Semester I

PAPER CODE – MB105

Course: ECONOMICS FOR MANAGERS

Synopsis

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Syllabus

Unit – I: Introduction to Economics Introduction to managerial functions, nature and scope of managerial economics, relation with other subjects, fundamentals concepts of Managerial Economics, Decision Making Process, Decision making under certainty, uncertainty and Risk, Role and Functions of Managerial Economist, Use of Econometric Models.

Unit – II: Economic Theories Theory of Utility & Demand utility, Marginal Utility, Law of Marginal Utility, Demand concepts, determinants of demand, Law of Demand, Elasticity of demand, Types of Elasticity, Measurement of Elasticity (Numerics), Demand Estimation for Firm & Industry, Demand Forecasting Methods.

Unit – III: Theories of Production Production & Cost structure, production function, Determinants of Production, Theories of Production, Benham Theory, Law of Two Variable proportions, Law of Returns to Scale – Cost Concepts, Types of Costs, Short-term and Long-term Cost Curves, Learning Curve, Isocost Curve – Equilibrium – BEP Analysis (Numeric).

Unit – IV: Economic Markets Markets & Market Behavior, Classification of Markets, Virtual Markets, Perfect Competition Market, Imperfect Competition Markets, Monopolistic Competition Market, Monopoly, Oligopoly, Strategies of Oligopolists, Agriculture Markets & Overview of Market Laws, Overview of Agriculture Market Committees (AMCs), Price Determination under different market structures.

Unit – V: Macro Economics and Budgeting Macro Economics: National Income concepts and Measurement Income, Employment and Investment, Keynesian Theory & Employment and Investment, Inflation: Types of Inflation, Control Technique of Inflation. Fiscal policies – Budget – Current Budget.

UNIT - I : Nature & Scope of Managerial Economics

Introduction to Managerial economics

Managerial Economics, also called Managerial Economics, is the application of **economic** theory and methodology to business. Business involves decision-making. Decision making means the process of selecting one out of two or more alternative courses of action. Business economic meets these needs of the business firm.

Managerial economics

Business economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by management.

also referred to as **Managerial Economics**, generally refers to the integration of economic theory with business practice.

While the theories of Economics provide the tools, which explain various concepts such as demand, supply, costs, price, competition etc. Managerial Economics applies these tools in the process of business decision making.

Characteristics of Managerial Economics

1. Micro
2. Macro
3. Pragmatic
4. Normative
5. Macro Analysis

Nature of Managerial Economics:

Traditional economic theory has developed along two lines; viz., normative, and positive. Normative focuses on prescriptive statements, and help establish rules aimed at attaining the specified goals of the business.

Positive, on the other hand, focuses on the description it aims at describing how the economic system operates without staffing how they should operate. The emphasis in business economics is on normative theory. Also, they seek to establish rules which help business firms attain their goals; which indeed is also the essence of the word normative.

However, if the firms are to establish valid decision rules; they must thoroughly understand their environment. This requires the study of positive or descriptive theory. Thus, they combine the essentials of the normative and positive economic theory; the emphasis being more on the former than the latter.

Scope of Managerial Economics:

1. Demand Analysis
2. Cost Analysis
3. Profit management
4. Pricing Practices
5. Capital Management
6. Analysis business management

Fundamental Economics Concepts

Opportunities Cost:

In micro economic theory, **opportunity cost**, or **alternative cost**, is the loss of potential gain from other alternatives when one particular alternative is chosen over the others.In simple terms, opportunity cost is the loss of the benefit that *could* have been enjoyed had a given choice not been made.

Incremental cost:

Incremental cost is the total cost incurred due to an additional unit of product being produced. Incremental cost is calculated by analyzing the additional expenses involved in the production process, such as raw materials, for one additional unit of production.

Time perspective:

The time perspective concept states that the decision maker must give due consideration both to the short run and long run effects of his decisions. Managerial economists are also concerned with the short run and long run effects of decisions on revenues as well as costs.

Discounting Principle:

According to this principle, if a decision affects costs and revenues in long-run, all those costs and revenues must be discounted to present values before valid comparison of alternatives is possible.Discounting can be defined as a process used to transform future dollars into an equivalent number of present dollars.

Equi-marginal principle:

is one of the widely used concepts in managerial economics. This principle is also known the principle of maximum satisfaction - by allocating available resource to get optimum benefit . This principle provides a basis for maximum utilization of all the inputs of a firm so as to maximize the profitability.

