MMS PROGRAMME…WHY?

Introduction to Managerial Economics

MMS-I

MANEGERIAL ECONOMICS

CO No.	Course Outcomes
CO1	**Identify** and **discuss** concepts& theories of Managerial Economics
CO2	**Relate** & **illustrate** how these concepts and theories are used in business decision making
CO3	**Analyze** changing situations & likely impact of those on businesses

WHAT IS ECONOMICS?

**ROBBINS DEFINITION,
MODERN DEFINITION
SCARCITY ORIENTED DEFINITION**

WE ALL FACE ECONOMIC PROBLEM

**YOU SOLVE IT
BY
ECONOMIZING**

**Lionel Charles Robbins, Baron Robbins, British Economist
(22 November 1898 - 15 May 1984)**

In his *Essay on the Nature and Significance of Economic Science*

**"the science which studies human behaviour as a relationship between
ends and scarce means which have alternative uses"**

Approaches of Economics

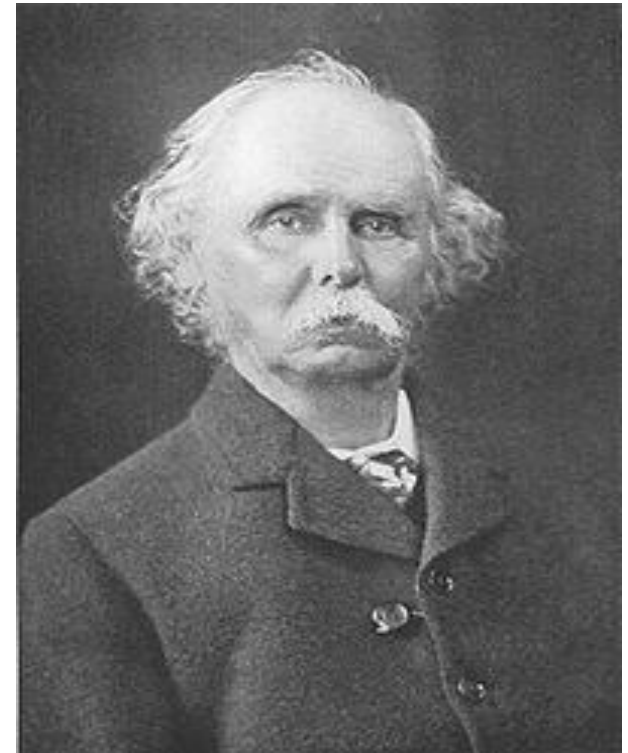## 1) <u>Micro- economics, Traditional approach –</u>

Greek word 'Mikros' means a millionth part, a small part.

The word was used first by Ragner Frisch in 1933.

Micro-economics was popularized by classical economists like Adam Smith & Alfred Marshall
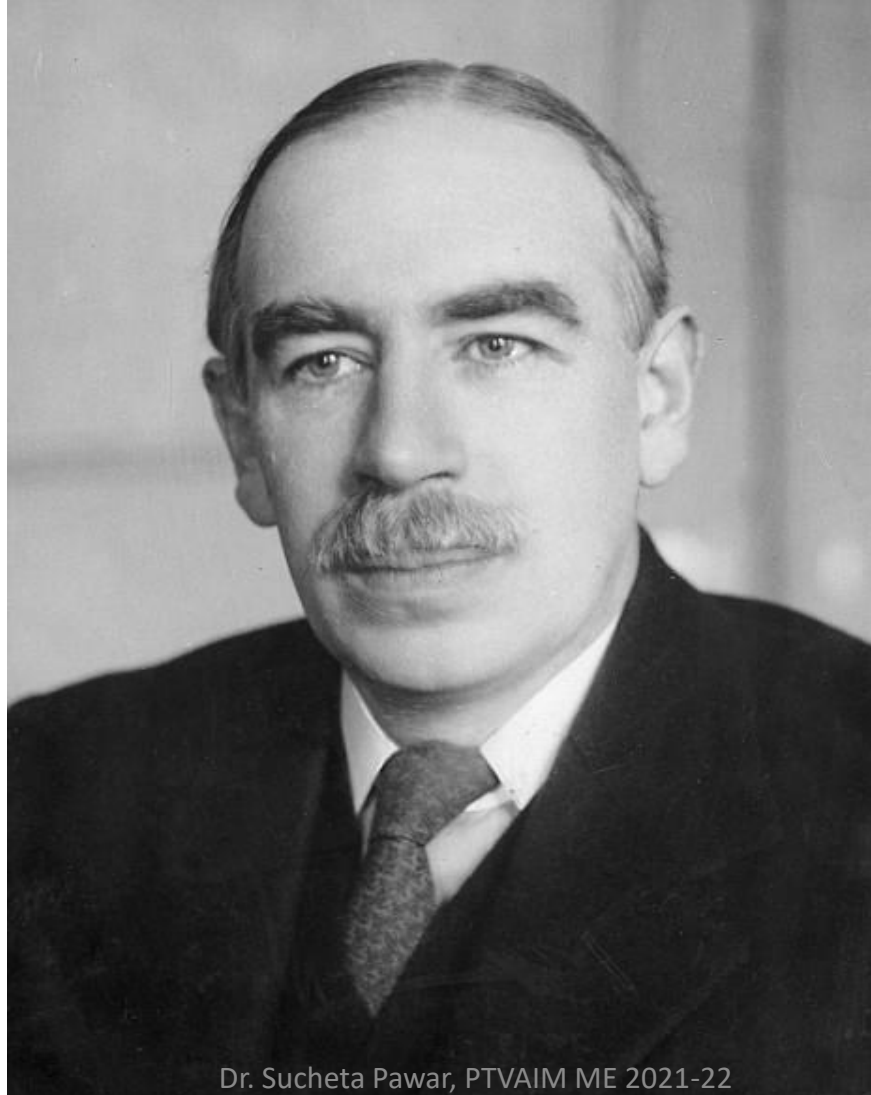

