UNIT - I

ECONOMICS

Economy : A situation where we have resources and unlimited wants.

Ex: Individual (x person Salary 20,000) and unlimited wants food expenses 5000 ; Travelling expenses 2000, Educational expenses 25,000 and so on....

Economics : Economics is a study of how to use resources inorder to satisfy the unlimited wants.

NOTE : Allocating the scare resources.

Economics is a both science & art :

If any subject consider as a science, it must be satisfied certain conditions.

→ It must be having systematic body.

→ cause and effect relation.

→ It must be measurable.

→ It must be forecasting.

→ It must be having certain methodology. → Inductive → Deductive

Arts :

Fundamentally, it has to follow certain systematic principles.

NOTE : Economics is a both science & art.

Economic Definitions :

According to Adam smith (Father of economic) Economics is defined as the study of Nature and uses of national wealth.

A/c to L. Robbin's, Economics as the Science which studies of human behaviour as a relationship between ends and scares means which have alternative uses. With these, economics shifted from wealth to human beings.

→ The silent features of economics,

A/c to Robbins

1. Unlimited wants
2. Scare resources
3. Alternative uses
4. choices

Types of Economics :

They are : 1. micro economics
2. macro economics

. micro economics :

micro economics means study of individual consumer/customers. / individual firm. It is also called firm theory.

→ micro economics deals with behaviour & problems of single individual and of micro organisation.

macro economics :

The study of aggregate (or) total of economic activity in a country (or) in industry is called as macro economics.

→ It studies the flow of resources (or) factors of production such as i.e., land, labour, capital, organisation, Technology, material and so on. from the resources, owner to the business and then from business firm to house holders.

Management :

It is a science and art of getting things done through the people. In formally, organised groups.

→ It is necessary that every organisation is well managed to enable it, to achieve it's desire goals.

Manager :

manager is a person who work done through others. (manager can monitor all the activities in the organisation, under the control.)

II Managerial Economics : (Introduction for Nature & Scope)

(managerial economics consists of two words i.e. management and economics.) The science of managerial economic has emarged recently, with going of variability and predictability of the business environment. Business managers have become increasing, the concerned with finding to an explicity of environmental changes.

The managerial economic subject of get popularity in USA after publication of managerial economics by "Jeel Dean".

According to Spencer and siegliman (siegelman), managerial economics is, " The integration of economic theories (& policy) with business practices for the purpose of facilitating the (problem solving,) decision making and forward planning by management.

According to pappas, " managerial economics is Application of economic theories.

→ According to michel bavaye " managerial economic is " study of how direct resources in a way that most effectively achieve a managerial.

→ A/c to DC. Hegue, managerial economics is a fundamental ~~ao~~ academic subject, which seems to understand & analize the problems of the business.

Nature of managerial economics :

1) It close to micro economics.
2) It covers back drop of macro economics
3) Normative statements.
4) Prescriptive actions
5) It give alternative actions & choices.
6) It has certain assumptions & limitations.
7) Applied nature.

1) It close to micro economics :

managerial economics concerned with finding the solution for different managerial problems of a particular firm (or) individual firm. Thus, it is more close to micro economic. It is also consider as Theory of the firm.

2) It covers backdrop of macro economics :

The macro economic conditions, the economy also seen as limiting factors for the firm to operate. such as govt. policies, inflation, Deflation, stragulation.

Inflation → Increase the price of goods & services continously.

Deflation → prising the level of goods & services decreases

stragulation → Pricing the level of goods & services increases & decreases.

3) Normative statement:

A normative statement includes or impliees ought out or should. They reflect people moral attitudes and are expressions of what a team of people ought to do.

4) Prescriptive Actions:

Prescriptive actions are consider as a goal oriented actions (or) objective oriented actions. It ensures that, the course of action from available alternatives of the firm for optimal solution.

5) It gives Alternative actions:

m.E provides oppurtonity to evaluate each alternative in terms of sales & Revenue as well as profits. The m.E can decided, which is the best suitable alternative for the firm.

