

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE
(Autonomous)**

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Coimbatore- 49

**DEPARTMENT OF COMMERCE WITH
INFORMATION TECHNOLOGY**

**MANAGERIAL ECONOMICS
Fundamental Concept Managerial Economics**

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What is Managerial Economics ?

Managerial economics is the application of economic theory and quantitative analysis to business decision-making.

It bridges the gap between abstract economic theory and managerial practice, helping leaders allocate scarce resources efficiently to achieve organizational goals.

Key Goal: Optimization of business processes under constraints.



Opportunity Cost

The value of the next best alternative foregone when a choice is made.

Marginal Analysis

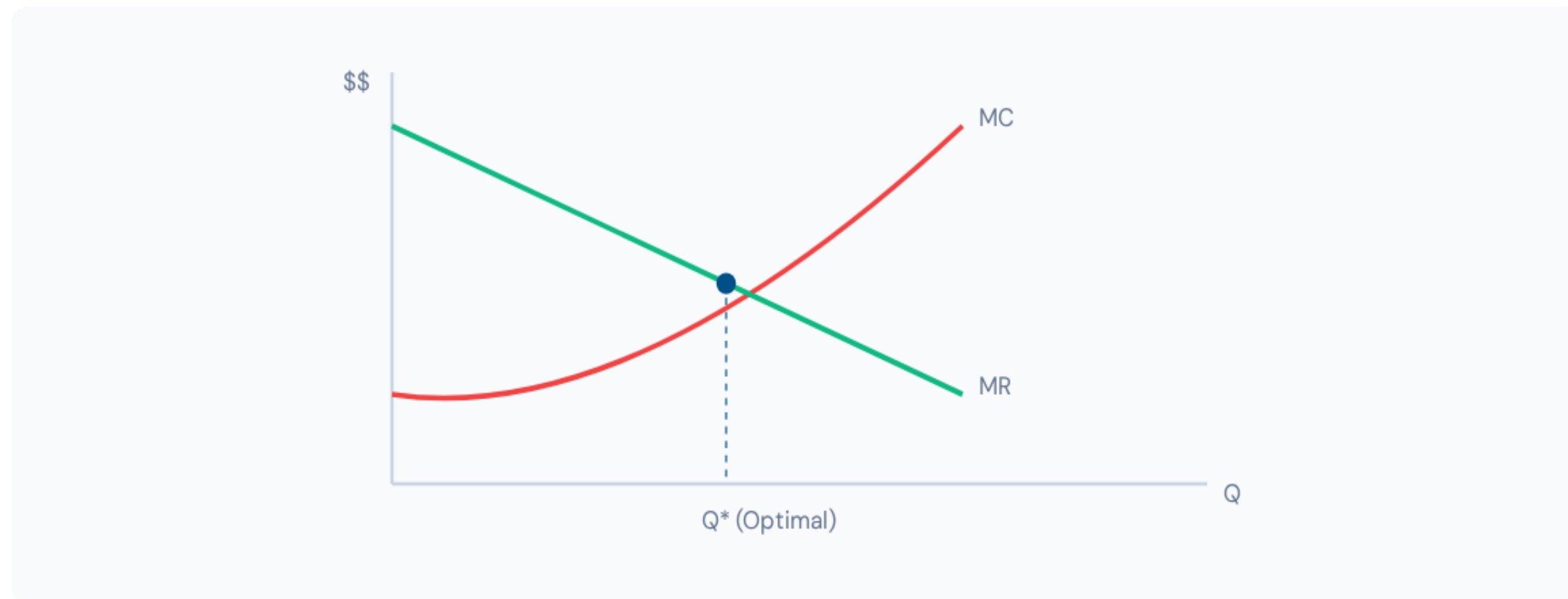
evaluating the additional benefits against the additional costs of an activity.

Discounting

Recognizing that a dollar today is worth more than a dollar tomorrow.

Marginal & Incremental Analysis

Optimal decisions are made where Marginal Revenue (MR) equals Marginal Cost (MC).



Short Run vs. Long Run

Managers must balance immediate profits with long-term sustainability. Decisions today affect future costs and revenues.

Time Value of Money

Future profits must be discounted to present value to make valid comparisons.

$$PV = \frac{FV}{1 + r^n}$$



Demand Analysis & Elasticity

Understanding how quantity demanded responds to price changes (Price Elasticity) is crucial for revenue optimization.



Input-Output Relationship

Analyzing the functional relationship between physical inputs (labor, capital, raw materials) and physical outputs.

