



# The Nature, Scope and Role of Managerial Economics in Business

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**Abstract.** Managerial economics plays a significant role in the management of business enterprises because it helps managers develop a wide range of leadership traits that streamline business decisions for the long term. The model allows managers to make informed decisions that ensure an organization make sustainable profits and attain positive growth rates. Since decision-making and business management are inseparable concepts, managerial economics helps managers achieve business functions such as planning, hiring, and company organization. Managers often consider several options to reach a workable conclusion based on the variables surrounding a particular situation. Thus, managerial economics helps the decision-making in organizations as making informed decisions is at the core of management. This essay will discuss the nature and scope of managerial economics and point out the role and significance of the business concept in a business setting. The paper achieves this by highlighting that business executives are required to choose the best available alternatives and adopt specific approaches to management. Data will be collected, and findings analyzed to provide a detailed conclusion on managerial economics' scope, nature, and role in business.

**Keywords:** Managerial economics, business enterprise, organizational management, business policies, and business activities

## 1 Introduction

Managerial economics is a division of economics involving soliciting economic approaches managers can apply during decision-making. This branch of economics offers an effective structure for decision-making for organizations to optimize their profits and achieve their vision and goals. Moreover, managerial economics concepts help managers focus on growing a company's productivity and performance by using all probable business time and money resources to boost output while decreasing unproductive events. The study of the nature and scope of managerial economics will be essential in identifying its essence in an organizational setting. Managerial economics purposes itself to streamline the decision-making process, especially when companies are experiencing issues. The concept also helps managers assess the probable effects and consequences of short-term and long-term planning choices on the income and

productivity of a company. Business executives need to use branches of managerial economics, including operations research and game theory, to make informed decisions through data analysis approaches applied to a business setting.

## **2 Main Body Analysis**

### **2.1 Nature of Managerial Economics**

The management is mainly tasked with making decisions and planning for the future of a business. These are complementary and inseparable roles. Decision-making involves selecting one action from possible alternatives, while forward planning is accommodating plans to ensure that a similar decision will be made. Choice issues arise due to limited available resources such as capital, labor, land, and managerial capacity. Nonetheless, amid the scarcity of resources, the firm is expected to make a decision that amounts to the maximum profit possible. Choosing the most suitable alternative is challenging due to the uncertainty associated with business choices. Managerial accounting helps instill knowledge on how the above dilemma can be navigated to accrue maximum benefits to the business. This is done by introducing economic theories that issue a comprehensive and elaborate explanation of how to achieve the best decision from possible alternatives.

Managerial economics is considered an art and science because its application in organizational decision-making requires innovativeness and immense critical thinking skills. The discipline is a science because it applies different economic models and conceptions for managing enterprises by allowing managers to solve emerging and future issues. For instance, it uses methodical observation. It explores possible alternatives to surpass the challenge of scarcity of resources. Additionally, it uses continuous experimentation, a tool of science policies that pass the subjected experiments are considered the suitable ones and thus are adopted appropriately. It also shares the principle of universality with science in its policies. However, the policies require periodic modifications to suit the Managerial economics is a management-centered construct that aids managers in an organizational setting to make sensible decisions that logically solve all issues by providing all pertinent information [1].

Furthermore, this economics division is multi-disciplinary as it utilizes values and concepts from different disciplines such as finance, marketing, and human resources. Economists have also considered managerial economics close to microeconomics as it can be used to analyze and solve issues plaguing a specific company but not the entire economy [2]. Under microeconomics, managerial economics emphasizes individual units of a country's economy to offer ideal solutions to address emerging and future problems for sustainable profitability and growth of an economy.

Another distinct nature of managerial economics is that it adopts the principles of macroeconomics to help managers study a business's external environment for improved management of an enterprise. This approach to managerial economics helps managers analyze various external influences that affect everyday business activities, including a country's economic status, government policies, and market conditions [3]. Economists also regard managerial economics as a prescriptive discipline because it

helps describe the most favorable course of action among available alternatives to solve emerging business issues. Lastly, managerial economics is conceptualized because it is mainly based on existing economic models and ideas [1]. Instead of improving the subjective assortment of recommendations, managerial economics enables managers to evaluate existing business issues based on well-informed economic models.

Additionally, managerial economics necessitates having art to help actualize the business objectives. This helps apply the theoretical formulations to business practices and situations. It is also notable that managerial economics has a dynamic nature. This is to cope with the dynamic nature of producers and consumers in their market behavior.

