Managerial Economics

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Demand

- Basis of all economic activities
- Success of any business is determined by the extent and magnitude of demand and rate of growth of demand
- Demand is defined as that want, need or desire which is backed by willingness and ability to buy a particular commodity in a given period of time
- It is the quantity of a commodity which consumers are willing to buy at a given price for a particular unit of time

Types of Demand

- Categories of demand are made on the basis of the nature of commodity demanded (consumer goods and capital goods); time unit for which it is demanded (short run and long run); relation between two goods (substitutes and complements)

Demand Function

- Demand for a product is a function of price of the commodity, income of the consumers, price of the related (substitutes or complements) commodities, tastes and preferences of the consumers, advertising, future expectations, population and economic growth
- A change in quantity demanded denotes movements along the demand curve due to change in price
- Change in demand denotes a rightwards or leftward shift of the demand curve due to change in factors other than price

Supply

- Supply means willingness of the firm to sell a particular commodity
- It indicates quantities of goods or services that the seller is willing and able to provide at a price, at a given point of time, other things remaining the same

Supply function

- Supply of a product is a function of price of the product, cost of production, state of technology, government policy regarding taxes and subsidies and number of firms
- Change in quantity supplied refers to movements along the same supply curve due to change in the price of the commodity
- Change in supply denotes shift in supply curve downwards or upwards due to factors other than price

Market Equilibrium

- Market equilibrium occurs when supply is equal to demand
- It determines the price in the market through the forces of demand and supply
- An increase in both supply and demand will cause increase in sales but the effect on price can be positive, negative, zero depending upon extent of shits in the curves

Production

- Production is the process of transformation of inputs into goods and services of utility to consumers and/or producers
- Land, Labour, Capital, Enterprise, are the factors of production

Cost

- Costs is defined as a sacrifice or forgoing that has occurred or has potential to occur in future, measured in monetary terms
- It results in current or future decrease in cash or other assets, or a current or future increase in liability
- Prices of factors of production determines cost which are uncontrollable as they are determined by external environment of any business
- Efficiency and productivity of these inputs also determine cost
- Level of output also affects costs

Kinds of costs

- Accounting costs
- Opportunitycosts
- Implicit costs
- Explicit costs
- Social costs
- Historic and future costs
- Direct and Indirect costs

Profit

- Profit function shows a range of output at which the firm makes positive profits
- Normal profit is the amount of return which must be earned to keep the entrepreneur in the business
- Supernormal profit is the profit over and above normal profit
- The objective of the firm is to maximize profit

Competition

- Competition refers to the number, size and distribution of sellers in the market
- There can be a market in which a very large number of sellers exist and size of an individual seller is very small or there can be a market where only one big seller exists without any competitor
- Apart from the above two extremes, there could be various combinations between the two levels

Types of competition

- Depends upon nature of competition, Nature of product, number and size of buyers, freedom of entry or exit from the market

Type ofCompetition	Number of firms	Natureof product	Number of buyers	Freedom of entry and exit	Example
Perfect Competition	Very large	Homogeneous	Very large	Unrestricted	Agriculturalcommodities
Monopolistic	Many	Differentiated	Many	Unrestricted	Retail stores, restaurants
Oligopoly	Few	Undifferentiated or differentiated	Few	Restricted	computers
Monopoly	Single	Unique	Many	Restricted	Indian railways
Monopsony	Many	Undifferentiated or differentiated	Single	Not applicable	Indian defenseindustry

Consumption

- Final purchase of goods and services by individuals constitutes consumption
- The total consumer spending in an economy is generally calculated using the consumption function, a metric devised by John Maynard Keynes, which simply expresses consumption as a function of the aggregate disposable income. This metric essentially defines consumption as the part of disposable income that does not go into saving.

Macro analysis

- External Environment of business that is beyond it’s control
- Government policies, national and international macro factors like interest rates, currency rates, GDP, growth etc