6) It have certain assumptions & limitations:

Every concept and theory of m.E is based on certain assumptions & limitations. where there is not a change in assumptions, the theory may not hold at good.

7) Applied nature :

models are built, to reflect the real life of complexity and this models are help to the manager, for taking decisions.

The different areas, where the models are extensively used in inventory control (ABC analysis). optimization and so on....

Scope of managerial Economics :

concepts & Techniques of m.E ⟶

* Demand forecasting
* Production analysis
* cost analysis
* Price analysis
* Inventory analysis
* Technology changes
* Advertisement expenditure analysis
* Resources analysis

$\xrightarrow{\text{for}}$ Getting optimal solution

The main focus of managerial economics to find the optimal solution to m.E. The problem may be related to demand forecasting analysis, Production, cost, price, Inventory, Technology, Advertisement, Expenditure, Resource analysis.

Theories of the firm :

Theory of the firm means any theory or group of theories, which attempts to know the firms behaviour under different market conditions. (monopoly market, perfect-competition market, oligopoly market).

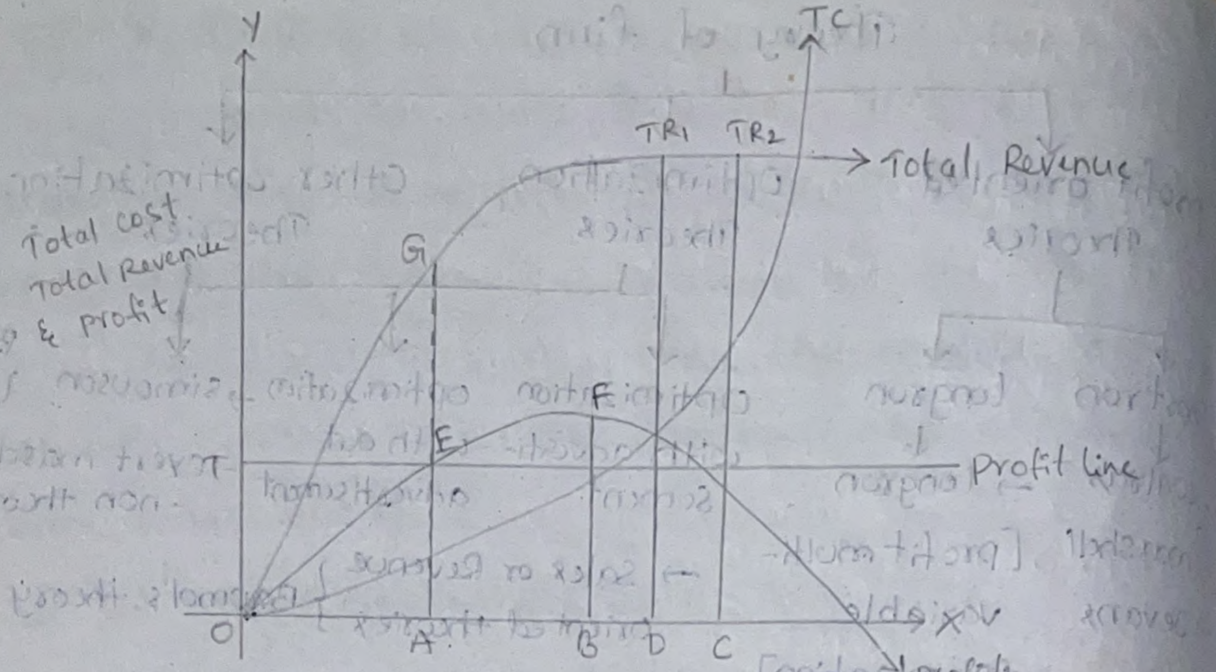
III

Theory of firm

- profit oriented Theories
  - Shortrun
    - → walras
    - → marshell
    - → Jevans
  - Longrun
    - → Longrun [profit multi-variable optimization]
- Optimization Theories
  - Optimization with advertisement
    - → Sales or Revenue oriented theories } Baumol's theory
    - → managerial utility theories } william's managerial utility theories
    - → Others – marrias theory
  - optimization with out advestisement
- Other optimization Theories
  - → simouson } Behaviour Theory
  - → cyert maschmen - non theory