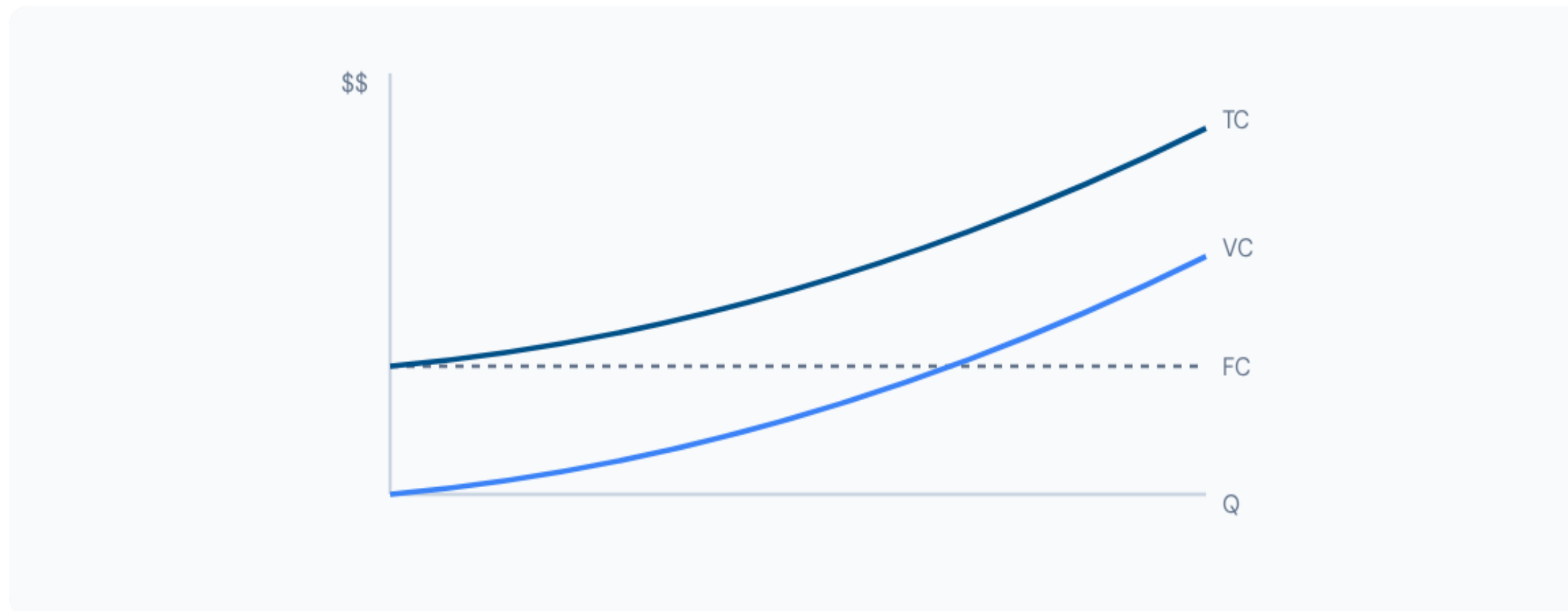
Law of Variable Proportions

As more units of a variable input are added to fixed inputs, the marginal product eventually declines (Diminishing Returns).

Managers use this to determine the optimal level of production efficiency.

Cost Analysis

Understanding cost structures is vital for pricing and profit planning.





Penetration Pricing

Setting low initial prices to gain market share quickly.



Price Skimming

Setting high prices initially to maximize profit from early adopters.



Cost-Plus Pricing

Adding a standard markup to the cost of the product.

Case Study Question 3

A company plans to invest in a new machine that reduces labor costs for the next five years. The Managerial Economist calculates the present value of expected savings.

Question:

*Which **fundamental concept** is being applied here, and why is it important for long-term investment decisions?*

The fundamental concept being applied in this situation is the **Discounting Principle**. This principle states that the value of money today is higher than its value in the future due to factors like inflation, risk, and opportunity cost. When the Managerial Economist calculates the **present value of future cost savings**, they are determining how much the future benefits are worth in today's terms.

This concept is crucial for long-term investment decisions because it helps the company evaluate whether the expected savings from the new machine justify the initial investment. By discounting future cash flows, the economist can compare the true economic value of the investment and determine if it will generate a positive net benefit. This ensures the company avoids overestimating future returns and makes financially sound, rational decisions that support long-term profitability.