Adam Smith (Father of Economics)

Alfred Marshall

2) Macro-economics, Modern approach -

Greek word 'Macros' means a large part.

The word was used first by Ragner Frisch in 1933. The concept of Macro- economics is popularized by J.M.Keynes (General theory 1936).

J.M.Keynes

Distinguish between
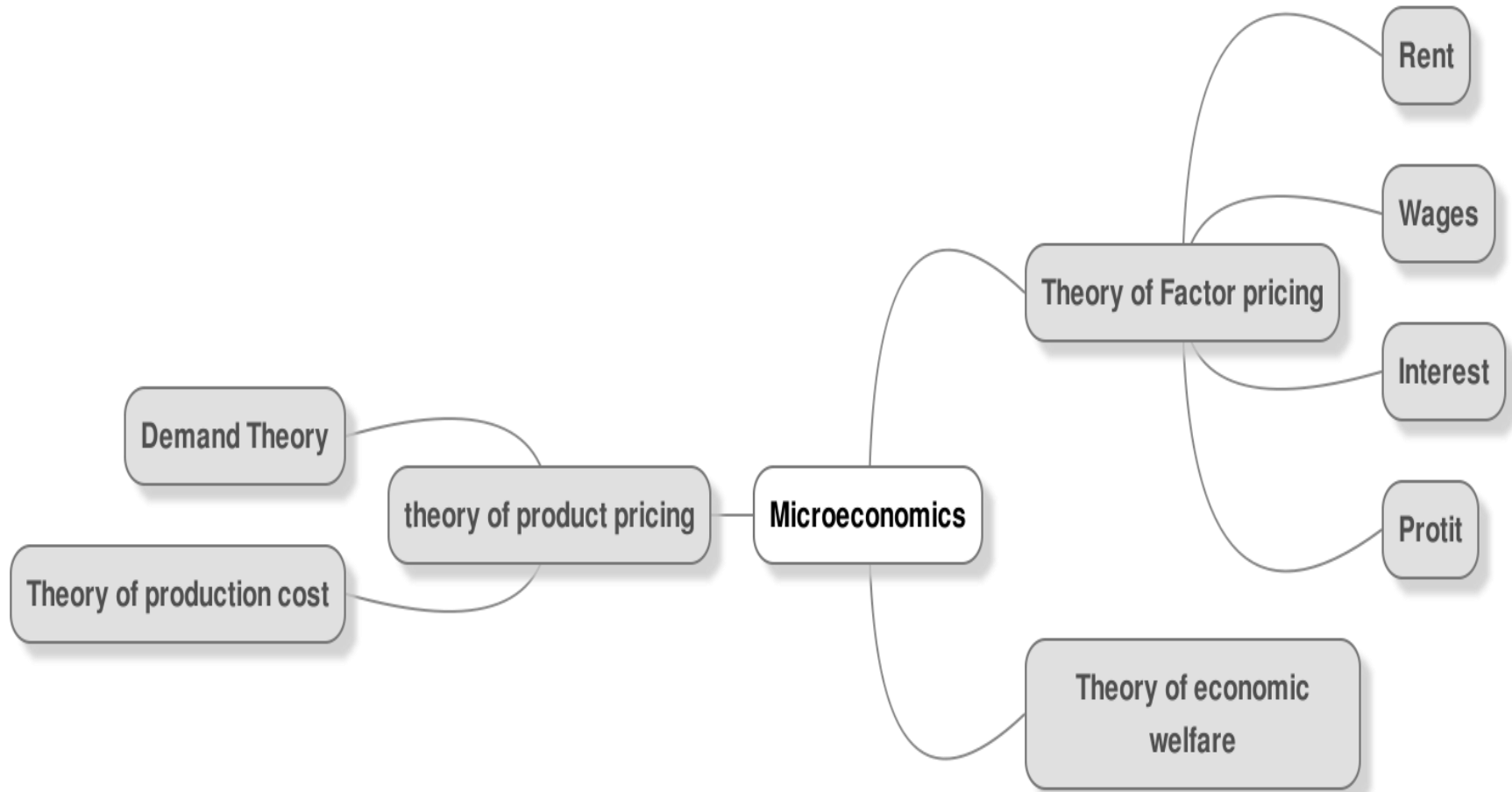## *Micro-economics*   *Macroeconomics*

- Individualistic approach.

