

The Nature and Scope of Managerial Economics



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- **Economics** is the [social science](#) that studies the [production](#), [distribution](#), and [consumption](#) of [goods](#) and [services](#).
- **Managerial economics** (sometimes referred to as [business economics](#)), is a branch of [economics](#) that applies [microeconomic](#) analysis to decision methods of businesses or other management units. As such, it bridges economic theory and economics in practice. It draws heavily from quantitative techniques such as [regression analysis](#) and [correlation](#), [Lagrangian calculus](#) (linear). If there is a unifying theme that runs through most of managerial economics it is the attempt to [optimize](#) business decisions given the firm's objectives and given constraints imposed by scarcity, for example through the use of [operations research](#) and programming.



Managerial Economics



- Manager
 - A person who directs resources to achieve a stated goal.
- Economics
 - The science of making decisions in the presence of scarce resources.
- Managerial Economics
 - The study of how to direct scarce resources in the way that most efficiently achieves a managerial goal.



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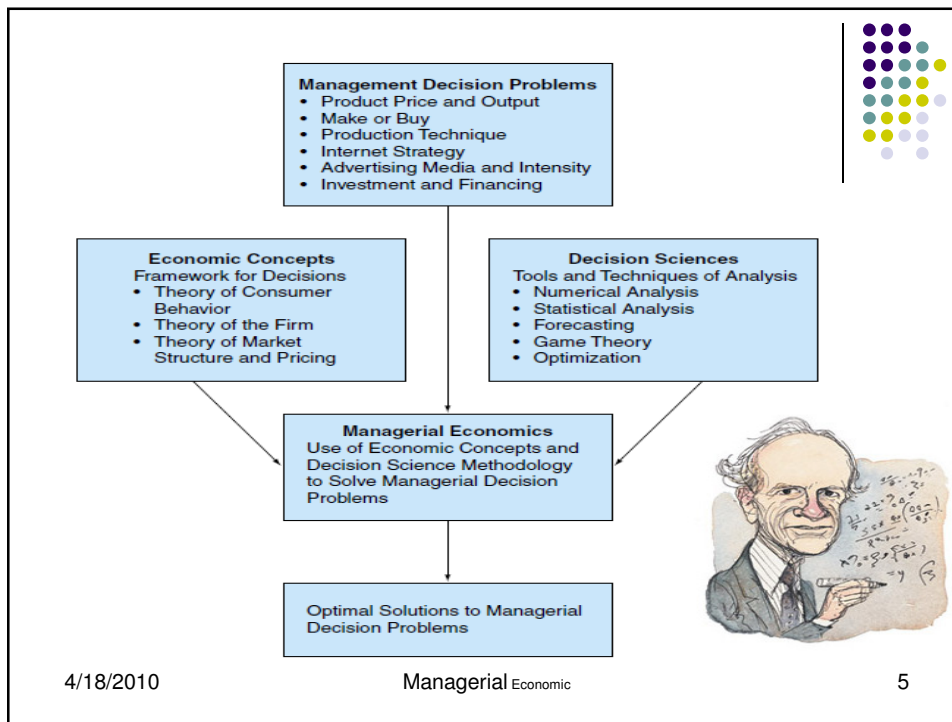
	The Global Trade Economy	The Metropolitan Bioregional Economy
Market Sectors	Commodity Agriculture (wheat, rice, soybeans, beef, coffee, bananas, etc.) Electronics Vehicles High Tech Health Care, Pharmaceuticals Hardware Mass Produced Clothing, Cloth Goods Hydrocarbon-Based Energy Financial Services Short term R&D	Organic & Specialty Agriculture Local Commerce (locally produced goods and services) Construction (Housing, etc.) Education (basic, life management, citizenship) Basic & Holistic Health Care & Education Hand Crafts Arts Sports Child Care Elder Care Home & Yard Care
Public Goods (The "Commons")	Global Ecology Fair Trade Policies National Defense Long Range R&D Catastrophic Reinsurance (health, disasters, etc.) Coordination of Health, Education, Welfare (Information and infrastructure investments) Major (Corporate, Foundations, etc.) Philanthropy	Sustainable Land Use Employment Security Education (basic, life management, citizenship) Urban Environment & Social Welfare Services Conservation & Recreation Local Philanthropy

Bernard Lietaer and Art Warmoth, © 1999

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How Is Managerial Economics Useful?

- **Evaluating Choice Alternatives**
 - Identify ways to efficiently achieve goals.
 - Specify pricing and production strategies.
 - Provide production and marketing rules to help maximize net profits.
- **Making the Best Decision**
 - Managerial economics can be used to efficiently meet management objectives.
 - Managerial economics can be used to understand logic of company, consumer, and government decisions.