### **3 Scope of Managerial Economics**

The scope of managerial economics encompasses aspects of running a successful business and their contributions to effective decision-making in an organizational setting. Managerial economics aids companies in the house in an effective decision-making process by informing the management on using different quantifiable tools such as available time and money resources and economic concepts to formulate policies for making informed managerial decisions [4]. Business executives can use concepts of managerial economics to perform successful production and cost evaluations when approximating the cost of production and to determine factors that cause disparities in cost approximations. Managerial economics enables managers to evaluate and decide on production activities a business correctly can be engaged in and the relevant production costs related to them. This approach to management guarantees that organizational resources are used efficiently to minimize the general costs of production [5]. Managerial economics also covers demand evaluation and estimations issues because it aids business managers in analyzing demand and anticipating future worries. Accurate estimates of demand help production managers prepare appropriate production schedules and allocate available resources as intended. Furthermore, managerial economics shapes an organization's pricing strategies since pricing is among the critical decisions business managers make. It also dictates approaches that enable businesses to earn preferred profits and attain envisioned growth both in the short- and long-term periods.

Managerial economics is an effective management tool because it supplies all pertinent information to business executives to make informed decisions on product prices. Core aspects encompassed under this area include pricing approaches and differential pricing strategies. Also, managerial economics covers profit management in an organizational setting. It directs business executives on how to manage profits made from conducting business activities, given profits are the primary measure of the performance and growth of a company [6]. Another scope of managerial economics entails capital management because making lucrative capital investment choices make up complex activities managers undertakes. Therefore, managerial economics help managers plan and manage an organization's capital expenses through proper evaluations to establish profitable investment opportunities. This approach guarantees profitability before investing time and resources in a doubtful business venture.

Managerial economics has varying aspects that are crucial in developing a business. First, it encompasses forecasting after carrying out demand analysis. This involves assessing existing demand for various products and services to derive patterns that can help make a future prediction of market behavior. Forecasting is very beneficial to a business as it allows for adequate preparations to either avert losses or make massive profits. Secondly, managerial economics encompasses profit management. Profit is the leading aim of any business. Knowing how the profit should be used to improve the business or diversify is imperative to set up a different income-generating avenue. Managerial economics is also concerned with the analysis of cost and production. This is so because of the deterministic nature of production cost in the profitability of a business. A rational manager is bound to utilize managerial economic knowledge to obtain the highest output at the lowest cost possible to end up with a considerable profit margin. Lastly, capital management is another business aspect encompassed in managerial economics. It involves controlling and planning expenses. Such significant challenges face the management of capital as labor and time. Managerial economics provides information on how the challenges can efficiently be overcome in a manner that does not cost the business. When the different outlined aspects are expounded, they evidence the claim by many researchers on the broadness of the scope of managerial economics. Managerial economics encompasses numerous concepts and elements to provide an ideal nature that can appropriately respond to any business situation.

## **4 Significance of Managerial Economics**

### **4.1 Business Organization and Growth**

Managerial economics plays a significant role in business enterprises' success, profitability, and growth. This economics division helps managers conduct proper analyses of a company's external environment because these factors influence decision-making and allow managers to formulate effective strategies. By providing information about the external factors that affect a business's success and growth, managerial economics aids business executives in studying core factors such as a country's economic situation, implemented government policies that govern business activities, price trends, and the standards of living of a population (Paha 998). Furthermore, managerial economics enables production managers to develop sustainable production schedules for all production activities of an organization. Business executives can use this approach to management to approximate possible future demands for goods and services through different quantitative tools such as Gross Domestic Product and a population's income levels [4]. These tools enable the easy formulation of production schedules to satisfy current and future market demands.

### **4.2 Formulation of Business Policies**

Managerial economics is the most crucial in influencing business management to formulate policies that can assist in soar the business to greater heights. A grasp of managerial economics has been reported to influence how business managers respond to

market trends significantly. For instance, when it is noted that the supply of a given commodity is way below the available demand, a managerial economist is bound to enact policies that would ensure that the production is increased to meet the demand. This would, in turn, lead to the business accruing massive profits. Additionally, studies have revealed that business managers with less or no knowledge of managerial economics tend to react irrationally when there are changes in business and market trends. The uncoordinated and unjustifiable changes can be catastrophic to the business, impairing the already working market systems. Policies devised out of managerial economics are very effective in controlling the risks and vulnerabilities of a business. This acts as a source of business security due to the filling loopholes that can potentially lead to losses in a business. Knowledge of managerial economics cannot be underrated in formulating suitable policies that would result in business growth out of higher profitability.

### **4.3 Solutions to Tax Problems**

Taxation policies, procedures, and requirements are ineptly dealt with in managerial economics. As a result, learners acquire requisite knowledge that can be critically analyzed and implore to devise solutions to existing tax problems in a business. These may range from an ideal point-of-sale machine that separates business sales and profits to avoiding trouble with the tax authorities. Another common taxation problem is the over-taxation of formally employed individuals who could be having a business. Managerial economics offers vital information on how many business owners can contribute to mandatory schemes that ensure minimal taxation. It is also essential to impart necessary information on filing the annual business returns to avoid penalties by the tax body that may eat up the business profits. Lastly, managerial economics has been crucial in outlining the severe consequences that can befall a business owner trying to avoid or evade taxation. The government is usually keen to punish such individuals with hefty penalties that would, all the same, have been avoided through the knowledge of managerial economics.