In the practical world, a person may purchase more then one commodity. Let us assume that a consumer purchases two goods A and B. How does a consumer spend his fixed income in purchasing two goods in order to maximize his total utility? The law of equi-marginal utility tells us the way how a person maximizes his total utility.

Firm-meaning-Objectives:

The main objectives of firms are:

1. Profit maximization.
2. Sales maximization.
3. Increased market share/market dominance.
4. Social/environmental concerns.
5. Profit satisfying.
6. Co-operatives.

UNIT – II : Demand Analysis

Concept of Demand

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service. Holding all other factors constant, an increase in the price of a good or service will decrease the quantity demanded, and vice versa.

Demand in economics is the consumer's desire and ability to purchase a good or service. It's the underlying force that drives economic growth and expansion. Without demand, no business would ever bother producing anything.

Determinates of demand

1. The price of the good or service.
2. The income of buyers.
3. The prices of related goods or services—either complementary and
4. Purchased along with a particular item or substitutes and bought instead of a product.
5. The **tastes** or preferences of consumers will drive demand.
6. Consumer expectations.

Law of demand

The **law of demand** states that other factors being constant (cetris peribus), price and quantity **demand** of any good and service are inversely related to each other. When the price of a product increases, the **demand** for the same product will fall.

Exceptions to the law of Demand:

1. Giffen goods
2. Veblen effect
3. Income change.

Types of elasticity of demand

1. Price elasticity of demand
2. Income elasticity of demand
3. Cross elasticity of demand

Types of Price Elasticity of Demand

1. Perfectly elastic demand.
2. Perfectly **inelastic** demand.
3. Relatively elastic demand.
4. Relatively **inelastic** demand.
5. Unitary elastic demand

Types of income elasticity of demand

1. Positive income elasticity of demand
2. Negative income elasticity of demand
3. Zero income elasticity of demand

Indifference curve analysis

An **indifference curve** is a **graph** showing combination of two goods that give the consumer equal satisfaction and utility. Each point on an **indifference curve** indicates that a consumer is **indifferent** between the two and all points give him the same utility.

Concept of Supply

Supply is a fundamental economic **concept** that describes the total amount of a specific good or service that is available to consumers. **Supply** can relate to the amount available at a specific price or the amount available across a range of prices if displayed on a graph.

Determinants of Supply

1. Cost of inputs
2. Productivity
3. Technology
4. Number of sellers
5. Taxes and subsidies
6. Government regulations

Exception of law of supply

Law of Supply

The **law of supply** is the microeconomic **law** that states that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa.

Elasticity of Supply

The price elasticity of supply is a measure used in economics to show the responsiveness, or elasticity, of the quantity supplied of a good or service to a change in its price.

Types of price elasticity of supply:

1. Perfectly elastic supply:
2. Perfectly inelastic supply:
3. Relatively elastic supply

4. Relatively inelastic supply
5. Unitary elastic supply

Determinants of price elasticity of supply:

1. Time
2. Ability to store output
3. Factor mobility
4. Changes in marginal cost of production
5. Availability of infrastructure facilities
6. Excess supply

Importance of elasticity of supply

1. Price determination
2. Factor pricing
3. Taxation
4. Government Policies

Demand forecasting

Forecasting is the process of making predictions of the future based on past and present data and most commonly by analysis of trends.

Significance of demand forecasting

1. Helpful in deciding the number of salesmen required to achieve the sales objective.
2. Determination of sales territories.
3. To determine how much production capacity to be built up.
4. Determining the pricing strategy.
5. Helpful in deciding the channels of distribution and physical distribution decision.
6. To decide to enter a new market or not.
7. To prepare standard against which to measure performance.
8. To assess the effect of a proposed marketing program me.
9. To decide the promotional mix.

UNIT – III: Production and Cost Analysis

Production:

Production is a process of combining various inputs to produce an output for consumption. It is the act of creating output in the form of a commodity or a service which contributes to the utility of individuals.

In other words, it is a process in which the inputs are converted into outputs.

Production function:

The Production function signifies a technical relationship between the physical inputs and physical outputs of the firm, for a given state of the technology.

$$Q = f(a, b, c, \ldots\ldots z)$$

Short run production laws,

Law of diminishing marginal returns to scale:

Diminishing returns, also called **law of diminishing returns** or **principle of diminishing marginal productivity**, economic law stating that if one input in the production of a commodity is increased while all other inputs are held fixed, a point will eventually be reached at which additions of the input yield progressively smaller, or diminishing, increases in output.

