Book Reviews :

Managerial Economics : Analysis, Problems and Cases

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Publisher : Sultan Chand and Sons, Delhi, India, pp. 837, 2008. Price Rs. 335
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Managerial Economics involves the application of economic methods in the managerial decision making process. This is a fundamental part of any business or management course. Managerial Economics provides the reader with the basic understanding of economic tools in micro-economics in order to make meaningful decisions. Mehta has covered all the main aspects of managerial economics, namely, the demand theory, production, market structures and pricing, Linear Programming, Input-output analysis, Game Theory, economic decisions in multinational setting etc. and integrating all this with case studies which makes it more practical and application oriented.

The economic tools of analysis have gained a wide application in the process of managerial decision-making, possibly, because modern business problems have become so complex that decision maker's personal experiences are no longer adequate to provide an appropriate solution. It has, therefore, become essential for persons associated with decision making to possess, at least, working knowledge of the relevant tools of analysis.

The book contains 34 chapters and Appendix A and B containing very interesting case studies and mathematical treatment of managerial economics, respectively. Chapter wise treatment of the subject is detailed below:

Chapter 1: Meaning and Scope: Definition of managerial economics is presented along with its significance and scope. The relationship between managerial economics, Operations Research, Mathematics, Statistics and the theory of Decision making are explained. The role and responsibilities of a Managerial Economist undertaking various specific functions is explained in detail.

Chapter 2: Fundamental concepts, models and methods: various concepts relating to business like incremental cost and revenue, opportunity cost, marginal analysis, time perspective, the discounting principle, economic models used for decision-making, case study methods, methods of stating economic relationships, and optimization analysis are presented in a logical and coherent manner.

Chapter 3: Alternative objectives of the firm. Economic decisions of the management are classified into the optimizing and non-optimizing models. The optimizing models include Profit maximizing theories, Sales Revenue maximizing model, managerial utility models consisting of Berle-means-Galbraith model of 'Corporate Power Structure', O. Williamson's model of Managerial discretion, Baumol's model of growth maximization. Marriis model of managerial enterprise and Penrose's theory of the firm are discussed quite in detail. The non-optimizing models include Simon's model of satisfying behavior and Cyert and Marsh's behavioural theory of the firm.

Chapter 4: Theory of Consumer Choice. The chapter starts with the cardinal approach to consumer equilibrium and the law of diminishing marginal utility and consumer's law of equi-marginal utility with their limitations are discussed. The ordinal utility approach; indifference curve approach, covering marginal rate of substitution, the budget line equilibrium, substitution and the income effect of a price change in the case of normal, inferior and Giffen good is explained lucidly using diagrammatical approach.

Revealed preference hypothesis is relegated to an appendix attached to the chapter.

Chapter 5: Demand Analysis. Meaning of demand, determinants of demand, the law of demand, the shape of the demand curve, movement along the demand curve and the movement of the demand curve, revenue concepts, demand for producers goods and consumer goods, durable and non-durable goods, industry and firm demand curves are presented in simple language.

Chapter 6: Elasticity of Demand and Demand Estimation. Meaning of the elasticity of demand, Arc and point elasticity measurements, price elasticity, types of price elasticities, measurement of price elasticity, the relationship between price elasticity of demand, average revenue and marginal revenue, the determinants of price elasticity of demand, income elasticity of demand, types of income elasticity of demand and its uses in business, cross elasticity of demand, promotional elasticity of demand, elasticity of substitution and significance of the concept of elasticity of demand are adequately covered.

Basic methods used to estimate the demand function viz., market experimentation, survey of consumer intentions, and regression analysis, actual market method and market simulation method are discussed in detail.

Chapter 7: Demand Forecasting. Purpose of forecasting demand, steps involved in forecasting, scope of a forecasting exercise, determinants of demand forecasting, methods of demand forecasting, and criteria for the choice of a good forecasting method are well presented.

Chapter 8: The methods of Demand Forecasting. The methods discussed in detail are Opinion polling method – (consumers survey methods, enumeration survey, sample survey, and end-use method), sales force opinion method, experts opinion method. Mechanical extrapolation technique, time series method are also discussed. For finding trend, fitting trend line by observation, least square method (linear trend, moving averages, exponential smoothing) are detailed. Further, Arima method, barometric technique, leading indicator approach, statistical methods like simple correlation, multiple correlation and regression equation methods are touched upon. Econometric models, simultaneous equation methods are discussed in detail. Demand forecasting of new products is separately discussed. Numerical examples and their solutions are discussed in the appendix attached to the chapter.

Chapter 9: Advertising and Sales Promotion. This chapter covers the importance of advertising, method of determining advertising budget, application of budget allocation between different media of advertisement and identifying the important economic effects of advertising for any modern business firm.

Chapter 10: Supply and Production Decisions. The law of supply, price elasticity of supply including its determinants, production functions both short run and long run, introductory analysis of iso-quant approach and empirical production function, Cobb-Douglas production function, constant elasticity of substitution production function and variable elasticity of substitution production function constitute the subject matter of this chapter.

Chapter 11: Cost of Production. The difference between the various cost concepts, analysis of cost, cost function, short run and long run costs and analysis of economies of scale are explained in the chapter. This typically is micro economics discussion. Its application to managerial field could have been incorporated. Cost control and cost reduction have been relegated to an appendix attached to the chapter.

Chapter 12: Inventory cost management. It is directly relevant to a business firm. The ABC analysis for inventory control is very well explained.

Chapter 13: Theory of Pricing – Perfect competition and monopoly: the limiting cases. The discussion in this chapter is at an elementary level.

Chapter 14: Theory of Pricing – Monopolistic competition, Duopoly and Oligopoly. More discussion could have been directed to Oligopoly in this chapter.

Chapter 15 and 16: Pricing practices and

Strategies. A very fruitful discussion on pricing strategies is very relevant in case of a business firm and the author has done justice to it.

Chapter 17: General consideration in pricing and price forecasting. The discussion is at an elementary level.

Chapter 18: Factor markets and factor prices. The discussion could have been made more meaningful so that it could be relevant to the manager of a business firm.

Chapter 19: Profit-Theory and Measurement. The distinction between the economic and accounting profits and various theories explaining the reasons for the emergence of profits are very well explained in the chapter.

Chapter 20: Break-even analysis and Ratio analysis. The concept of break- even, the manner in which profits standard can be set, how management can influence the break even point itself and the limitations of the break even analysis are adequately explained in the chapter.

Chapter 21: Capital Budgeting: Evaluating Capital Projects.
Chapter 22: Capital Budgeting: Cost of capital. Different of methods of evaluating investment proposals are critically discussed along with the sources of funds for long term financing in chapters 21 and 22.

Chapters 23 – 34 of the book cover topics relating to decision analysis, risk in project analysis, location decisions, national income and business cycle, the role of government in market economy, government and business: an analysis of Indian Economic Policy, public sector decisions, international trade and finance, economic decisions in multinational settings, linear programming, input-output analysis and game theory and their applications in business decisions.

Some of the chapters specially relating to the business cycles and public sector decisions could have been avoided since they are more a part of the economic environment of business rather than subject matter of managerial economics.

The author could have integrated economic theory with business. Managerial economic models should be updated to keep pace with the new business demands in the 21st century. The two-to-five year decision horizon, often faced by modern business unit managers, requires a multi period framework for decision models. Models of demand, cost and price should be modified to reflect product-differentiating elements such as the customer service and quality features. Cost minimization, profit maximization and factor utilization models should also be modified to reflect the reality that modern products are made in multi product facilities.

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