

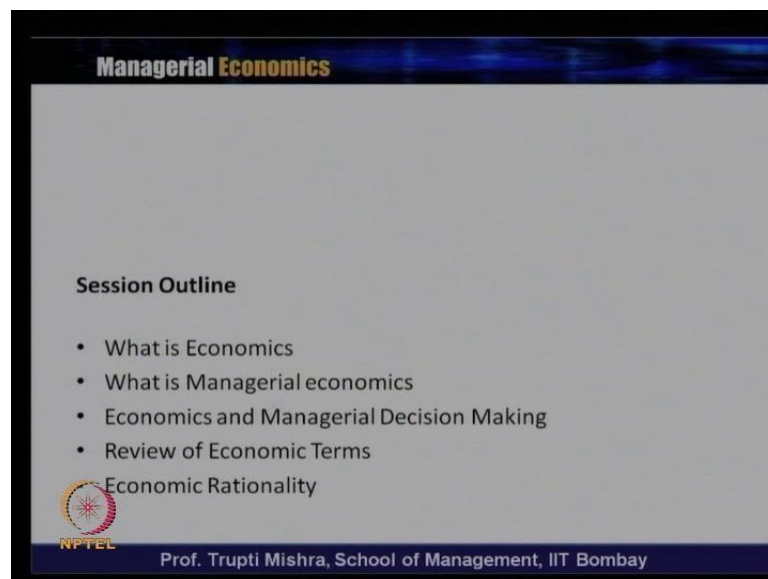
Managerial Economics
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Lecture - 1
Introduction to Managerial Economics - I

So, welcome to the course on managerial economics, this course is specially designed for the MBA students. And the motivation for this course comes from the fact that managers need clear understanding about the economic concept, economic principles. And because the understanding of economic concept and economic principle helps them in managing the day to day problem associated with the business decision.

So, in this course specifically, we will see that what are the different domains of a business decision problem and how economic concepts, when economic principles generally get used to solve these business decision problems.

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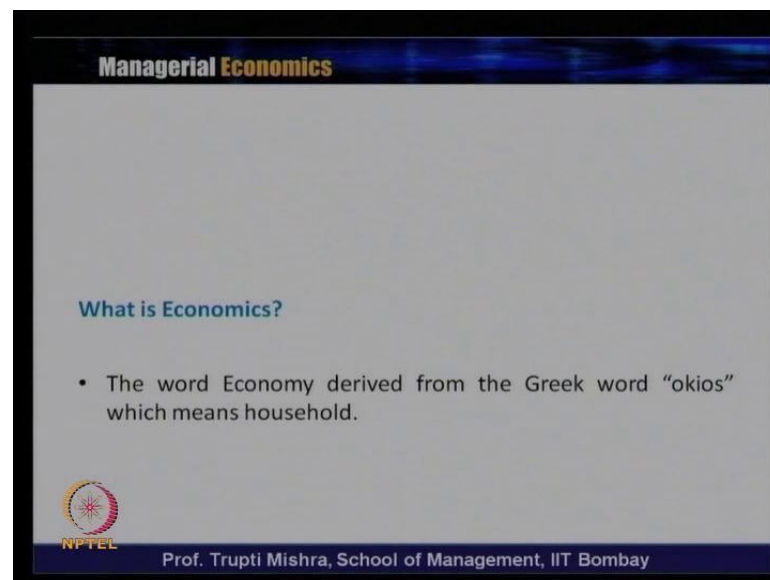


So, to start with, we will talk about the or we will define the economics, what is economics. Then we will talk about what is managerial economics, how this economics or which part of the economics is considered to be the managerial economic. Then we will talk about specifically the economics and managerial decision making and we will just do a review of the economic terms, there are many concepts like opportunity cost, rationality, marginal and incremental analysis; in today's session we will focus only on the economic rationality.

So, to start with there are numerous definitions of economics may be one group of economics they call it like science of wealth, that it typically given by father of economy that is Adam Smith. This is called science of wealth, similarly from Marshall another economists Marshall, the definition comes as economics of welfare, and similarly from the other economists Robin its comes as economics of choice scarcity and choices.

