

UNIT -1

BASICS OF MANAGERIAL ECONOMICS

LESSON 4- Relationship between managerial economic, economic, and other subjects

After studying this lesson you will be able to distinguish managerial economics with its related subjects. Managerial economic is not something which is related to economics only, but there are other areas also to which managerial economic is related. Other related subjects of managerial economics are:

- Economics
- Mathematics
- Statistics
- Accounting
- Operation Research
- Computers
- Management

Before knowing the relationship between managerial economics and other related fields it is customary to divide economics into “**positive**” and “**normative**” economics. Economists make a distinction between positive and normative that closely parallels popper’s line of demarcation.

Positive economics:

It deals with description and explanation of economic behavior, Economics and Managerial economics. Managerial economics draws on positive economics by utilizing the relevant theories as a basis for prescribing choices.

A positive statement is a statement about what is and which contains no indication of approval or disapproval. It’s not like that positive statement is always right, positive statement can be wrong. Positive statement is a statement about what exists.

Normative economics:

It is concerned with prescription or what ought to be done. In normative economics, it is inevitable that value judgment are made as to what should and what should not be done. Managerial economics is a part of normative economics as its focus is more on prescribing choice and action and less on explaining what has happened. It expresses a judgment about whether a situation is desirable or undesirable.

The primary task of Managerial economics is to fit relevant data to this framework of logical analysis so as to reach valid conclusion as a basis for action.

Another branch of economics which is normative like managerial is public policies analysis which is concerned with the problems of managing the government of a country.

Economic and managerial economic:

Economics contributes a great deal towards the performance of managerial duties and responsibilities. Just as the biology contributes to the medical profession and physics to engineering, economics contributes to the managerial profession.

All other qualifications being same, managers with working knowledge of economics can perform their function more efficiently than those without it.

What is the basic function of the managers of the business?

As you all know that the basic function of the manager of the firm is to achieve the organizational objectives to the maximum possible extent with the limited resources placed at their disposal.

Economics contributes a lot to the managerial economics.

Mathematics and managerial economics:

Mathematics in ME has an important role to play. Businessmen deal primarily with concepts that are essentially quantitative in nature e.g. demand, price, cost, wages etc.

The use of mathematical logic in the analysis of economic variable provides not only clarity of concepts but also a logical and systematic framework.

Statistics and managerial economics:

Statistical tools are a great aid in business decision making. Statistical techniques are used in collecting processing and analyzing business data, testing and validity of economics laws with the real economic phenomenon before they are applied to business analysis.

The statistical tools for e.g. theory of probability, forecasting techniques, and regression analysis help the decision makers in predicting the future course of economic events and probable outcome of their business decision.

Statistics is important to managerial economics in several ways. ME calls for marshalling of quantitative data and reaching useful measures of appropriate relationship involves in decision making.

Let me explain it through an example:

In order to base its price decision on demand and cost consideration, a firm should have statistically derived or calculated demand and cost function.

Operation research and managerial economics:

It's an inter-disciplinary solution finding techniques. It combines economics, mathematics, and statistics to build models for solving specific business problems.

Linear programming and goal programming are two widely used OR in business decision making.

It has influenced ME through its new concepts and model for dealing with risks. Though economic theory has always recognized these factors to decision making in the real world, the frame work for taking them into account in the context of actual problem has been operationalised.

The significant relationship between ME and OR can be highlighted with reference to certain important problems of ME which are solved with the help of OR techniques, like allocation problem, competitive problem, waiting line problem, and inventory problem.

Management theory and managerial economics:

As the definition of management says that it's an art of getting things done through others. Bet now a day we can define management as doing right things, at the right time, with the help of right people so that organizational goals can be achieved. Management theory helps a lot in making decisions.

ME has also been influenced by the developments in the management theory. The central concept in the theory of firm in micro economic is the maximization of profits.

ME should take note of changes concepts of managerial principles, concepts, and changing view of enterprises goals.

Accounting and managerial economics:

There exists a very close link between ME and the concepts and practices of accounting. Accounting data and statement constitute the language of business.

Gone are the days when accounting was treated as just bookkeeping. Now its far more behind bookkeeping. Cost and revenue information and their classification are influenced considerably by the accounting profession.

As a student of MBA you should be familiar with generation, interpretation, and use of accounting data.

The focus of accounting within the enterprise is fast changing from the concept of bookkeeping to that of managerial decision making.

Mathematic is closely related to ME. Certain mathematical tools such as logarithm and exponential, vectors, determinants and matrix algebra and calculus etc.

Computers and managerial economics:

You all know that today's age is known as computer age. Everyone of us are totally dependent on computers. This computers have effected eachone of us in every field. Managers also have to depend on computers for decision making. Computer helps a lot in decision making. Through computers data are presented in such a nice manner that its really very easy to take decisions.

There are so many sites which help us in giving knowledge of various things, and in a way helps us in updating our knowledge.

Conclusions:

Managerial Economics is closely related to various subjects i.e. Economics, mathematics, statistics, accountings. Computers etc. a trained managerial economist integrates concepts and methods from all these subjects bringing them to bear on business problem of a firm. In particular all these subjects are getting closed to Managerial Economics and there appears to be trends towards their integration.