Managerial Economics

by

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Who is a Manager?

- A person who directs resources(people, money, machinery etc) to achieve a stated goal (growth, revenue, profit etc)
- Directs the efforts of others(followers, common people, employees etc)
- Purchases inputs used in the production of output
- Directs the purchases of goods with quality decisions

Managerial Economics

The study of how to direct scarce resources in the way that most efficiently achieves a managerial goal is termed as “Managerial Economics”.

Managerial Economics - A Valuable Tool

- Managerial economics deals whether we should purchase equipment's or manufacture ourselves
- Whether we should be specialized in making one type of product of multiple range of products
- How many computers should be produced?
- At what price they should be sold out?

Fundamentals of Managerial Economics

- The Economics of Effective Management
- Understanding Incentives
- Understanding Markets
- Recognizing the Time Value of Money
- Marginal Analysis

Accounting Profits vs Economic Profits

Accounting Profits

- Amount of money from sales after deducting cost of sales and operating expenses
- Accounting Profits = Sales-Cost of Producing Goods and Services

Economic Profits

- Difference between total revenue and total opportunity cost of producing firm's goods/services.
- Economic Profits = Total Revenues-Total Opportunity Cost

Explicit Costs vs Implicit Costs

Explicit Costs

- The cost which is actually incurred by organization, during production.
- Cash Outflow is required
- Out of pocket cost
- It affects both Accounting Profit and Economic Profit
- Salaries, rent, advertisement, wages, etc.

Implicit Costs

- The cost that organization does not directly incur them.
- No cash outflow
- Opportunity Cost
- It affects only economic profits
- Interest on owner's capital, Salary to owner etc.

Basics Principles for Effective Management

- Identify goals and constraints
- Sound decisions must be supported with well-defined goals.
- Decision maker may face various constraints that may affect the ability to achieve a goal.
- For example, if a student’s goal is to achieve excellent marks, then he/she should study properly and differently.

Basics Principles for Effective Management

- Goal of maximizing profit required efficient decision making
- For this purpose, determination of optimal price for a product or service is vital. Because,
- Total Sales (Revenue)= Selling Price* Units sold/Services Sold
- Total Profit= Sales-Cost

Opportunity Cost

- The cost of the explicit and implicit resources that are forgone when a decision is being made.

The Goal of Maximizing Profits

- To achieve maximum profits manager should be aware of various factors including
- How much to produce?
- How to use input?
- How to use technology?
- How to react to decision of competitors?

Home Assignment

- Which of the following cost if being shown in income statement? Explicit Cost or Implicit Cost?
- Mention some examples of Micro economics and Macro economics?
- Differentiate between the followings; Balance of Payments, Balance of Trade, Break even point, Business Cycle, Capital Goods, Central Bank, Fiscal Policy, Monetary Policy, Consumer Price Index, Gross Domestic Products, Gross National Products

Good Luck