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Definisi:

Managerial economic refers to the application of economic theory and the tools of analysis of decision science to examine how an organization can achieve its aims or objectives most efficiently.



The scope of managerial economics:

- Economic sciences
- Decision sciences
- Other science having an effect on to decision making.

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SCOPE & IMPORTANCE OF MANAGERIAL ECONOMICS:

Out of two major managerial functions served by the subject matter under managerial economics are decision making and forward planning:

Lets explore the scope for decision making:

1. Decision relating to demand.
2. Decision related to Cost and production.
3. Decision relating to price and market.
4. Decision relating to profit management.
5. Macro economic factor.



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Relationship to economic theory

1. Micro economic
2. Macro economic

Penekanan:

1. Normative economic
2. Positif economic

Relationship to the decision sciences

Ilmu ekonomi memberikan kerangka teoritis pengambilan keputusan manajerial untuk membentuk model-model keputusan, menganalisis pengaruh serangkaian tindakan alternatif dsan mengevaluasi hasil-hasil yang diperoleh.

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Relationship to the functional areas of business Administration studies.

Bidang Fungsional	Akuntansi, keuangan, pemasaran, personalia, produksi
Bidang alat	Akuntansi, sistem informasi manajemen, ekonomi manajerial, perilaku organisasi, metode kuantitatif, riset operasional, statistik, matematik.
Bidang khusus	Perbankan, asuransi, bisnis internasional, regulasi
Mata kuliah terpadu	Kebijakan perusahaan, ekonomi manajerial

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Theory of the Firm



- Expected Value Maximization
 - Owner-managers maximize short-run profits.
 - Primary goal is long-term expected value maximization.
- Constraints and the Theory of the Firm
 - Resource constraints.
 - Social constraints
- Limitations of the Theory of the Firm
 - Alternative theory adds perspective.
 - Competition forces efficiency.
 - Hostile takeovers threaten inefficient managers.

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Economic vs. Accounting Profits



- Accounting Profits
 - Total revenue (sales) minus dollar cost of producing goods or services
 - Reported on the firm's income statement
- Economic Profits
 - Total revenue minus total opportunity cost

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Opportunity Cost



- Accounting Costs
 - The explicit costs of the resources needed to produce goods or services
 - Reported on the firm's income statement
- Opportunity Cost
 - The cost of the explicit *and* implicit resources that are foregone when a decision is made
- Economic Profits
 - Total revenue minus total opportunity cost

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Why Do Profits Vary Among Firms?



- Disequilibrium Profit Theories
 - Rapid growth in revenues.
 - Rapid decline in costs.
- Compensatory Profit Theories
 - Better, faster, or cheaper than the competition is profitable.

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Role of Business in Society

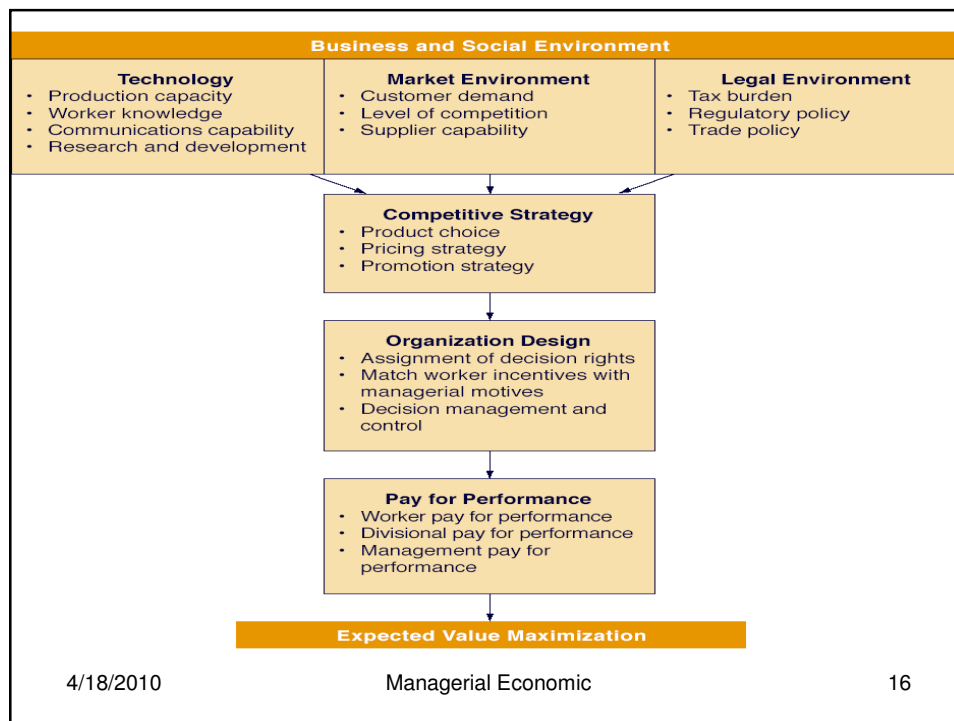


- Why Firms Exist
 - Business is useful in satisfying consumer wants.
 - Business contributes to social welfare
- Social Responsibility of Business
 - Serve customers.
 - Provide employment opportunities.
 - Obey laws and regulations.