- Slicing method.

- Detailed study of specific unit.

- Is the concept of the

    free market economy, where govt. has no role

   to play in the economy.

- Price theory, demand theory etc.

- Aggregate approach.

- Lumping method.

- Study of general outline of the economy.

- Is the concept of socialist

    economy,where state interferes in the economic activities.

- Theory of income & employment, theory of

    economic growth.

Scope of Microeconomics

Scope of Macroeconomics

Theory of general price level

Theory of Income and employment

Macroeconomics

Macroeconomic theory of distribution

Theory of economic growth
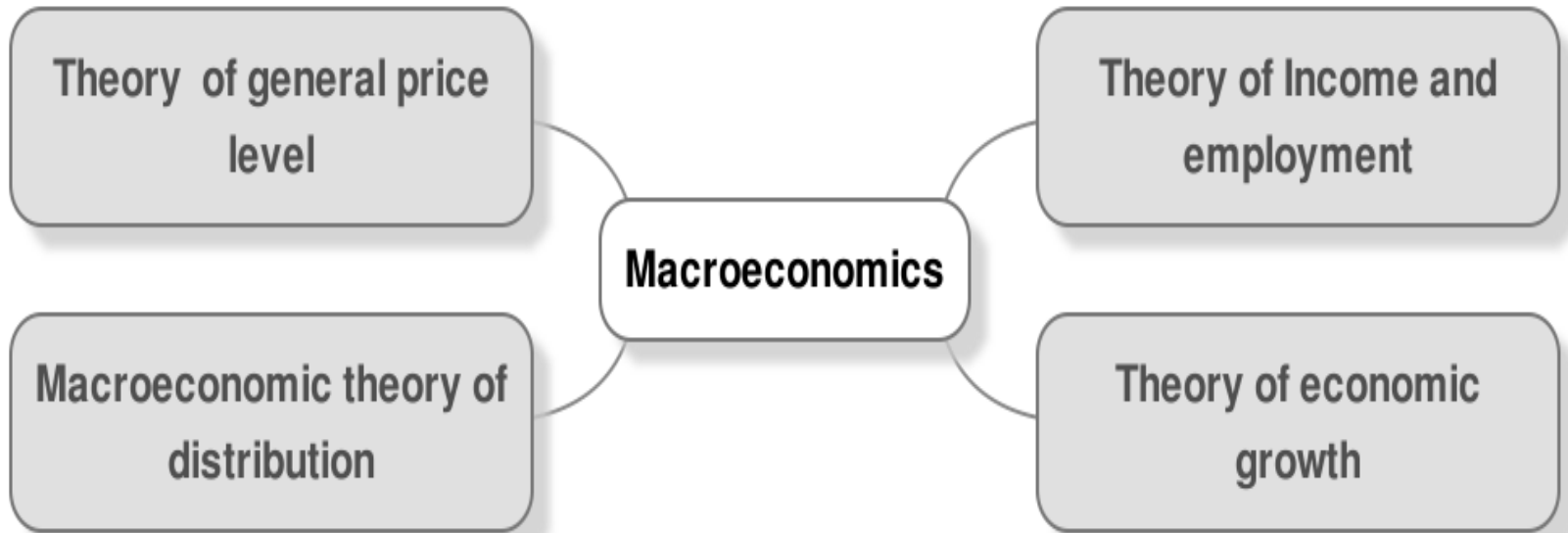
Macroeconomics

Microeconomics

Economics deals with Economic Problem concerned with unlimited wants and scarce resources
Economics gives choice and economizing as a solution to economic problem