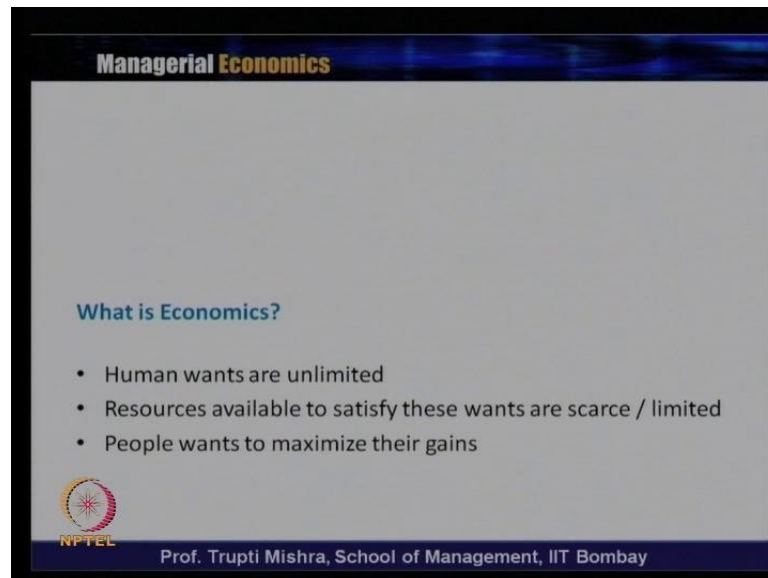
So, we will pick up the third definition that comes from robins that economics is a study of the science of choices and the scarcity and from there we will try to link that, how this is related to the decision problems and how it is related to the day to day business activity of a typical organization.

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So, the word economics is derived from the Greek word okios which means household. And when we talk about this household if the word comes from the Greek word okio, so basically this is the managements related to the household. Now, what is economics, so reaching to this economics that how economics has become the scarcity and choices we need to understand the fact that human wants are unlimited.


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Managerial Economics

What is Economics?

- Human wants are unlimited
- Resources available to satisfy these wants are scarce / limited
- People want to maximize their gains

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So, whether you talk about a individual, whether you talk about the people, whether you talk about as a group of people, whether you talk about the economy, human wants are always unlimited. And why we call the human wants are unlimited, because of the fact that we always we have a wish list that may be in a specific time period, these are the things I have to get or these are the things I have to achieve.

But wants are unlimited because everything everything never converted into the satisfying the wants want satisfaction; because whatever the want and whatever we are doing there is a difference there is a gap. So, wants are unlimited individual or the group or the economy as you they will never get satisfied that beyond this, I do not want anything else.

So, for it comes to individual, when we are in the lower income group will aspire always to go to the middle-income group. When we are in the middle-income group, we always aspire to get into the high-income group. Similarly, in the economy level when it comes to the if the GDP growth is 5 percent, they always aspire to have a GDP growth of 7 percent when the GDP growth is 7 percent, they always aspire to GDP growth of 10 percent. So, any individual any economy they always increase their want they always feel that there are some wants which need to be fulfil in the next time period.

But the other side of the story is that human wants are unlimited, but the resources to satisfy those wants, those are basically scarce and unlimited. So, in the one hand human wants are unlimited the people, the individual, the economy they go on goes on demanding the

demanding the whatever the wish list or whatever their wants. On the other hand, resources are scarce, resources are not unlimited rather they are limited to satisfy this want. Now, what what people or what individual they try to do in this process in this process they want to maximize their gain.

How they want to maximize the gain they want to maximize the gain, whatever the limited resources, whatever the whatever the time available, whatever the resources available may be in term of the raw materials in terms of time. They want to see that how much they can maximize or how much they can achieve whatever their want they have given.

So, if you take in a very layman understanding that why this want and resources. As an individual we have only 24 hours in a day. So, if you look at we never get satisfied that ok this 24 hours, may be if that 24 hours could be have been 30 hours I could have been done this, if the 24 hours would have been 34 hour I would have done this, this is in term of the time.