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Market Interactions

- Consumer-Producer Rivalry
 - Consumers attempt to locate low prices, while producers attempt to charge high prices
- Consumer-Consumer Rivalry
 - Scarcity of goods reduces the negotiating power of consumers as they compete for the right to those goods
- Producer-Producer Rivalry
 - Scarcity of consumers causes producers to compete with one another for the right to service customers
- The Role of Government
 - Disciplines the market process

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The Theory of The Firm

Model dasar perusahaan bisnis \Leftrightarrow teori perusahaan

Tujuan : mamaksimisasi kekayaan atau nilai perusahaan (nilai sekarang = PV).

$$PV = \frac{\pi_1}{(1+i)^1} + \frac{\pi_2}{(1+i)^2} + \dots + \frac{\pi_n}{(1+i)^n}$$

$$PV = \sum_{t=1}^n \frac{\pi_t}{(1+i)^t}$$

$$\text{Nilai} = \sum_{t=1}^n \frac{TR_t - TC_t}{(1+i)^t}$$

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Constraint on the operation of the firm



Constraint :

1. Sumberdaya
2. Kuantitas dan kualitas output
3. Hukum

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Firm Valuation



- The value of a firm equals the present value of all its future profits
 - $PV = \sum p_t / (1 + i)^t$
- If profits grow at a constant rate, $g < i$, then:
 - $PV = p_0 (1+i) / (i - g)$, p_0 = current profit level.
- Maximizing Short-Term Profits
 - If the growth rate in profits $<$ interest rate and both remain constant, maximizing the present value of all future profits is the same as maximizing current profits.

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Marginal (Incremental) Analysis



- Control Variables
 - Output
 - Price
 - Product Quality
 - Advertising
 - R&D
- Basic Managerial Question: How much of the control variable should be used to maximize net benefits?

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Net Benefits



- Net Benefits = Total Benefits - Total Costs
- Profits = Revenue - Costs

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Marginal Benefit (MB)

- Change in total benefits arising from a change in the control variable, Q:

$$MB = DB / DQ$$

- Slope (calculus derivative) of the total benefit curve



Marginal Cost (MC)

- Change in total costs arising from a change in the control variable, Q:

$$MC = DC / DQ$$

- Slope (calculus derivative) of the total cost curve

Marginal Principle

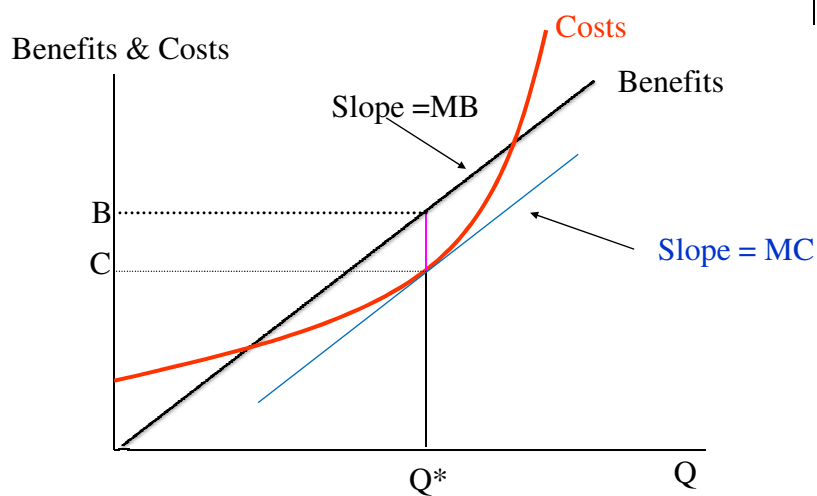
- To maximize net benefits, the managerial control variable should be increased up to the point where $MB = MC$
- **$MB > MC$** means the last unit of the control variable increased benefits more than it increased costs
- **$MB < MC$** means the last unit of the control variable increased costs more than it increased benefits

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The Geometry of Optimization



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Literatur



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Problem



1. Review the decision criteria that you took into account in choosing your college or university; in what sense was the choice a managerial decision? ...an entrepreneurial decision?
2. Explain how the existence of multiple possible goals may be accommodated in a decision analysis.
3. Explain how the achievement of profit in the business firm may be a by-product of other activities rather than an object of direct pursuit; what are the managerial implications?

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