Baumol's sales maximization model (Assumption):

1. Baumol's sales maximization model explain about oligopolly market.
2. Total sales (or) total revenue of the organization always higher than minimum profits of the organization.
3. Profits of the organization are found always minimum with respect to minimum profit line & it leads to increase the sales and market shares of the organisation.
4. Total cost curve always in 'u' shape, demand curves always in a downward sloping.
5. Total Revenue, Total cost of curves always should be consider as a conventional category.



→ In x-axis we are taken output, in y-axis we are taken Total Revenue, Total cost and profit.

→ Total cost curve starts from origin from point 'o' and increases gradually, increases with respect to output of the organisation.

→ Total revenue also starts from origin and increases upto certain limit, then decreases.

→ Profit line always located in b/n the Total Revenue and Total cost. In this way, firms having certain profit line and this profit line consider as a minimum profit line.

→ In above fig. it represent as a profit line.

→ Acc to Baumel's sales maximization model, assumptions firms must be gets maximum Revenue (or) Sales. w.r.to minimum profit of the organisation, it is represented as a C, TR_2 at the level of OC output.

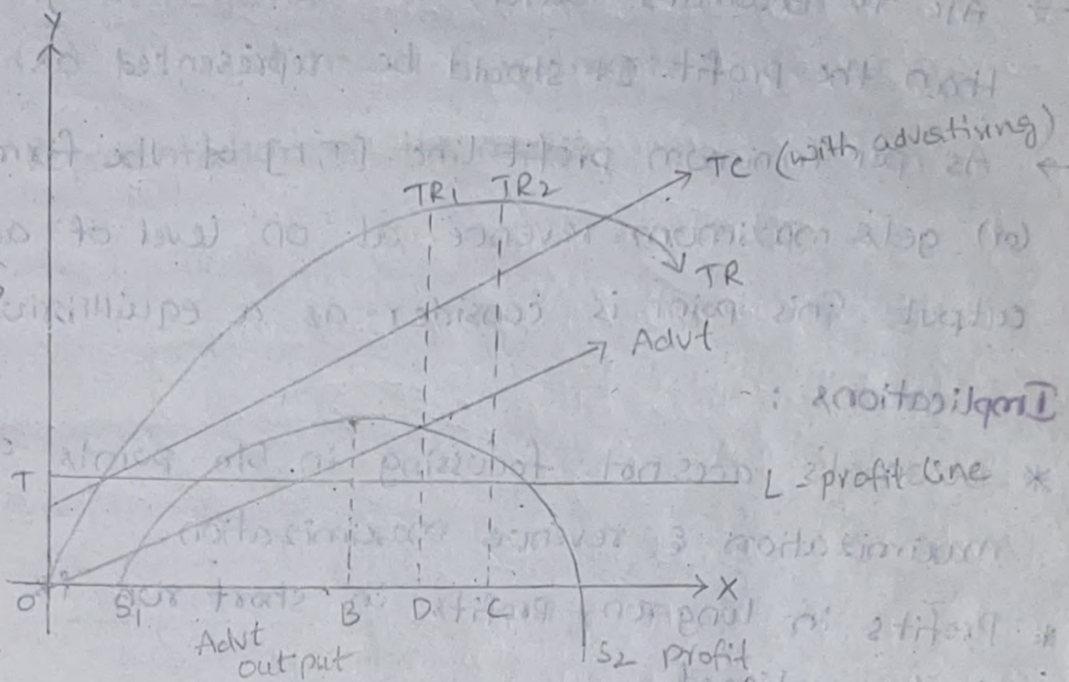
→ As per minimum profit line assumption, firm produce OD level of output, w.r.to Revenue (or) Sales, it should be represented as D, TR_1.