Similarly, when it comes to resources, if I have more money, I would have done that, if I have more money, I would have done the other. So, whether it is money whether it is time or may be if I would have been studied more may be, I would have aspiring a job which comes in a higher qualification.

So, whatever if you look at these are all resources, whether it is time, whether it is money, whether it is qualification. Typically, from the individual point of view, but there is a scarcity to it and that is why there is always a gap between whatever the human wants and what whatever the resources available to satisfy those wants.


And as an economic agent typically in the individual as an economic agent they always try to maximize the gain. Looking at the fact that whatever the resources available how ways they can use the available how ways they can use the available resources to satisfy their want to maximize the gain. So, economic problems comes from here, that human wants are unlimited; however, the resources to satisfy this wants or the those are typically limited, those are not unlimited.

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Managerial Economics

What is Economics?

- Economic agents / society have some economic problems because of scarcity of resources
- They need to choose scarce resources among alternatives (scarce resources) based on choice and valuation of alternatives

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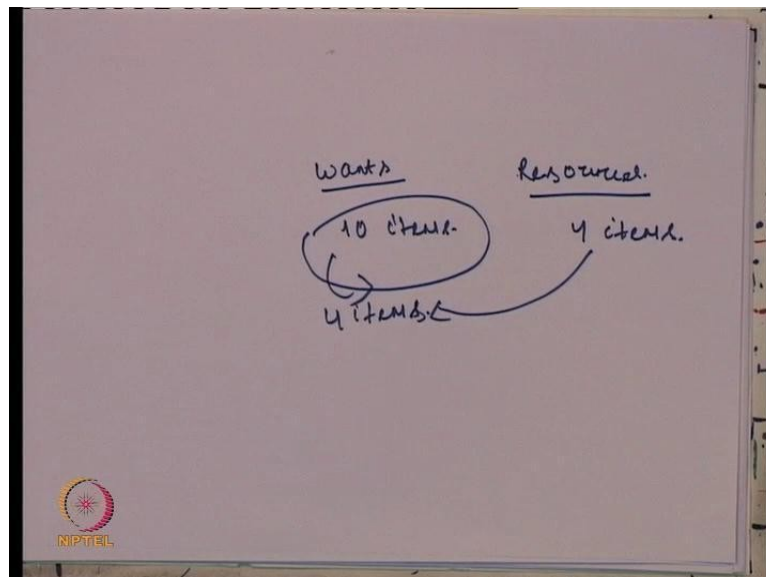
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So, here it comes that the economic agents and the society have some economic problem because of scarcity of resources. Because, there is a gap between the want and the resources available resources that leads to the fact that there is a economic problems. And this economic problem generally economic agent in a individual level and economic agent in a society level generally they face this problem and why this economic problem comes because there is a gap between whatever the human want and whatever the limited resources available to them.

Now, what is the challenge for the economic agent, may be at the individual, may at a group, may be at a country level. The challenge comes here that the need to choose the scarce resources among alternatives based on the choice and valuation of the alternatives. So, the challenge comes here that they have to choose the scarce resources, resources are limited they have to choose the scarce resources among alternative based on choice and valuation of alternatives.

Now, what are the alternatives over here so typically talking about one individual agent what are the what are the wants? May be the want may be 1 may be the want may be 2 the want may be 3 the wants may be 4 may be this is a list of ten items in the want. May be we will take a example that resources are available only to satisfy the wants that come may be four wants out of ten two wants in the list of 10 or three wants in the list of ten now.

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So, if you look at here we have wants, that is human wants here we have resources. So, may be to put it in numbers. Suppose, there are ten items in the wants there is 10 wish list from the 10 wish list of the economic agent and the resources are just to satisfy four item.

Now in this case what will be the alternatives, alternatives is that the human the economic agent has to be has to choose 4 items from this 10 items where the resources can what the resources can satisfy now these four items will be chosen from 10 items. So, what are the alternatives available to the human being, now what will be the alternatives available to the economic agent.

They have to choose among this 10 4. So, there are 10 alternatives and among these 10 alternatives the economic agent has to choose 4 items or 4 alternatives. So, the need to choose the scarce resources among the alternatives based on the choice and evaluation of the alternative, whatever the choice whatever the valuation.