Scarcity-Choice-Efficiency
Production Possibility Frontier

Production Possibilities	Oil (liters)	Rice (kg)
A	0	15
B	1	14
C	2	12
D	3	09
E	4	05
F	5	00
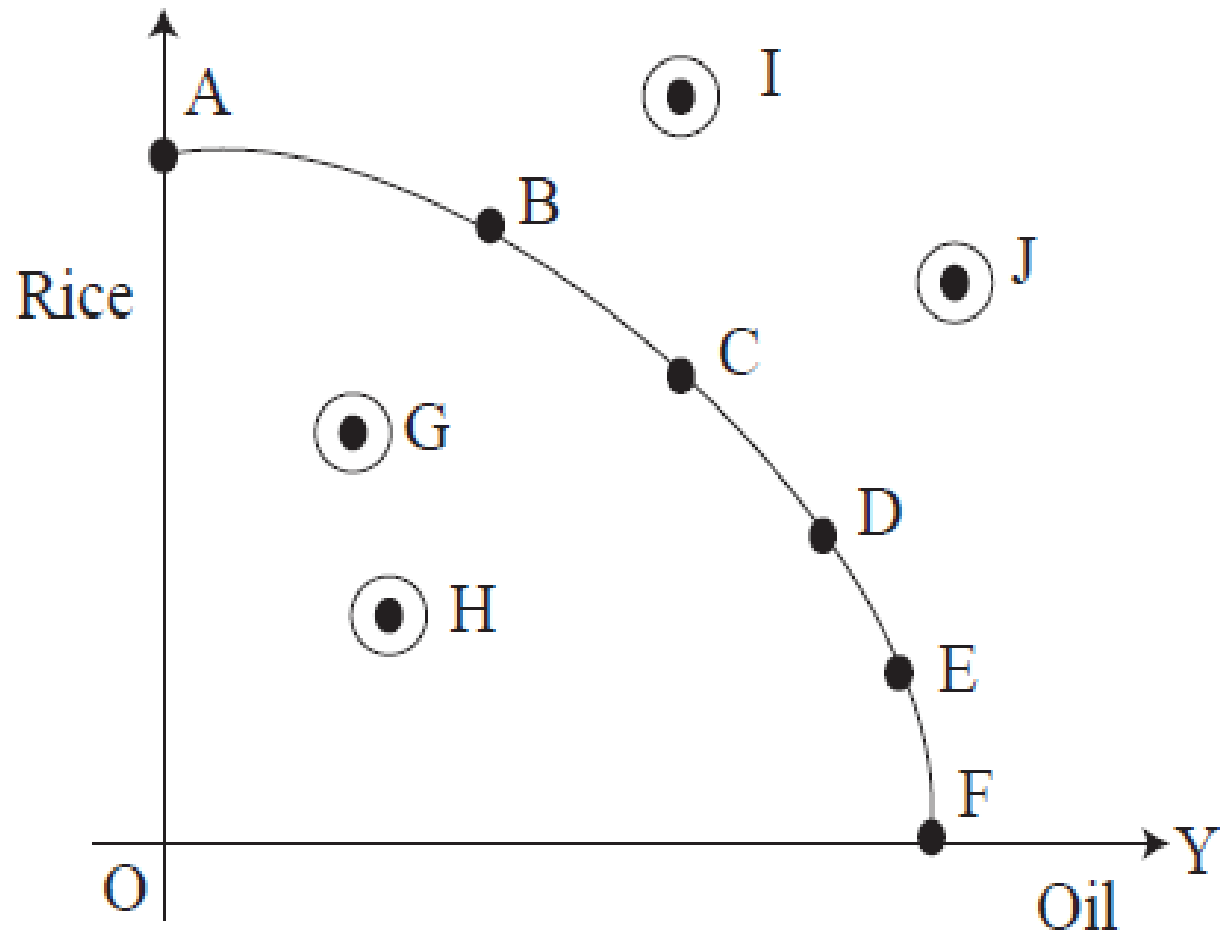
Fig. 1.1 : Production Possibility Frontier
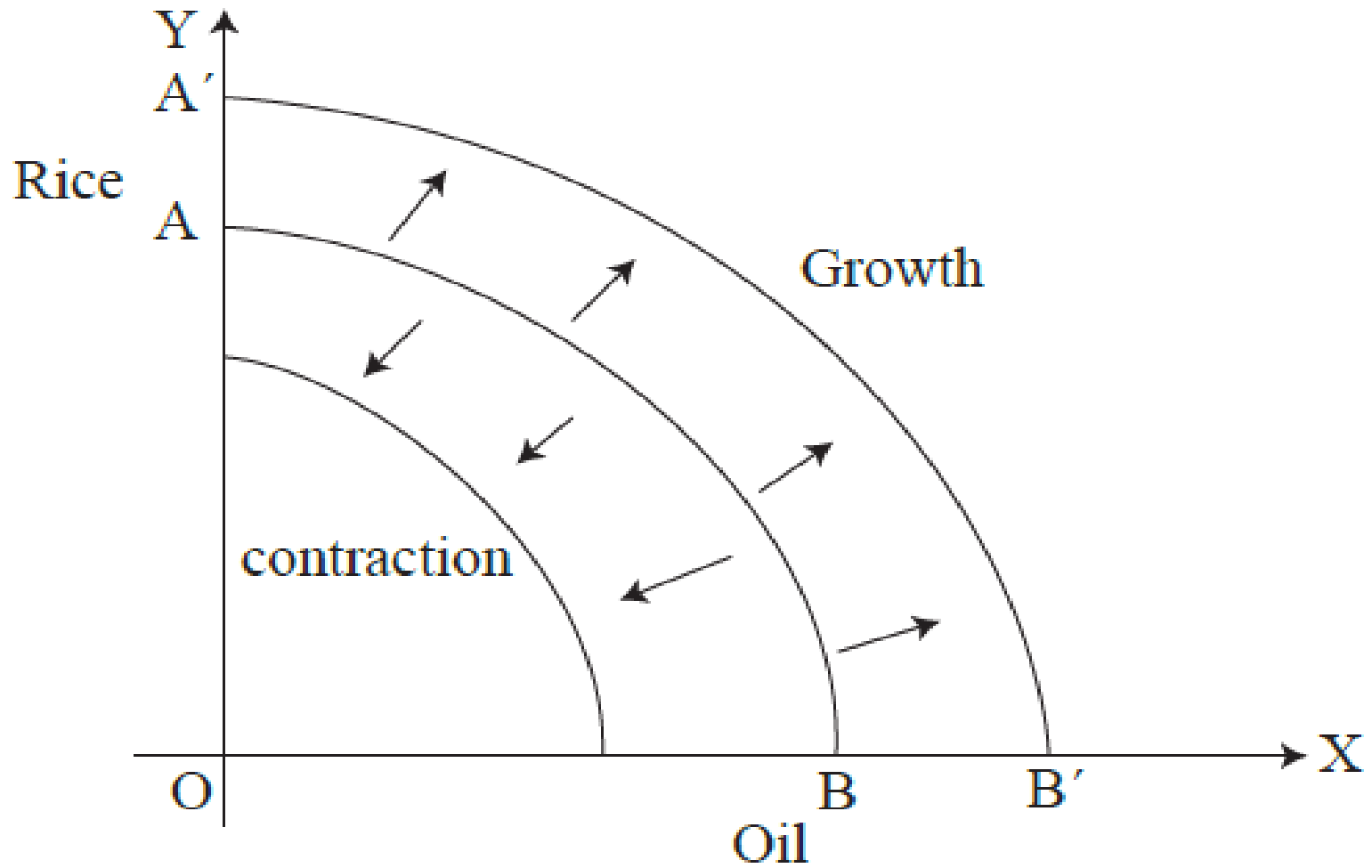
Fig. 1.2 : Shift in PPF