→ In above graphical representation firms get maximum profit at 'OB' level of output and this point as measured as 'F'.

→ At 'OA' level of output, firm satisfy the minimum profit line condition but it does not satisfy the maximum sales, it should be represented as A G E line.

→ Finally, if firm wants in a equillibrium stage, firms must be produce 'OD' level of output.

Baumol sales maximization with Advertisement:



→ According to the Baumal's sales (or) Revenue maximisation model with advertisement.

→ Firms have two alternatives to increase the revenue (or) sales.

a) To cut the prices

b) To increase the advertisements without changing price.

with the following of second condition in the diagram, in vertical ~~a~~ axess TR, TC & Profits. In horizontal axes we are taken advertisement output.

→ Total Revenue starts from origin and increases upto certain point of the production and then decreases.

→ Total cost starts from above origin [F+V] and increases simultaneously with production of the firm.

→ Advt line curve increases parallel to the total cost [below the TC line].

→ S_1, S_2 curve is consider as a profit line at OB level of output organisation in maximum profits.

→ A/c to Bowmal's model, revenue is always higher than the profit. It should be represented as CTR_2.

→ As per minimum profit line [T, L] of the firm produce (or) gets maximum revenue at 'OD' level of advertisement output. This point is consider as a equillibrium point.

Implications :

* Bowmal's does not focussing in b/n points of profit maximization & revenue maximization.
* Profits in long run, Profits in short run is not clearly mentioned.

Oliver E williamson managerial uterity Theory :

According to oliver E williamson [1964] Profit maximisation is not be objective of joint stock organisation. The sole objective of the theory is utility maximisation of the manager rather than profit maximisation.

Assumptions :

(a) It explains about oligopoly market.
(b) Diverse of management and ownership.
(c) A minimum profit contain exist for the firms to be able to pay dividents to their share holders.

Williamson managerious uterity function:

It includes variables such as salary, job Security, power, prestage and proffessional excellence of the managers. out of these, salary is consider as a quantity variable [which is measurable].

The remaining variables are considered as not quantity variable.

Uterity = S, m, Id

where, S = Management of staff expenditure (Salary)

m = management ~~stock~~ emoluments (Slack)

Id = Discreationary Investments

Graphical Representation of the model:

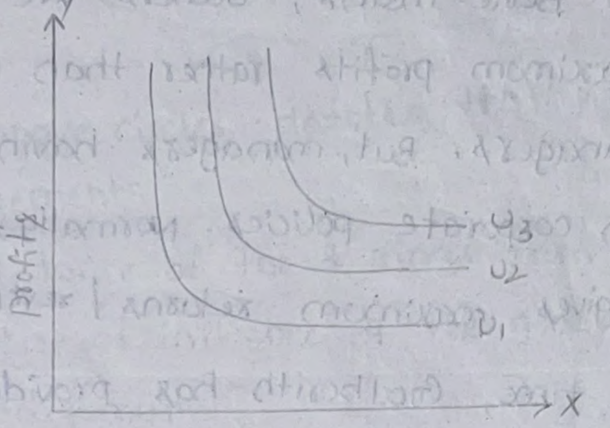
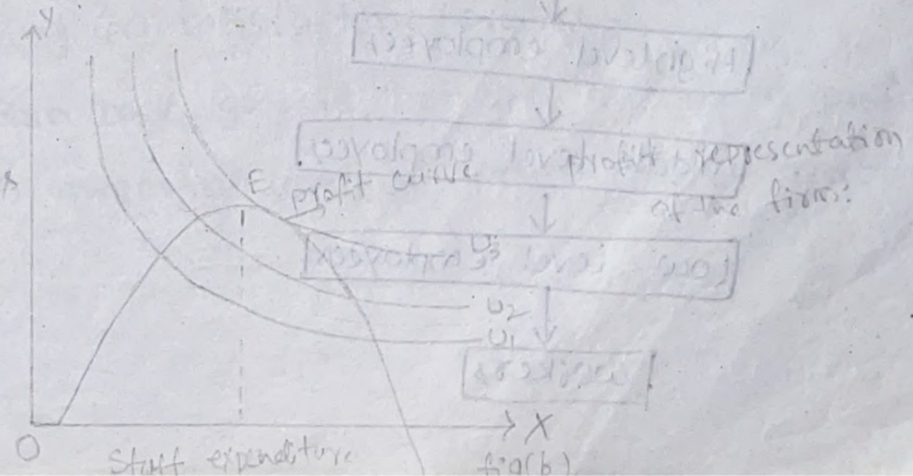