On the basis of that if there are 10 items, they need to find out what is there in the priority list, what they require most and, on that basis, they will choose that 4 items typically in this case, where the resources can satisfy to fulfil those 4 items. So, since resources are scarce here human wants are unlimited the economic agent has to choose the alternative choose among the alternative which the resources can satisfy.

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Managerial Economics

What is Economics?

Thus economics is the study of how economic agents or societies choose to use scarce productive resources that have alternative uses to satisfy wants (needs) which are unlimited and of varying degree of importance

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Now, from here the definition or the meaning of economics comes that economics is the study of how economic agents or society choose to use scarce productive resources. That has alternative use to satisfy wants, which are unlimited and varying degree of importance. So, looking at this definition, the first part of this definition if you look at this is a study of how economic agent and society use those scarce resources scarce productive resources.

So, first one is that about the choice part of it, choice part of the economic agent that, how they choose the resources that is the productive resources what is available to them. And then the second part is that these resources have alternative uses. So, if the resource is not getting used fulfilled may be the first want this can also be used to satisfy the other kind of wants.

So, this resources they have the alternative use if the economic agent they are not choosing this resources may be the other economic agent will choose that resources and they will try to satisfy their want by using that particular resources. So, the first part is about the study of choice of the scarce sources by the economic agent.

Second part the resources have alternative use and what is the alternative use? Alternative use to satisfy the wants. And the third part of the definition comes the third part of the definition comes that the human wants are unlimited and this alternative uses is there is they have varying degree of importance, depends upon the want of the economic agent.

So, the entire definition we can break into three parts, first part is talk about the study of choice, because the economic agent has to choose the scarce sources for the alternative use. Second part is that the resources have alternative use that if it is not getting fulfilled one want is getting used to fulfil the other want; and also these resources they have the varying degree of importance. So, taking this we can maybe we can simply say that this is the economic this is the study of scarcity and choice.

Because, the scarcity comes there is a gap between the human want and the resources available to them, there is a resource scarcity. And since there is a resource scarcity there is the next challenge comes from the economic agent to choose the scarce resource for the alternative uses for their wants.

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Managerial Economics

What is Microeconomics?

- Study of economic phenomena at micro level i.e. individual and firm level
- Microeconomics is the study of how individual firms or consumers do and/or should make economic decisions taking constraints into account.

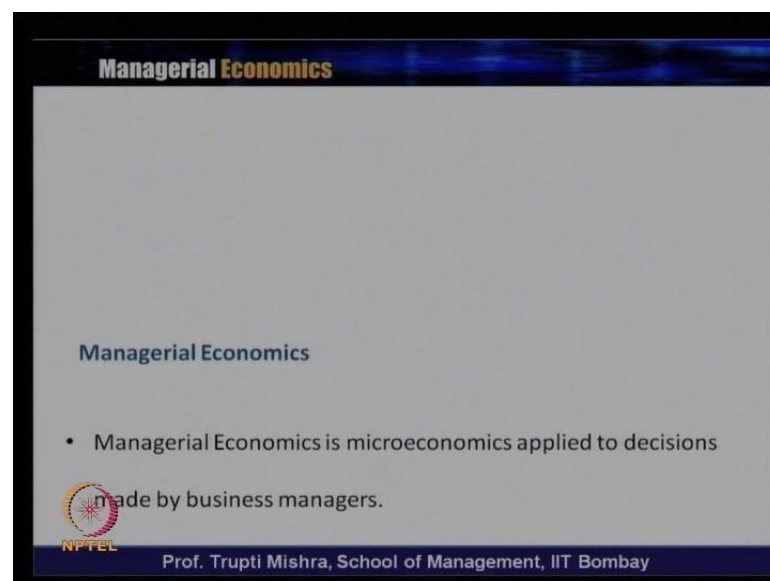
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So, from economics from the definition of economics, now will come specifically what is micro economics. So, micro economics is a study of economic phenomena at the micro level typically individual and firm level.

So, this is the micro economics in the when we do the individual level study whether it is about the individual consumer, individual producer, individual firm, individual organization, that is the micro economics. And it is the study of how individual firms or consumer do should make economic decision taking constraints into the account.