WHAT IS MANAGERIAL ECONOMICS?

THE ACTIVITY

The application of

economic analysis

to evaluate

Business decisions

A business firm faces a Problem....
called as Economic Problem

WHAT TO PRODUCE?

HOW TO PRODUCE ?

HOW MUCH TO PRODUCE ?

WHERE TO PRODUCE ?

FOR WHOM TO PRODUCE ?

Managerial decision problem for Cadbury India

In October 2003, just a month before Diwali, customers in Mumbai complained about finding worms in Cadbury Dairy Milk chocolates. Quick to respond, the Maharashtra Food and Drug Administration seized the chocolate stocks manufactured at Cadbury's Pune plant.

In defence, Cadbury issued a statement that the infestation was not possible at the manufacturing stage and poor storage at the retailers was the most likely cause of the reported case of worms.

But the FDA didn't buy that. FDA commissioner, Uttam Khobragade told CNBC-TV18, "It was presumed that worms got into it at the storage level, but then what about the packing - packaging was not proper or airtight, either ways it's a manufacturing defect with unhygienic conditions or improper packaging."

That was followed by allegations and counter-allegations between Cadbury and FDA. The heat of negative publicity melted Cadbury's sales by 30 per cent, at a time when it sees a festive spike of 15 per cent.

For the first time, Cadbury's advertising went off air for a month and a half after Diwali, following the controversy. Consumers seemed to ignore their chocolate cravings.