fig (a)

→ If U_1, U_2, U_3 derived by the manager and these are considered as a uterities of the manager.

→ Higher differentiation curve, higher uterisation by the manager. Hence, the manager would try to be the highest level. In differences curve possible in a given constraint.



fig(b)

→ To find the equillibrium model (or) point in above diag[ram] a and b are super imposed. The equillibrium point is where the distationary profit curve is tangent to the highest. Indifferences (uterity) curve of the manager which is at point 'E'.

→ A/c to williamson concept 'E' is consider as a equillibrium point.

Berle - means / Gal borith - corporate social structure:

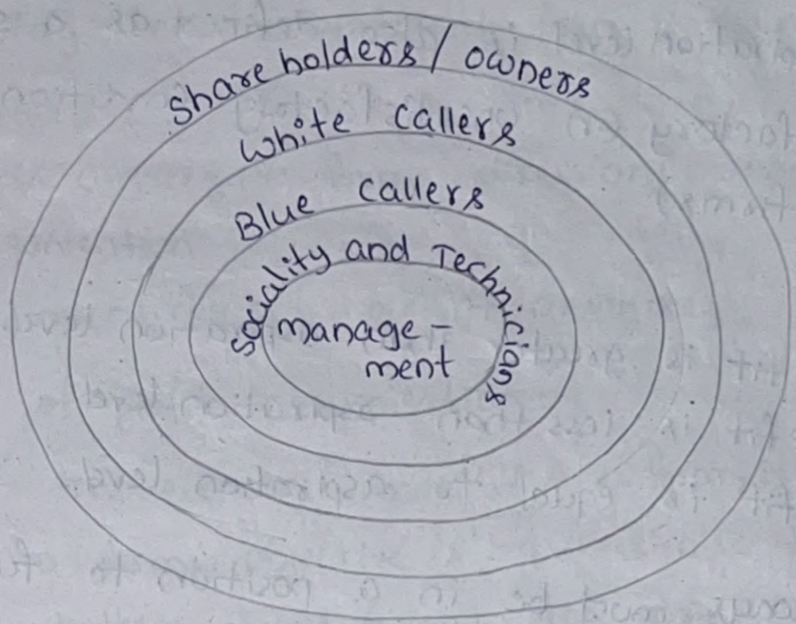
Berle - means suggested for implications of the seperation of ownership and management in the model corporation.

According to Berle - means, owners are focusing on how to get maximum profits rather than provide benefits to the managers. But, managers having a power and knowledge on corporate policies. Normally, sufficient investment fund gives maximum returns / revenues.

In recent time, Galborith has provide several variations and additions to the Berle - means thory A/c to Galborith & Berle - means, Traditional corporate structure may be depicted in terms of vertical corporate structure. It follows certain higherarical control.

Owners / share holders
↓
High level employees
↓
middle level employees
↓
Low level employees
↓
workers

A/c to Galborith, the power structure of modern corporation ~~easing~~ is in a concentric way and centraic power.



→ The above circles denotes that identification of the management.

→ The distance of the * rings from the centraic signifies, the extent of influence of the group on the objective of the management.

IV Behaviour Theories:

H. simon's satisficing Behaviour Theory:

According to ~~H.~~ simonson's [he is belongs to as a economist]. According to him, the firm basic principle, the objective is not getting a maximum profit but satisfying (or) satisfactory profits.

