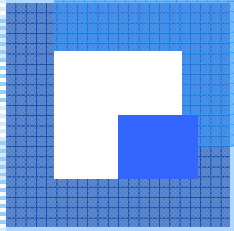


Chapter 1

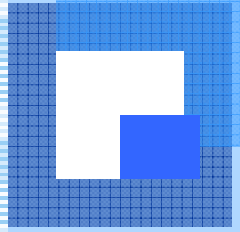
Introduction

*Managerial Economics: Economic
Tools for Today's Decision Makers, 4/e
By Paul Keat and Philip Young*



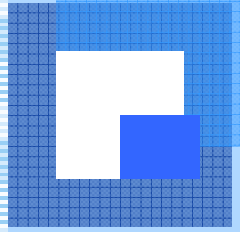
Introduction

- Economics and Managerial Decision Making
- The Economics of a Business
- Review of Economic Terms



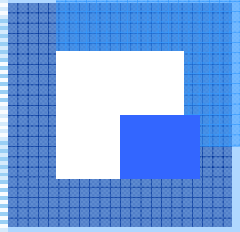
Economics and Managerial Decision Making

- **Economics** is “the study of the behavior of human beings in producing, distributing and consuming material goods and services in a world of scarce resources.” (McConnell, 1993)



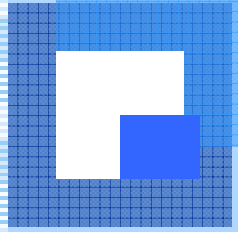
Economics and Managerial Decision Making

- **Management** is the discipline of organizing and allocating a firm's scarce resources to achieve its desired objectives.



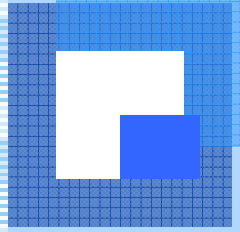
Economics and Managerial Decision Making

- **Managerial economics** is the use of economic analysis to make business decisions involving the best use (allocation) of an organization's scarce resources.



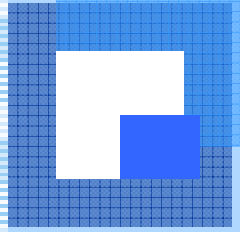
Economics and Managerial Decision Making

- Questions that managers must answer:
 - What are the economic conditions in a particular market?
 - Market Structure?
 - Supply and Demand Conditions?
 - Technology?
 - Government Regulations?
 - International Dimensions?
 - Future Conditions?
 - Macroeconomic Factors?



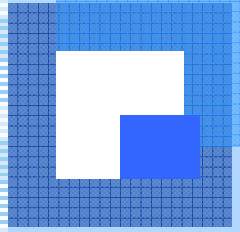
Economics and Managerial Decision Making

- Questions that managers must answer:
 - Should our firm be in this business?
 - If so, what price and output levels achieve our goals?



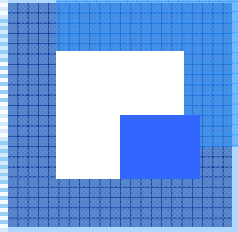
Economics and Managerial Decision Making

- Questions that managers must answer:
 - How can we maintain a competitive advantage over our competitors?
 - Cost-leader?
 - Product Differentiation?
 - Market Niche?
 - Outsourcing, alliances, mergers, acquisitions?
 - International Dimensions?



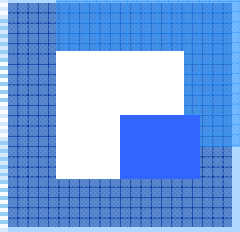
Economics and Managerial Decision Making

- Questions that managers must answer:
 - What are the risks involved?
- **Risk** is the chance or possibility that actual future outcomes will differ from those expected today.



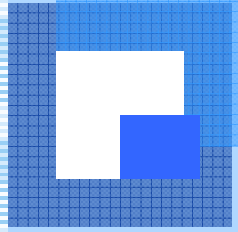
Economics and Managerial Decision Making

- Types of risk
 - Changes in demand and supply conditions
 - Technological changes and the effect of competition
 - Changes in interest rates and inflation rates



Economics and Managerial Decision Making

- Types of risk
 - Exchange rates for companies engaged in international trade
 - Political risk for companies with foreign operations



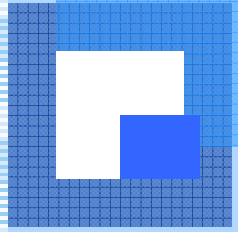
The Economics of a Business

- The economics of a business refers to the key factors that affect the ability of a firm to earn an acceptable rate of return on its owners' investment.
- The most important of these factors are
 - competition
 - technology
 - customers



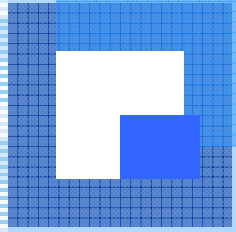
The Economics of a Business

- Four Stage Model of Change
 - Stage I
 - “the good old days”
 - high profit margins
 - cost plus



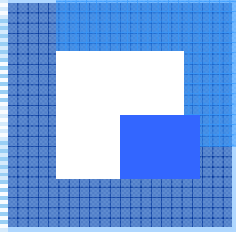
The Economics of a Business

- Four Stage Model of Change
 - Stage II
 - cost management
 - cost cutting, downsizing, restructuring