### **4.4 Price Determination**

Managerial economics enables business enterprises to control the cost of goods and services provided to the target market by estimating production costs. The ability to control the cost of products and services is essential for accomplishing envisioned profit margins and sustainable growth both for the short-term and long-term periods. The discipline allows executives to adequately approximate the expenses of all business undertakings and determine factors that lead to price variations of goods and services [2]. Managerial economics is often directed towards reducing the cost of production processes via optimum usage of available capital, time, and human resources. Additionally, managerial economics helps managers set appropriate consumer goods and services prices. Economists have identified that selecting the correct price can involve activity [5]. For this reason, they believe that managerial economics can propel management to

fix accurate prices for goods and services as the discipline supplies all the necessary information about the pricing approaches of an organization's business competitors.

#### **4.5 Business Activities' Coordination**

Managerial economics also properly coordinates an organization's departments and business activities. The discipline guarantees that business processes and activities are integrated and flexible to support an effective decision-making process. It achieves this business milestone by providing pertinent information about how organizations are run through economic constructs and quantitative tools such as a population's level of education and income [1]. Furthermore, managerial economics contributes to effective management by enabling business executives to make lucrative investment evaluations. The discipline warrants that available business resources are allocated to profitable activities and strategies. Managers can use the concepts of managerial economics to conduct proper analyses of the profitability of potential investment areas before deciding on investing any resources into the avenues. Financial managers in organizations can use this approach to management to properly manage an organization's generated profits. The models of managerial economics are vital in monitoring and controlling the profits made by an organization through making informed investments using surplus profits [6]. As observed by economics in organizational management, profit is the ultimate objective of all business enterprises; managing generated profits would establish an organization's success and growth rates.

#### **4.6 Business Planning**

Managerial economics is an effective tool to plan a business and forecast current and future profitability and growth. Managers can use it to develop business strategies by predicting prospective customer and market demands to avoid uncertainties experienced in supply-chain management. Moreover, managerial economics can aid effective decision-making as it helps managers access valuable information through economic tools and approaches [3]. Gaining insights into the business processes of competitors and a country's general economic outlook helps managers establish specific predictions about market trends and pricing policies for sustainable growth and organizational performance. Also, managerial economics can help business executives to conduct successful assessments of an organization's cost and production levels in contrast to its leading competitors. The concepts of the discipline emphasize reducing the costs of operating a business and establishing the expenses related to various business operations [6]. The construct is also efficient in discovering organization-based cost-reducing the levels of production to confirm that there does not exist a business that wastes organizational resources. Business executives and managers can use the concepts of managerial economics to manage and evaluate capital expenses, particularly those that involve substantial costs [5]. Before making decisions to invest any form of resources in a project, managerial economics can be used to measure an organization's profitability index to manage available capital resources properly.

#### **4.7 Measurement of Firm Efficiency**

Managerial economics is essential in enabling managers to assess the business position regarding profitability and risk management. This involves identifying the business's vital areas and those that need improvement. It is essential to guide the behavior of the management while making decisions to ensure that they align with the needs of the business while reinforcing the strong areas. Additionally, it helps to manage the risks that pose a threat to the continuity of a business.

#### **4.8 Manufacturer Support**

It is essential to support manufacturing goods by providing models to inspire the managers in the business operations. Managerial economics offers the most substantial support to business managers through efficiently using scarce resources to obtain maximum returns. As a result, a business gets the maximum profits from the maximum production undertaken.

#### **4.9 Government Policies Analysis**

Managerial economics is helpful in the analysis of the impacts of government policies. This necessitates the identification of ways through which the harmful effects can be eliminated and sound effects promoted. When managers obtain this crucial knowledge, they can exploit it to achieve the most outstanding accomplishments for the business.

### **5 Conclusion**

Managerial economics plays a vital role in an organizational setting as it allows managers to effectively plan and implement policies aimed at achieving sustainable growth and profits. The discipline is always central to organizational decision-making by scrutinizing a business's internal and external environments to allow for precise comprehension of various prevailing conditions of a target market. Furthermore, managers can efficiently study existing business competitions by forecasting the actual consumer behaviors in the target markets and the conditions that dictate business operations. The aspect of business management through managerial economics is achieved through extensive information analyses. Managers should ensure that this process is undertaken through a methodical course of various business policies that could make promising forecasting of the success and growth of an organization. Thus, organizations should integrate concepts from managerial economics to formulate effective business explanations for sustainable development, profitability, and streamlined business processes. The discipline also facilitates the optimization of strategic business decisions that involve future planning and resource allocation. Nonetheless, future research on the topic should focus on discovering the primary theories of managerial economics to allow for a better understanding of the discipline's scope, nature, and role in an organizational

setting. It is possible to briefly talk about the limitations of this study and propose how to improve it in combination with future research development.

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