The firm basic goal is not get maximum profits but attain minimum level of profit rate of growth.

The firm aspairs to achieve certain (or) minimum target level of profit. It aspiration level is based on different levels of goals. Such as production of product, price, place, profit and so on.

The aspiration level is also defined as a situation between satisfactory (or) unsatisfactory condition. (Interms of firms).

Conditions :

1. Actual benefit is greater than aspiration level.
2. Actual benefit is less than aspiration level.
3. Actual benefit is equal to aspiration level.

NOTE : Firm always must be in a position to fulfill the 1 and 3 conditions.

Weaknesses :

→ Simonson's main criticise is, it does not gives clear information about the level of profit.

→ Boumal's and o'williamson's are also criticise about profit conditions [Boumal's assumptions].

Cyert & march Behavioural Theory :

Behaviour of the firm started in the year of 1930 to 1950, after some seminal (strong support) by the simanson in his artical [Economic reform - Quarterlly in 1955].

In addition to simanson theory, cyert & march elaborated the behaviour of the firm in the year of 1963.

Cyert & march model focusing on the way decissions are made in "large, multi-product firm" under uncertainity. conditions.

These model emphasise (focus) on internal structure of the firm and effect of the problem on decission making.

cyert & march focus on firms behaviour by applying common external force & their behaviour.

Limitations :

1. This aggreegate firms decissions impact on whole organisation.
2. complex may be phase at over time.

Model of profit maximisation :

The economic model of the firm, it is assumed that a firms objective is to maximise their profits in short term period (1 year), the various forms of market structure. such as, perfect competition, monopoly & monopolistic competition market. They explains the determination of price-output, By assuming the firms maximum profits in a short run.

Normally, profit is calculated by deducting the total cost from the total revenue.

