

Major areas of  
microeconomics that  
business managers  
must be familiar with  
in per...

[Economics](#), [Microeconomics](#)



Question 1> What are the major areas of microeconomics that business managers must be familiar with in performing their managerial functions effectively and efficiently? Answer: Operational problems are of internal nature. They include all those problems which arise within the business organization and fall within the purview and control of the management. Some of the basic internal issues are : 1. Choice of business and the nature of the product. Choice of the size of the firm. Choice of technology : choosing the factor combination Choice of process. How to promote sales. How to face price competition How to decide on new investments How to manage profit and capital How to manage inventory The micro economics have great impact on the following managerial decisions:

1. Theory of Demand : Demand theory explains the consumer's behavior . It answers the questions: How do the consumers decide whether or not to buy a commodity? How do they decide on the quantity of commodity to be purchased? When do they stop using one commodity or may switch to another. How does the consumer behave when there is price change for a particular commodity? The knowledge of demand theory therefore be important for managers

2. Theory of production and production decisions : Production theory which is also known as theory of firms explains the relationship between inputs and outputs. It also explains under what conditions cost increase or decrease, how total output increases when units of one factors have increased keeping other factors constant. Production theory is therefore very important for managerial decisions.

3. Analysis of market structure and pricing theory : Price theory explains how prices are

determined under different market conditions. When price discrimination is desirable, feasible and profitable, to what extent advertising being helpful in expanding sales in competitive market. Thus price theory can be helpful in determining the price policy of the firm. *if* Profit analysis and profit management : Profit making is the most common objectives of all business undertakings. But making a satisfactory profit is not always guaranteed because a firm has to carry out its activity under conditions of uncertainty with regards to: I. II. III. IV. Demand for the product Input prices in the factor market Nature and degree of competition in the product market Price behavior under changing conditions in the product market Therefore an element of risk is always there even the best practices have been followed by the organization. *if* Theory of capital and Investment decisions : Capital like all other inputs is a scare and expensive factor. Capital is the foundation of the business. Its efficient allocation and management is one of the most important tasks of the managers. The major issues related to capital are: I. II. III. Choices of investment project Assessing the efficiency of capital Most efficient allocation of capital