

Economics for managerial decision making essay sample

[Profession](#), [Manager](#)



Decision making is amongst the main functions of managers within the business world today; even more particularly during these times of economic crises. Decisions such as pricing strategies targeted to particular market models of monopoly, oligopoly, monopolistic competition, and perfect competition, may help maximize revenues and profits. Also making the right choice when investing in technology, research and development, and marketing tactics can deeply impact a business' profits and ultimately, its success or failure (McConnell & Brue, 2008).

Pricing and Non Pricing Strategies Pricing tactics across the different markets have a strong impact on profits; decisions regarding pricing are strongly tied to the type of market being run. For instance, in a monopolistic market an increase in price will be followed by a decrease in demand. Given the fact that the product may not be trusted by consumers a highly priced article will create a negative effect on demand. Even though in this type of market the business is the price maker, cost must not be passed on to the consumer in order to increase revenue either.

It is necessary to invest in manufacturing technology improvement and in marketing in order to stimulate demand, lower costs, and improve productivity, hence increasing profits (McConnell & Brue, 2008). This is represented in Quasar's simulation where, while being a monopoly player, they were unable to pass on to their customers their increased costs as it would have been translated into a lower demand. They had to optimize their production processes (University of Phoenix, 2002).

In the case of an oligopoly pricing must be carefully analyzed as the market is characterized by the fact that only a few firms dominate. Firms will try to anticipate what the other's pricing move will be in order to adjust their own and also how their adversaries will react to their strategies. Strategic interaction within the players in order to reach optimal profits is a way to reach equilibrium as the market share of each of the firms, their revenues and profits will be determined by the price differential.

A price drop may lead to strategic benefits, but rivals are likely to reduce their prices as a response and this may consequently lead to very limited revenues and profits and a destructive price battle. Therefore, a more beneficial approach would be to undertake a non-pricing strategy.

Investment in manufacturing technology improvement, marketing, advertising and sponsorship, and service enhancement are favored strategies for oligopolies. These will provide added value to their product and avoid price competitions that can lead to damaging results (McConnell & Brue, 2008).

When Quasar's patent expired and Orion Technologies entered the market, Quasar was obligated to decide whether to enter a pricing battle or reach a stable price where both companies could make money and work individually on their non-pricing strategies in order to gain more market share, revenue and profit (University of Phoenix, 2002). Strategies are different when a company enters the monopolistic competition market. In this type of market the market share is short for each player and margins are lower as there is a large amount of sellers who offer similar products or close substitutes.

Because of this, the demand curve in this market is more elastic than that of the monopoly but less elastic than that of perfect competition, because the products are differentiated from its contenders (McConnell & Brue, 2008).

The most convenient strategy is not in the pricing but in the stimulation of demand in order to obtain a larger market share by introducing improved technology and investing in advertising; such as in the case of Quasar computers where their best move was to invest in the creation of a new version of Neutron, the Ceres computer.

Advertising funds must be strategically allocated bearing in mind that the older products will have reached their demand peak by the time a new product is introduced in the market. For Quasar computers investing additional advertising funds in Neutron would have not helped them increase their market share as that product already had ample competition, but investing in Ceres gave them the chance to widen their market share (University of Phoenix, 2002). In a perfect competition market sellers cannot influence the price at which their product is sold; price is determined by the market itself.

Buyers take the price as given and no seller should sell his or her product above the market price as he would encounter a noticeable loss in market share. Non-pricing strategies are actually the only way to increase profits in this type of market. The focal area is cost control and the investment in process improvement initiatives as this will allow for sellers to maximize their profits. This is a continuous effort as competitors will soon follow, work with their cost savings as well, and cause a drop in market prices.

When Quasar entered the perfect competition market they were able to make some profits due to the implementation of a cost saving initiative but this had to be a continuous one in order to be able to enjoy long term results (University of Phoenix, 2002). Roles of Technology, Research and Development Within the different market types it is usually more feasible for a monopoly player to acquire the best technology available to produce its goods while competitors in other types of markets sometimes don't have the necessary capital to acquire the best available technology.

Therefore, monopoly players may sometimes produce goods at a lower cost than smaller firms competing in markets such as monopolistic competition. Although monopolies may have the funds, they also have less incentive to invest in the research and development of technology than the competitive markets. Monopolies already have the dominant market share that they need but for a monopolistic or a perfect competition investing in the development of technology is crucial to subsist.

Oligopolies usually have the funds to invest in research and development of technology and they also have the need to do so. The natural way to avoid the damaging price battles yet remain a market leader and increase profits is to invest in research and development of technology. Innovation throughout all types of markets is a great strategy to lead the market. For Quasar to enter a different type of market and explore a new product turned out to be a profitable, innovative decision.

Conclusion The market structures simulation exemplifies the contrasts of decision making within the different market structures of monopoly, oligopoly, monopolistic competition, and perfect competition. The decision of what is the best approach regarding pricing and non-pricing strategies will depend on the type of market under study. Raising price rates is not always the correct approach. When costs have already been reduced to their lowest point and sales are tough to find, implementing a better pricing strategy is vital to stay at the top of the game.