APPLICATION OF MANAGERIAL ECONOMICS

Dominic Salvatore
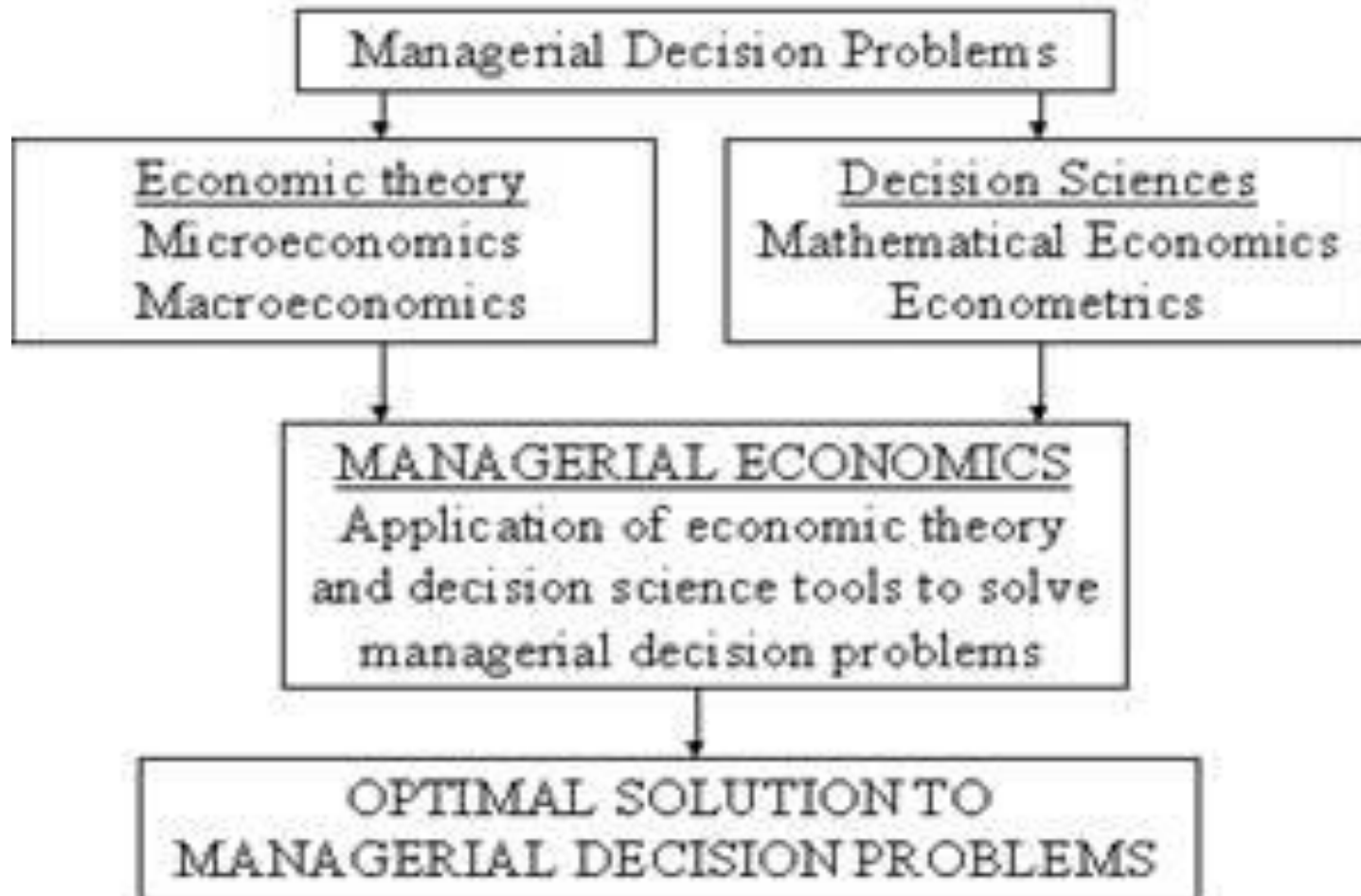
PROCESS OF DECISION MAKING

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┌─────────────────────────────────┐
│      ESTABLISH OBJECTIVE         │
└─────────────────────────────────┘
                 ↓
┌─────────────────────────────────┐
│       DEFINE THE PROBLEM         │
└─────────────────────────────────┘
                 ↓
┌─────────────────────────────────┐
│    IDENTIFY POSSIBLE SOLUTION    │
└─────────────────────────────────┘
                 ↓
┌─────────────────────────────────┐
│   SELECT THE BEST POSSIBLE       │
│           SOLUTION               │
└─────────────────────────────────┘
                 ↓
┌─────────────────────────────────┐
│     IMPLEMENT THE DECISION       │
└─────────────────────────────────┘
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CONSIDER INPUT CONSTRAINTS

