MALLA REDDY COLLEGE OF ENGINEERING & TECHNOLOGY
(Permanently Affiliated to JNTUH, Hyd., Approved by AICTE - NAAC with A- GRADE & NBA Accredited - ISO 9001:2008 Certified) Maisammaguda, Dhulapally, Secunderabad - 500 014 - A.P. - India.

DEPARTMENT OF BUSINESS MANAGEMENT

**Course : MBA**
**Academic year : 2016-17**
**Name of the Subject : Managerial Economics**
**Prescribed textbook : H.l.Ahuja, managerial Economics, S. Chand, 2012**
**Yogesh Mahesweri, Managerial Economics, PHI, 2012**
**Nature of the subject : Common paper**

## PREFACE

Study and understand economics per se, most will recognize the value of studying applied business disciplines like marketing, production/operations management, finance, and business strategy. These subjects form the core of the curriculum for most academic business and management programs, and most managers can readily describe their role in their organization in terms of one or more of these applied subjects. A careful examination of the literature for any of these subjects will reveal that economics provides key terminology and a theoretical foundation. Although we can apply techniques from marketing, production/operations management, and finance without understanding the underlying economics, anyone who wants to understand the why and how behind the technique needs to appreciate the economic rationale for the technique.

We live in a world with scarce resources, which is why economics is a practical science. We cannot have everything we want. Further, others want the same scarce resources we want. Organizations that provide goods and services will survive and thrive only if they meet the needs for which they were created and do so effectively. Since the organization's customers also have limited resources, they will not allocate their scarce resources to acquire something of little or no value. And even if the goods or services are of value, when another organization can meet the same need with a more favourable exchange for the customer, the customer will shift to the other supplier. Put another way, the organization must create value for their customers, which is the difference between what they acquire and what they produce. And understand economics have a competitive advantage in creating value.

**Course Aim:** To enable students acquire knowledge to understand the economic environment of an organization.

**Learning Outcome:** Students should be able to understand the basic economic principles, forecast demand and supply and should be able to estimate cost and understand market structure and pricing practices.

## Unit-I

Introduction to ME: Definition, Nature and Scope, ME as an inter-disciplinary, Basic economic principles-The concept of opportunity cost, Production possibility curve, Incremental Concept, Scarcity, Marginalism, Equi-marginalism, Time perspective, Discounting Principle.
Case 1: The objective and strategy of firms in the cigarette Industry (Dominick Salvatore page no 15)
Case 2: Dabur India Limited Growing Big and Global (Geetika, 2nd Edition page no 64)

**Objective:** The objective of the study is to know the evolution and basic principles of managerial economics

**Outcomes:** it helps to understand fundamental concepts of economics and enables students how these concepts are utilized in business management

The terms 'Managerial Economics' and 'Business Economics' are often synonyms and used interchangeably in managerial studies. It is also known as 'Economics for Managers'. Basically, Managerial Economics is an Applied Economics in the sphere of business management. It is an application of economic theory and methodology to decision-making problems faced by the business firms. Thus, it is the economics of business or managerial decisions or it is the process of application of principles, concepts and techniques.

Managerial Economics is an interdisciplinary subject as it derives its roots from different disciplines, such as management, economics, operations research, organisation behavior, anthropology, mathematics, statistics, and psychology etc,. It is equipped with different tools and techniques, what we learn in this unit and that are helpful in formulation of plans and effective decision making in the business world.

## Unit-II

Theory of Demand: Demand analysis, law of demand, movement in demand curve, shift in the demand curve, Elasticity of demand, Types & Significance of Elasticity of demand, measurement techniques of Price Elasticity, demand forecasting and its techniques, consumers Equilibrium, cardinal utility approach, indifference curve approach, consumer surplus.
Case 3: Forecasting the Number of MC Donalds Restaurants worldwide (Dominick Salvatore page no 195)
Case 4: The Demand for sweet potatoes in the United States (Dominick Salvatore page no 100)

**Objective:** To understand the concept of Demand and its significance, forecasting and elasticity of Demand and supply

**Outcomes:** After pursuing this unit students will come to know the application of demand concepts in different perspectives, which helps to frame out decisions in the practical world.

This lesson examines demand and its determinants. Demand is the force that drives all business activities. Infact without a demand for its goods or services; a firm is doomed to failure
The amout of a particular economic good or service that a consumer or group of consumers will want to purchase at a given price. The demand curve is usually downward sloping, since consumers will want to buy more as price decreases. Demand for a good or service is determined

by many different factors other than price, such as the price of substitute goods and complementary goods. In extreme cases, demand may be completely unrelated to price, or nearly infinite at a given price. Along with supply, demand is one of the two key determinants of the market price.