The micro economics is essentially deals with the fact that how individual firm individual producer, individual consumer; they should take their decision they should make their economic decision taking whatever the constraints into account. So, in this case what is the basic constraints in case of the economic theory the basic constraints is there is all the theory all the principle comes from the fact that there is a resource scarcity and there is unlimited human wants.

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So, basically managerial economics is the micro economics applied to the decisions made by the business managers, but there are some topics from the micro economics which also essentially comes between the in the preview of managerial economics. But here typically in this course we will focus more on the micro economics concept and which is generally applied by the manager to take the business decision problem. So, managerial economics is the micro economics applied to the decision made by the business manager. And now we will see that, how we generally link this economics into the managerial decision problem and from there this managerial economics comes into picture.

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Managerial Economics

The Manager

- A person who directs resources to achieve a stated goal.

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So, there are two stake holders here one is the manager manager is the person who directs to resources to achieve a stated goal and so, what is the role of manager? Role of manager is they have the resources and generally their role is to see that how the resources can be used to meet the objective of the firm or meet of meet the goal of the firm.

If the goal of the firm is profit maximization, if the goal of the firm is the revenue maximization, how these resources can be used to meet the objective of the profit maximization or objective of the objective of the revenue maximization. So, manager is the person who directs resources to achieve the stated goal.

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Economics

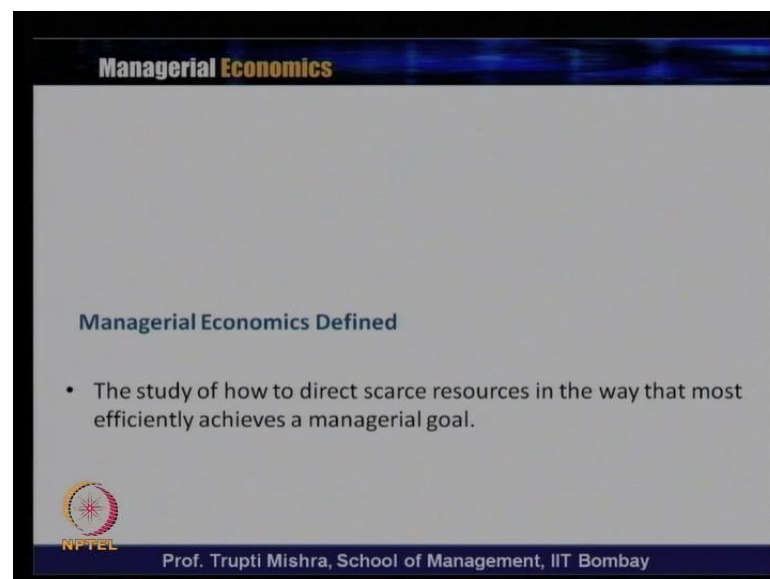
- The science of making decisions in the presence of scarce resources.

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The second stake holder here is the study of economics, economics is what? The science of decision making, even in the presence of scarce resources. So, we had a discussion on that why how resources are scarce and human wants are unlimited. And the challenge for the economic agent is to use the scarce resources into the productive use choosing among their alternatives. So, in the taking that que we can define economics here is the science of making decision in the presence of scarce resources.

So, manager is one, who directs the resources to achieve the stated goal of the firm and economics is one which talks about or study of the science of making decision in the presence of scarce resources. So, taking together both the stake holder manager and the economics manager is the person and the study what is getting used in solving managerial decision problem is economics and from there we get the managerial economics.

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And managerial economics is the study of how to direct scarce resource in the way, that the most efficiently achieve a managerial goal, so what is managerial economics? Managerial economics is the study of how to direct scarce resources in the way that most efficiently achieve the managerial goal. So, basically when a manager uses this economics for solving the managerial decision problem that content is the part of the managerial economics and from these two-stakeholder managerial economics we can define managerial economics is the study of how to direct scarce resources. In a way that mostly efficiently achieve the stated goal.