CONSIDER LEGAL & OTHER CONSTRAINTS
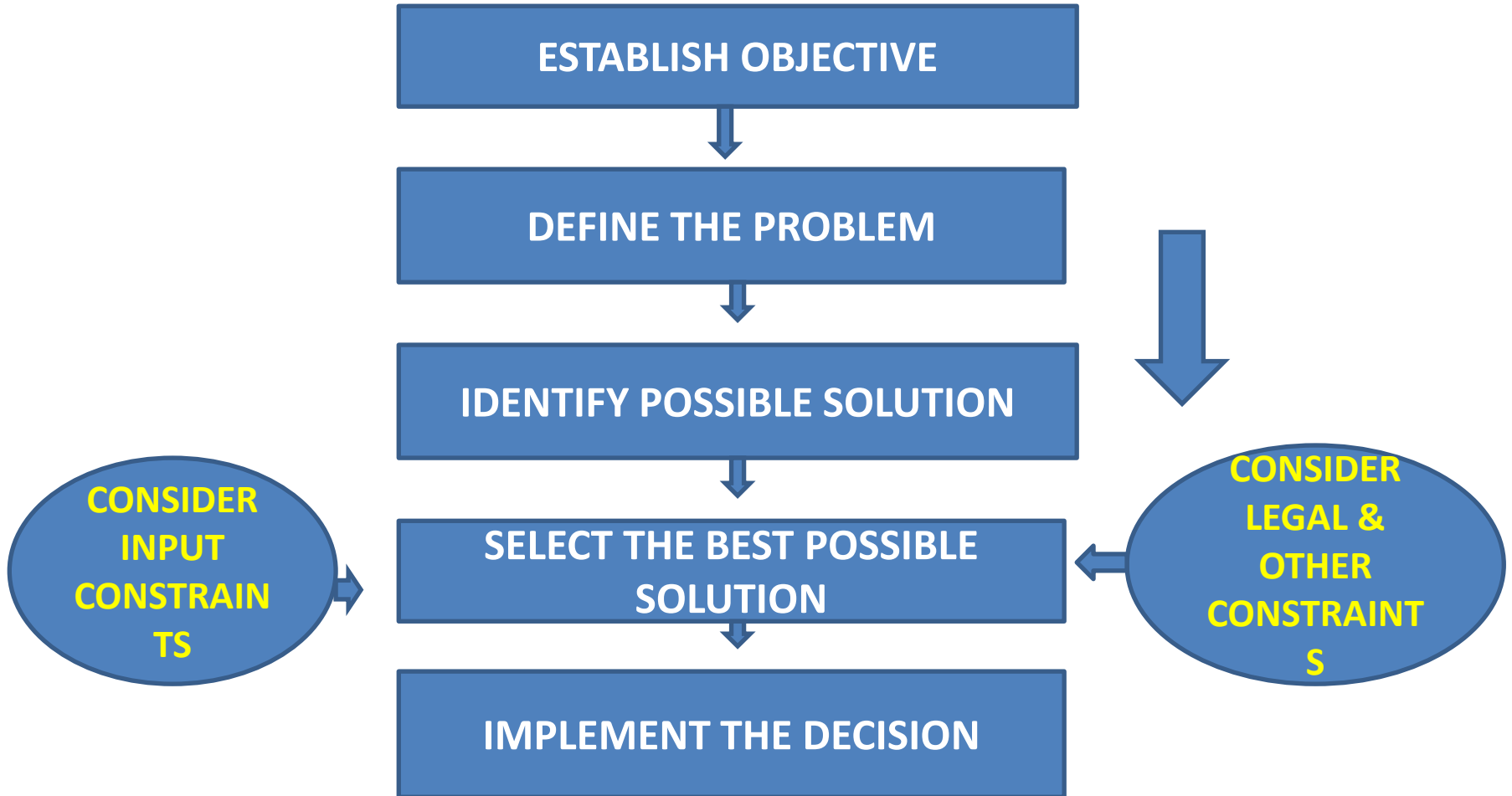
Solution of the problem

As a brand under fire, in October itself, Cadbury's launched project 'Vishwas' - a education initiative covering 190,000 retailers in key states. But what the company did in January 2004 is what really helped de-worm the brand.

By investing up to Rs 15 crore (Rs 150 million) on imported machinery, Cadbury's revamped the packaging of Dairy Milk. The metallic poly-flow, was costlier by 10-15 per cent, but Cadbury didn't hike the pack price.

Bharat Puri, managing director, Cadbury's India says, "While we're talking about a few bars of the 30 million we sell every month - we believe that to be a responsible company, consumers need to have complete faith in products. So even if it calls for substantial investment and change, one must not let the consumers confidence erode."

Simultaneously, Cadbury's roped in brand ambassador Amitabh Bachchan to do some heavy duty endorsement putting his personal equity on the line for the brand.

The company upped ad spends for the Jan-March quarter by over 15 per cent. The recovery began in May 2004, and by June, Cadbury's claimed that consumer confidence was back.

https://www.rediff.com/money/2006/dec/24cad.htm

DEMAND

DESIRE + ABILITY + WILLINGNESS = DEMAND

DEMAND FOR PRODUCER'S GOODS & CONSUMER'S GOODS, DURABLE GOODS, NON-DURABLE / PERISHABLE GOODS, AUTONOMOUS DEMAND, DERIVED DEMAND INDUSTRY'S DEMAND, COMPANY'S DEMAND

INDIVIDUAL DEMAND, MARKET DEMAND, MARKET SEGMENT DEMAND

WHY WE NEED TO ASSESS FACTORS AFFECTING DEMANF FOR OUR PRODUCT? LESSONS FROM TATA NANO......

The much hyped Tata Nano couldn't live up to any sales projection. Why has it not captivated the Indian masses as much as the Pundits and even Ratan Tata hoped it would? Poor product or poor marketing? Tata Nano is a classic case of poor brand positioning. Here are a few reasons why I believe that Tana Nano didn't fare as well as expected and what we must learn from it.

1) **WHAT YOU THINK THE CUSTOMER NEEDS IS NOT WHAT THE CUSTOMER WANTS**

I read somewhere that the idea of the 1 lak car was conceived after Ratan Tata saw a family of 4 traveling by bike. The dream was that every family should be able to afford a car and to some extent, Ratan Tata did manage to build such a car. However, marketing lesson #1, never assume that what the customer want is what you think they want. I didn't find any survey or study done before the initiation of this project. Indian Entrepreneurs, unlike their western counterparts, have an advantage of a huge population i.e. a large urban middle class that is hungry to buy anything new that is launched in the market. Such confidence, along with l lack of "survey culture" has led to a rapid rise and fall of many products such as CDMA mobile, High speed internet services(non 3g), Natural Ice-creams etc.