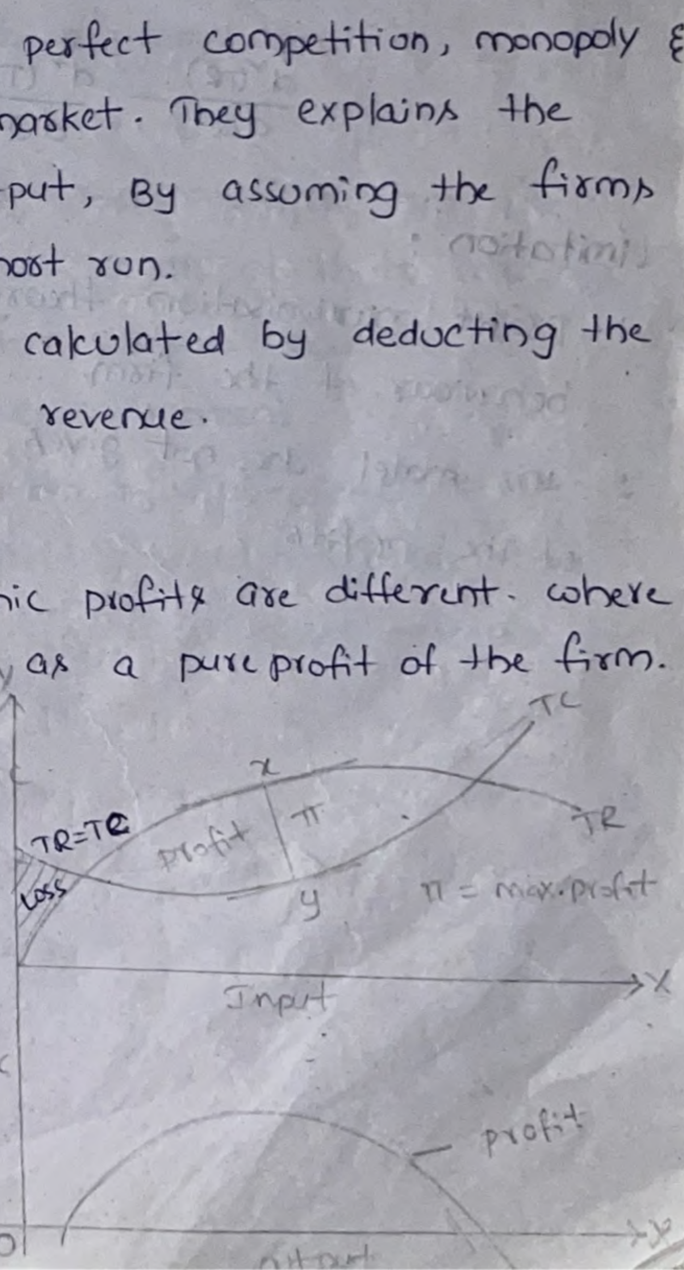
$$\boxed{P = TR - TC}$$

NOTE: Accounting & Economic profits are different. where economic profit is consider, as a pure profit of the firm.

$$\pi = TR - TC \rightarrow (1)$$

where π = economic profit.

TC = fixed cost + Variable cost



Determination of profit maximisation :

For determination of profit maximisation firms most be satisfied 2 conditions.

condition-1 : Derivation of eq.① = 0

$$\frac{d\pi}{dQ} \Rightarrow \frac{dTR}{dQ} - \frac{dTC}{dQ} = 0$$

$$\frac{d(TR)}{dQ} - \frac{d(TC)}{dQ} = 0$$

$$\frac{d(TR)}{dQ} = \frac{d(TC)}{dQ}$$

2. square of above derivation eq. most be < 0

$$\frac{d^2\pi}{dQ^2} \Rightarrow \frac{d^2(TR)}{dQ^2} - \frac{d^2(TC)}{dQ^2}$$

$$\frac{d^2(TR)}{dQ^2} - \frac{d^2(TC)}{dQ^2} < 0$$

Limitation :

1. Profit maximisation theory does not focussing on behaviour of the firm.
2. This model does not gives time for get maximisation of the profits.

Differences b/n Profit maximisation & wealth maximisation:

Profit maximisation:

Financial management concern with proper utilization of Profit in a efficient manner that will increase the value + earnings of the firms.

→ There are two ~~peran~~ parameters of objectives by the financial management.

1. Profit maximization
2. Wealth maximization

→ Profit maximization is the capacity of the firm in producing maximum output with limited inputs (or) it uses minimum inputs for producing stated output. It is termed as firms ~~fo~~ formost (or) most important objective.

→ It has been traditionally recommended that the main motive of any business organisation to earning a profit. It is essential for sustain their business activities in a competitive environment.

→ Normally, Profit is calculated by subtraction the total cost of the firm from the total earnings of the firm. When total cost decreases (or) Total revenue increases will be effect on profits of the firm.

→ The extension of any business activities will be depends on profits of firm.

→ Sothat, there is a mean to improve the profit maximisation level.

Wealth maximisation :

→ wealth maximisation is the ability of the firm of a company of its common stock over the time.

→ The market value of the firm is will be depends on different factors like good will, Service after sales, producing quality products and so on.

→ It is also consider as goal of the company & highly recommended criteria for evaluating the performance of business organisations. This will help to increase the market share of the firm in the competative market.

→ It is universally accepted that the fundamental goal of the firm or business enterprices is to increase the wealth of its shareholders, They buy the shares of the company with the expectations of maximum returns in with in the time.

Profit maximization	wealth maximization
concept: 1. The process through which Company capable of their increase earning capacity is known as profit maximization.	concept: 1. wealth maximization is the ability of firm to increase their value of stock in the market.
Emphasise on: 2. short term ~~of the~~ objective	Emphacise on: 2. Long term objective.
consideration : 3. Profit maximization ignores Risk & uncertainity.	Consideration: 3. wealth maximization consider both.

Time: 4. Profit maximization avoid the time & value.	Time: 4. wealth maximization recognise it.
Advantage: 5. Profit maximization is necessary for survial and growth of the firm.	Advantage: 5. It is necessary for to attain maximum market share.