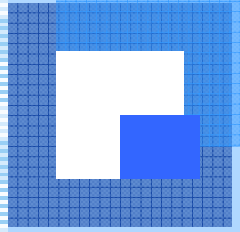
The Economics of a Business

- Four Stage Model of Change
 - Stage III
 - limits to the growth in profits
 - revenue management
 - “top-line growth”



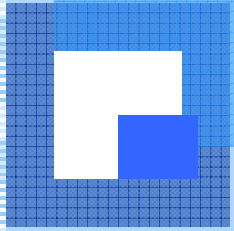
The Economics of a Business

- Four Stage Model of Change
 - Stage IV
 - revenue plus



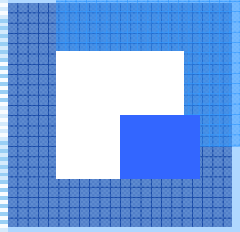
Review of Economic Terms

- **Microeconomics** is the study of individual consumers and producers in specific markets.
 - supply and demand
 - pricing of output
 - production processes
 - cost structure
 - distribution



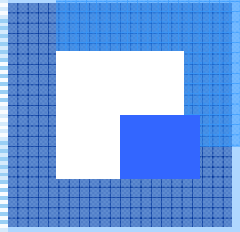
Review of Economic Terms

- **Macroeconomics** is the study of the aggregate economy.
 - national income analysis
 - gross domestic product
 - unemployment
 - inflation
 - fiscal policy
 - monetary policy



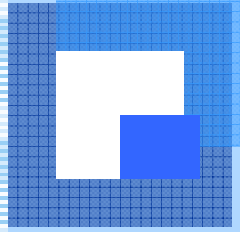
Review of Economic Terms

- **Scarcity** is the condition in which resources are not available to satisfy all the needs and wants of a specified group of people.



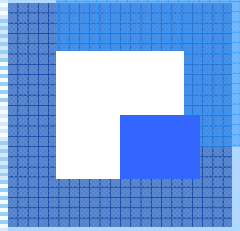
Review of Economic Terms

- **Opportunity cost** is the amount or subjective value that must be sacrificed in choosing one activity over the next-best alternative.



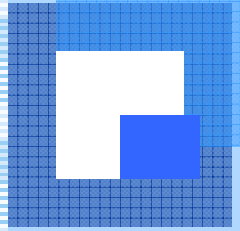
Review of Economic Terms

- Because of scarcity, an **allocation decision** must be made. The allocation decision of a society is comprised of three separate choices:



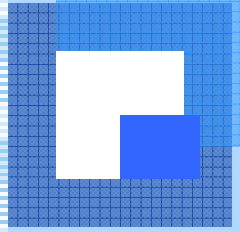
Review of Economic Terms

- *What* and how many goods and services should be produced?



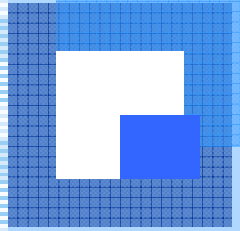
Review of Economic Terms

- *How* should these goods and services be produced?



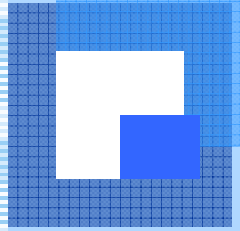
Review of Economic Terms

- *For whom* should these goods and services be produced?



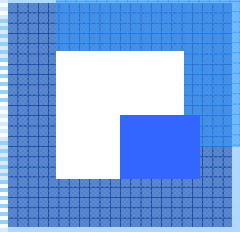
Review of Economic Terms

- For the firm, these allocation choices can be restated as follows:



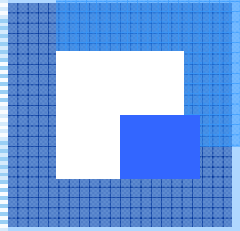
Review of Economic Terms

- *What* : The product decision.



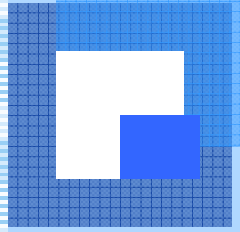
Review of Economic Terms

- *How* : The hiring, staffing, procurement, and capital budgeting decisions.



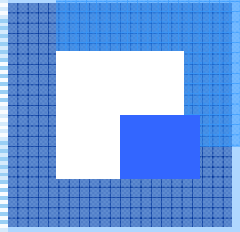
Review of Economic Terms

- *For whom* : The market segmentation decision.



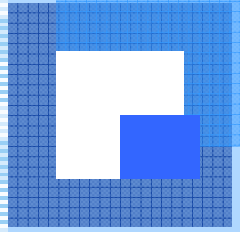
Review of Economic Terms

- **Resources**
 - Factors of production or inputs
 - Land, labor, capital, entrepreneurship



Review of Economic Terms

- **Entrepreneurship** is the willingness to take certain risks in the pursuit of goals.



Review of Economic Terms

- **Management** is the ability to organize and administer various tasks in pursuit of certain objectives.