2) THEY DON'T CALL A CAR A LUXURY ITEM FOR NOTHING

World's cheapest car

India's Tata Motors on Thursday unveiled its $2,500 Nano, an ultra-cheap price tag that could greatly expand the ranks of Indian car drivers. The company hopes to eventually export the car.

- Has no radio, no air conditioning, no passenger-side mirror
- Averages about 50 miles per gallon
- Rear-wheel drive, two-cylinder, 623 cc, multi point fuel injection petrol engine
- A compact four door that can sit four people or five
- One windshield wiper
- 1.6 m (63 in)
- 3.1 meters (122 inches)
- 1.5 m (60 in)

In India, cars are luxury items. For anyone who disagrees, borrow his key and scratch his car door. If you don't get hit in the face, you will at least observe him wincing. To us Indians, our car is like our second home. We do not compromise on our homes, neither do we on our cars. Middle class Indians are happy to navigate through congested traffic and get from point A to point B on a two wheeler. A four wheeler, on the other hand, is a status symbol. It is a testament of our growing pay cheques; shown to those who can come to look at our homes. Tata Nano is no status symbol if its USP is that it is the cheapest car available.

3) FACTS NEED TO SPREAD FASTER THAN RUMOURS

After the initial hype, too many rumours were spread too fast. Whether it was Disgruntle customers or intimidated competitors, issues such as lack of safety (crumple space, no air bags) and defective products (a couple of cars that burst into flames) created a negative perception that Tata finds hard to erase from peoples memory. Tata made little or no direct

effort to build confidence. Any car company in the US would have recalled its products and provided adequate compensation. Tata didn't feel the need to do so

4) NANO IS NOT THE FIRST CAR OF THE MASSES BUT THE THIRD CAR OF THE ELITE

The truth that the benefits of a compact car is not known by first time buyers. People with big submarine-sized Toyotas and BMWs who have a tough time parking them in cities know the importance of a compact car. First time buyers want to own a big car even if it is a second-hand car. A dream like that cannot be fulfilled by a tiny Nano.

5) PEOPLE CHECK LONG TERM BENEFITS RATHER THAN SHORT TERM AFFORDABILITY

The problem faced by car companies is similar to those faced by Gillete Mach 3. People can afford the machine but not the refills. Nano isn't as fuel efficient as other small cars. It is sad that Tata didn't grab the opportunity of building the cheapest hybrid car. Even if the customer had to pay an extra Lac or two for the car, a substantially higher mileage would have tempted many to consider the Nano over other small cars.

DETERMINANTS OF INDIVIDUAL DEMAND

PRICE **Px**

INCOME **Y**

PRICES OF RELATED GOODS Pxy

TASTE **T**

DEMONSTRATION EFFECT **D**

FUTURE EXPECTATIONS **E**

ADVERTISEMENT **A**

UTILITY **U**

QUALITY **Q**

DETERMINANTS OF MARKET DEMAND

POPULATION *Pp*

COMPOSITION OF
POPULATION *Cp*

ADVERTISING

SOCIAL PRACTICES *Sp*

CUSTOMS *CU*

DEMAND FUNCTION ; Dx = f (Px ,Y ,Pxy ,T ,D ,E ,U ,Q ,A ,Pp ,Cp ,Sp ,CU ,……….)

The Law of Demand

Linear Demand Function (Dx = a-bPx)

1) Given the Demand Function; Qd = -30P + 0.05Y + 2Pr + 4T
   Where Y = 5000, Pr = 25, T = 30
i)   Form the linear demand function
ii)   Draw the demand curve
iii) What will be quantity demanded if Price = 5
iv)   What will happen to demand curve of price increases to 6
v)   What will happen to demand curve if income increases to 7400

2) Given the demand function; Qd = -4P + 0.01Y – 5Pr + 10T
Where Y = 8,000, Pr = 8 and T = 4
i)   Form the linear demand function
ii)   Draw the demand curve
iii) What will be quantity demanded if Price = 8
iv)   What will happen to demand curve of price increases to 12
v)   What will happen to demand curve if Taste & Preferences increases to 8

3) The ABC marketing consulting firm found that a particular brand of portable stereo has
 the following demand function for a certain region
Q = 10,000 -200P + 0.03 Pop (population) + 0.6 I (disposable income) + 0.2A (Advertising expenditure)
Where Pop = 1,000,000 I = 30,000 A = 15,000
i)   Form the linear demand function, & draw curve
ii)   What will be the demand if price is 200/- & 150/-
iii) What will be the price if 45,000 units need to be sold

Webliography

1) Cadbury Case Study   https://www.rediff.com/money/2006/dec/24cad.htm
2) Tata Nano Case by Avinash Tavares - https://www.slideshare.net/avinash2701/marketing-lessons-from-tata-nano