Managerial Economics

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Firms-Industry

objectives and constraints.
Managerial decision making processes- application of economic principles: opportunity cost principle, discounting and compounding principles, marginal and incremental principle, Equi -marginal principle preference principle

Difference between a firm and an industry

- The main difference between a firm and an industry is that a firm is a single business entity, while an industry is a group of firms that work in similar or related activities

Objectives of firm and industry

- Profit maximization
- The goal of a business to make the highest profits possible
- Profit maximization occurs when marginal revenue and marginal cost are equal
- Profit maximization aims to increase short-term profits
- Market share expansion
- A firm may want to achieve rapid growth of its market share
- Survival
- A firm may focus on survival objectives, such as finding customers, reducing losses, or minimizing fixed costs
- Other objectives
- Increasing shareholder value
- Customer satisfaction
- Corporate social responsibility
- Wealth maximization, which considers long-term cash flows and risk
- Maximizing sales revenue
- Maximizing the growth rate of the firm
- Ensuring long-term survival of the firm

Managerial decision making processes

- Steps in the managerial decision-making process
- **Identify the problem**: Recognize the need for a decision and define the nature of the problem.
- **Gather information**: Collect relevant information from internal and external sources.
- **Identify alternatives**: Brainstorm and consider multiple possible solutions.
- **Evaluate alternatives**: Consider the pros and cons of each alternative.
- **Select an alternative**: Choose the option that best aligns with the organization's goals.
- **Implement the decision**: Develop an action plan and put the decision into action.
- **Evaluate the outcome**: Monitor the decision's progress and make adjustments if needed.

Opportunity Cost Principle:

- This principle suggests that the true cost of anything is the value of the next best alternative that you forgo when making a decision.
- It emphasizes the trade-off between different choices, focusing on what is sacrificed when one option is chosen over another.

Discounting and Compounding Principles

- **Discounting and Compounding Principles**:
- **Discounting**: This is the process of determining the present value of a future cash flow. It involves reducing future values to account for time, reflecting the idea that money today is worth more than the same amount in the future.
- **Compounding**: The opposite of discounting, it refers to determining the future value of a current cash flow, by applying interest or growth rates over time. This principle acknowledges the power of reinvestment and growth over time.

Marginal and Incremental Principle

- **Marginal Principle**: Decisions should be made based on the additional (marginal) benefits and costs of a choice. It's concerned with the impact of small changes in resources or output on the overall situation.
- **Incremental Principle**: Similar to the marginal principle but applied to larger changes. It focuses on the additional, incremental changes or benefits resulting from a decision rather than considering the entire cost/benefit analysis upfront.

Equi-Marginal Principle:

- This principle states that to maximize satisfaction or utility, consumers should allocate their resources in such a way that the marginal utility per unit of expenditure is the same across all options. It ensures optimal allocation of resources.

Preference Principle

- The preference principle is the idea that individuals make decisions based on their preferences or desires. This principle suggests that people tend to choose the option that maximizes their satisfaction or utility according to their personal values and tastes.

Managerial decision-making

- Managerial decision-making involves the process of identifying, evaluating, and choosing among alternatives to solve problems or seize opportunities within an organization. It requires analyzing available information, considering risks, and assessing the potential outcomes of each choice. Effective decision-making is crucial for achieving organizational goals, optimizing resources, and driving business success. Managers must also balance short-term and long-term objectives, consider both qualitative and quantitative factors, and align decisions with the company's overall strategy.