that the purpose of study of economics is not for mere gaining knowledge but it should be purposive and aim at accomplishment of certain socio-economic goals. Thus, it should be both light-giving and fruit-bearing.