ISO-quant curves,

Isoquants are a geometric representation of the production function. The same level of output can be produced by various combinations of factor inputs. The locus of all possible combinations is called the 'Isoquant'.

Characteristics of Isoquant

1. An isoquant slopes downward to the right.
2. An isoquant is convex to origin.
3. An isoquant is smooth and continuous.
4. Two isoquants do not intersect.

ISO-cost curves

In economics an **isocost** line shows all combinations of inputs which cost the same total amount.Although similar to the budget constraint in consumer theory, the use of the isocost line pertains to cost-minimization in production, as opposed to utility-maximization.

Economic vs. Accounting profit:

Accounting Profit = Total Revenues - Explicit Costs.

Economic Profit = Accounting Profit - Implicit Costs

Cost Analysis

This unit provides a detailed exploration of cost-related concepts essential for effective business management. It commences with an in-depth examination of Cost Concepts, offering a foundation for understanding the intricacies of expenses incurred in business operations. Types of Costs are then systematically discussed, providing insight into the various classifications and structures of costs that organizations encounter.

The study then progresses to analyze Short-term and Long-term Cost Curves, shedding light on how costs evolve over different time horizons. This understanding is crucial for businesses in making strategic decisions related to production and resource allocation. The Learning Curve is explored as a dynamic tool, showcasing the systematic improvements in efficiency and productivity as workers gain experience.

The Isocost Curve becomes a focal point in understanding the optimal combination of inputs for cost minimization. This leads to a discussion on Equilibrium, where the interplay of costs and output finds a balance. The unit concludes with a practical and numeric Business Break-even Point (BEP) Analysis, allowing students to apply theoretical knowledge to real-world scenarios and evaluate the financial viability of a business venture. This comprehensive coverage equips learners with the tools and frameworks necessary for cost-effective decision-making in diverse business environments.

Unit IV: Economic Markets

This unit explores the complex dynamics of economic markets, unraveling the behaviors and structures that shape them. It initiates with an examination of Markets & Market Behavior, providing students with a foundational understanding of the forces influencing buyer-seller interactions. The Classification of Markets follows, delving into the diverse typologies that characterize economic exchanges.

A contemporary dimension is added with an analysis of Virtual Markets, exploring the impact of digital platforms on the traditional market landscape. The unit then scrutinizes the theoretical framework of a Perfect Competition Market, elucidating the conditions that lead to an idealized state of market equilibrium.

The discussion progresses to Imperfect Competition Markets, covering the nuances of Monopolistic Competition Market, where numerous firms offer differentiated products, and Monopoly, where a single entity dominates the market. Oligopoly, characterized by a small number of large firms, is explored, with a focus on the Strategies of Oligopolists, unraveling the complex interplay of competition and collaboration in such markets.

Agriculture Markets take center stage, offering a specialized focus on the unique characteristics of the agricultural sector. An Overview of Market Laws is presented, emphasizing the regulatory frameworks that govern market activities. The unit further explores the role and functions of Agriculture Market Committees (AMCs) and concludes with an examination of Price Determination under different market structures, providing insights into how prices are set in diverse economic environments. This comprehensive coverage equips students with a nuanced understanding of market dynamics, preparing them to navigate the complexities of various market structures and industries.

Unit V: Macro Economics and Budgeting

This unit delves into the macroeconomic landscape, unraveling key concepts and policies that shape national economies. It begins with an exploration of National Income concepts and Measurement, providing a comprehensive understanding of how a country's economic output is quantified. The intricate relationships among Income, Employment, and Investment are then scrutinized, emphasizing their pivotal roles in determining the overall economic health of a nation.

The unit proceeds to dissect the Keynesian Theory, focusing on its impact on Employment and Investment. This theoretical framework sheds light on government intervention in the economy to address fluctuations in economic activity.

Inflation becomes a central theme of discussion, with an examination of Types of Inflation and the diverse factors contributing to this economic phenomenon. Control Techniques of Inflation are explored, offering insights into the measures governments and central banks employ to manage and mitigate inflationary pressures.

Fiscal policies take center stage, with a thorough exploration of Budgeting. The unit provides a comprehensive overview of the Current Budget, a key instrument for managing a nation's finances. This includes an analysis of government spending, revenue collection, and the implications of budgetary decisions on the overall economic stability.

The comprehensive coverage of macroeconomic principles and policies equips students with a profound understanding of the factors influencing national economies. It also prepares them to critically evaluate fiscal measures and policies aimed at achieving economic stability and growth.