

Introduction to Managerial Economics

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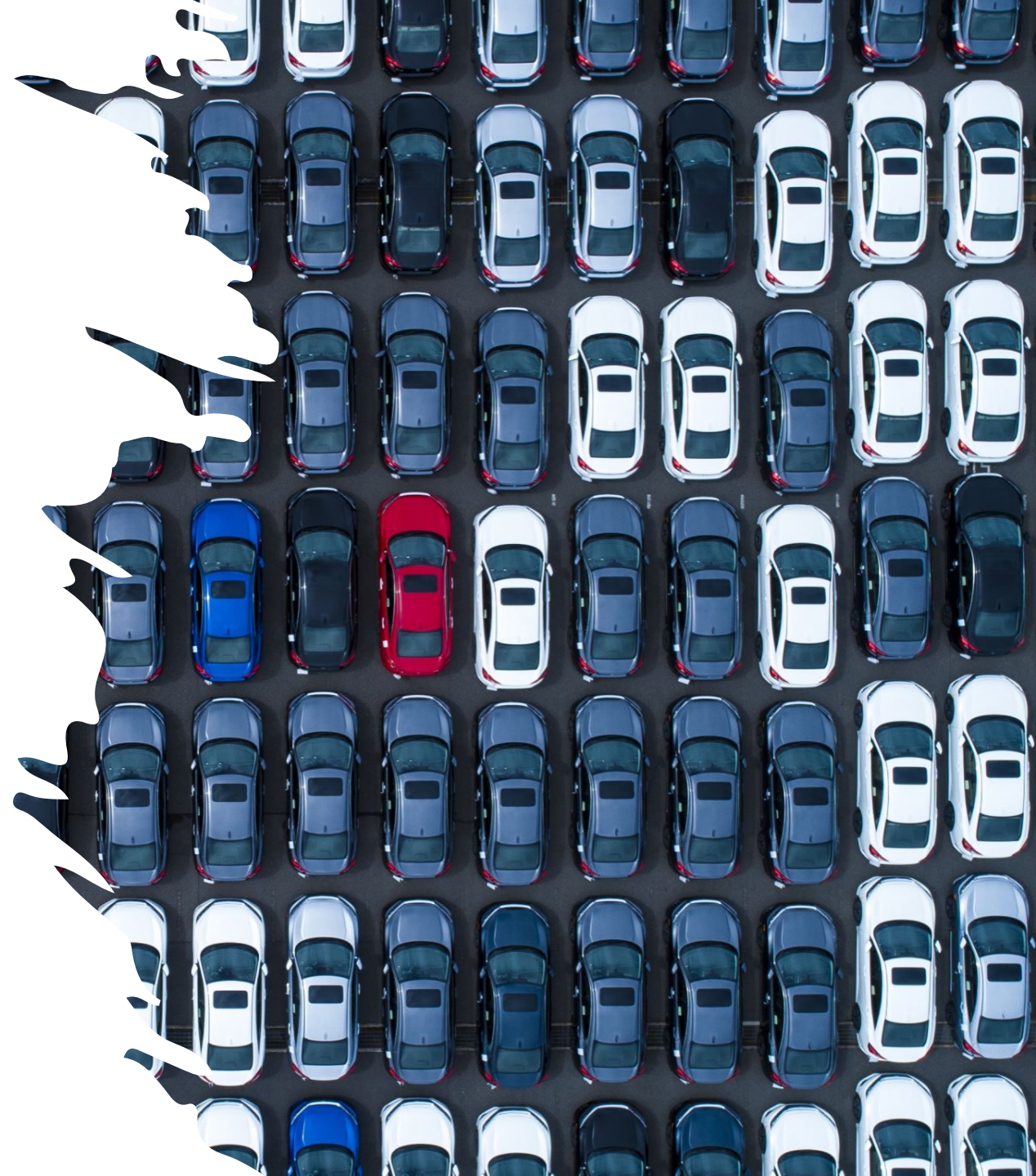
Why do we study
Economics?

*“You can’t
always get
what you
want”*

- Resources are limited; Wants are unlimited:
Study of scarcity
- Evolution of Economics
- Micro v/s Macro Economics
 - Micro: behavior of individual economic units like consumers, producers, business firms etc.
 - Macro: behavior and performance of economy as a whole; studies aggregates like output/GDP, inflation, unemployment etc.

Economics is important in corporate decision making.

- In 1997, Toyota Motor Corporation had introduced a new car 'Prius' in Japan and started selling it worldwide in 2001. Prius was first hybrid car to be sold in US and it could run by gasoline and battery.
- Before introducing Prius, Toyota had to think whether people will accept such a design and performance of the new product? How much demand will it have? How much price to be charged? Cost of manufacturing these cars? How many cars to produce? Government and the regulatory policies?
- Key economic questions: What to produce? How to produce? For whom to produce?



Thinking like an economist: Ten Principles

People face trade-offs- No free lunch

The cost of something is what you give up to get it- Opportunity cost

Rational people think at the margin

People respond to incentive

Pop quiz

Your opportunity cost of going to a movie is

a. the price of the ticket.

b. the price of the ticket plus the cost of any soda and popcorn you buy at the theatre.

c. the total cash expenditure needed to go to the movie plus the value of your time.

d. zero, as long as you enjoy the movie and consider it a worthwhile use of time and money.

Thinking like an economist: Ten Principles

Trade can make everyone better off.

Markets are usually a good way to organize economic activity. Adam Smith: 'Invisible hand'

Governments can sometimes improve market outcomes.

Thinking like an economist: Ten Principles

A country's standard of living depends on its ability to produce goods and services.

Prices rise when the Government prints too much money.

Society faces a short-run trade-off between inflation and unemployment.



Economic models

- Set of diagrams and equations based on theories useful for explaining observed economic behavior and phenomena.
- Built using certain rules and assumptions.

“All models are wrong, but some are useful”
-George Box



Positive v/s Normative economics

- Positive Economics deals with facts and statements. Explains why things are the way they are.
- Normative Economics deals with value judgment. Explains how things ought to be.

Exercise

Are the following statements positive or normative?

- 1. Society faces a short-run trade-off between inflation and unemployment.*
- 2. The RBI should reduce the growth rate of the money supply.*