## Unit-III

**Production Analysis:** Production function, Production function with one/two variables, Cobb-Douglas Production Function Marginal Rate of Technical Substitution, Isoquants and Isocost, Returns to Scale and Returns to Factors, Economies of scale- Innovations and global competitiveness.

Case 5: Substitutability between Gasoline consumption acid driving times (Dominick Salvatore page no 265)

Case 6: How Xerox lost and regained International competitiveness and became a leader in information technology (Dominick Salvatore page no 278)

**Objective:** The objective of the study is to know the analysis of production in the process of utility creation

**Outcomes:** Enables students to understand the production, technical relationship in factors of production, its process and impact of various costs on production.

Production is an important economic activity. It directly or indirectly satisfies the wants and needs of the people. Satisfaction of human wants is the objective of production. In this lesson a general discussion of the concept of production and its functions are carried out.

Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption (the output). It is the act of creating output, a good or service which has value and contributes to the utility of individuals.

Economic well-being is created in a production process, meaning all economic activities that aim directly or indirectly to satisfy human needs. The degree to which the needs are satisfied is often accepted as a measure of economic well-being. In production there are two features which explain increasing economic well-being. They are improving quality-price-ratio of goods and services and increasing incomes from growing and more efficient market production

## Unit-IV

**Cost theory and estimation:** Cost concepts, determinants of cost, cost-output relationship in the short run and long run, short run vs. long run costs, average cost curves, Overall Cost leadership.

Case 7: Out Sourcing to India: way to Fast Track (Geetika page no 272)

Case: 8 The Shape of the long –Run Average cost curves in various industries (Dominick Salvatore page no 265)

**Objective:** The objective of this study understands the concept of cost, analyze the concepts of concepts of cost curves.

**Outcome:** To know the optimization of cost and how to minimize the total cost of production of a firm

By studying this unit we are able to understand that economic efficiency of any firm operating in the market is determined by the ability of the firm to minimize its costs and maximize its profits. We also need to understand that cost is a function of Output. As the output of a firm changes the cost pattern of a firm also undergoes change. Study of cost and its behavior as production pattern changes in the short run and the long run, gives useful insight into issues like:

How the cost pattern of a firm changes in case a firm is operating in the short run?

How the cost changes along with the change in the scale of production?

How the cost of operation can be minimized?

What is the optimum level of operation of any firm (at optimum level the cost of the firm is generally reaches its minimum level)?

## Unit-V

**Market Structure and Pricing Practices:** Features and Types of different competitive situations - Price-Output determination in Perfect competition, Monopoly, Monopolistic competition and Oligopoly - both the long run and short run. Pricing philosophy

Case 9: Pricing of innovative product (H.Kaushal Macmillan page no 78)

Case 10: Monopoly in the Mumbai city Taxi Industry (Dominick Salvatore page no 369)

**Objective:** To understand the concept of market, types of markets. How firms determine price output determination under different markets.

**Out Come:** This study helps students to know types of markets and how firms determine their production levels

In economics, markets are classified according to the structure of the industry serving the market. Industry structure is categorized on the basis of market structure variables which are believed to determine the extent and characteristics of competition. Those variables which have received the most attention are number of buyers and sellers, extent of product substitutability, costs, ease of entry and exit, and the extent of mutual interdependence. In the traditional framework, these structural variables are distilled into the following taxonomy of market structures:

(1) Perfect Competition--many sellers of a standardized product,

(2) Monopolistic Competition--many sellers of a differentiated product,

(3) Oligopoly--few sellers of a standardized or a differentiated product, and

(4) Monopoly--a single seller of a product for which there is no close substitute.

These four market structures each represent an abstract (generic) characterization of a type of real market.

Market structure is important in that it affects market outcomes through its impact on the motivations, opportunities and decisions of economic actors participating in the market. The goal of economic market structure analysis is to isolate these effects in an attempt to explain and predict market outcomes. MSA is concerned with the effects of competition upon economic behavior. It attempts to explain and predict market outcomes through the extent of market competition.

| **SECTION- A** | **SECTION- B** | **SECTION-C** |
|---|---|---|
| (M.L.Himaja) | (K.Sudheer) | (M.NandaKishore) |

| **HOD** | **PRINCIPAL** |
|---|---|
| (Mr. G. Naveen Kumar) | (Dr.V.S.K.Reddy) |