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Managerial Economics

Managerial economics: Science of directing scarce resources to manage more effectively

- resources – financial, human, physical
- management of customers, suppliers, competitors, internal organization
- organizations – business, nonprofit, household

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So, since the definition of the managerial economics is the science of directing scarce resources to manage more effectively. Here we get resources now what are the resources over here? The resources may be the financial resources, the resources may be the human resources, the resources may be the physical resources. So, here in managerial economics it is a study of directing the scarce resources that is directing the financial resources, directing the human resources and directing the physical resources.

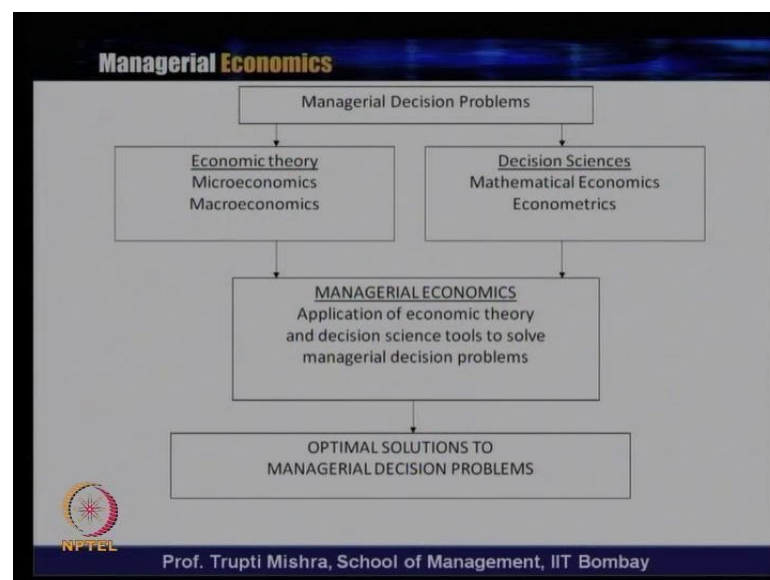
Then it comes since it is the directing the human resources, here it comes to the management of customers that management of supplier management of the competitor and management of the internal organization. And the organization can be business, the organization can be non-profit, organization the organization can be household.

But here the difference comes if the organization is business the goal of the organization is different and accordingly the resources has to be directed. Or the resources has to be planned to satisfy this want, if the because business organization is one which has the motto of profit making.

And as compared to that we have the non-profit organization and non-profit organization it is not about making profit and in this case again the business decision or the challenge for the manager will be different, because here it is not about achieving the profit rather here it is a non-profit organization.

So non-profit organization they have to look what is the goal of this typically this typical non-profit organization and accordingly the manager has to direct the scarce resources into the end productive use. Then we have household. So, household is again if you look at it is not profit making rather it is about how to generate more income. So, that they can use that for the consumption or the saving or may be for the future consumption. And in this case again since the goal of the household its different, here again the scarce resource has to be used in a different fashion to meet the end objective. Now, since we say that since the economic is one which generally use in the managerial decision problems the economic concept and the economic principle, it is generally used in the managerial decision problem.

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We will see that what comes from the economic theory, what comes from the decision sciences for this managerial economics. So, typically there is a managerial decision problem and how this managerial decision problem gets solved. They use the concept of micro economics, macroeconomics which is part of economic theory; and then they use the concept of decision science typically the mathematical economics and econometrics where we use different mathematical tools, statistical tools and econometrics tool to solve the problem and from this the economic theory.

From the decision sciences we get into the managerial economics and this managerial economics is basically the application of economic theory and decision science tools to solve the managerial decision problem. So, we have the economic theory from there we get the

economic concept and principle, we have decision sciences from decision sciences we get the basically the mathematical tools statistical tools and the econometric tool.

Application of economic theory and decision science tools to solve the managerial decision problem, basically leads to the optimal solution to the managerial decision problem. So, if there is a managerial decision problem, it can be solved through the through using the concept from economic theory and to that using the tools from the tools from the decision sciences, that may be statistical tool mathematical tool or the econometric tool.

And taking this economic theory using the decision tool generally the manager try to give the optimal solution and from there the optimal solution emerge for the managerial decision problems.