Managerial economics and capital budgeting

Literature, Russian Literature

The paper " Managerial Economics and Capital Budgeting" is a wonderful example of an essay on macro and microeconomics. Managerial economics is the consolidation of actual business practices with economic theory in order to expedite and ease future-planning and business decision making by the management. Managerial economics primarily utilize micro-economic theories and is comprised of several important economic disciplines. One such discipline in managerial economics that I found cumbersome is ‘ Capital Budgeting.’ Capital Budgeting is the multi-stage process of analyzing and appraising what resources and whether they should be allocated to existing projects. It primarily addresses decisions in the process of future investments; this ensures optimum resource allocation and maximizes shareholder wealth. Analysts working in capital budgeting processes are usually faced with decisions such as whether a new product should be added to the existing production line; should the business expand into a new market; should the existing machinery be replaced with new machinery; should the business outsource labor or components of the machinery, etc (Samuelson, and Marks, 2011).

I found Capital Budgeting important because in practice it roughly decides the future of a business. This is because it involves an astronomical investment of business resources; the decisions made are not easily reversible and have unpredictable long-term implications that certainly involve risk. Consequently, Capital Budgeting decisions are critical and must be evaluated carefully. A firm that does not follow capital budgeting principles will be bringing devastating effects upon the business and will not be maximizing shareholder wealth. Examples of bad Capital Budgeting decisions are the RJR Nabisco smokeless cigarette project and Concorde Plane. They all faced catastrophic problems due to bad capital budgeting. An economist not understanding the concept of ‘ Capital Budgeting’ is bound to sink the business boat. A business without proper capital budgeting principles may thrive for a short time, but when competition arises, domestic government’s change, new labor laws are introduced and inflation rises, that the business is bound to crash. It is a body with half a brain that might help a body function, but function improperly (Samuelson, and Marks, 2011).

In order to explain to a friend what managerial economics is about I would say that economics is what the whole world runs on, be it governments, economies of countries’, industries, both small and big businesses, they all run on economics. They all have economists who have studied ‘ managerial economics’ to guide ‘ economies’ to maximizing wealth. If a person who is accoutered with such knowledge intends to open a business he will be at an advantage relative to other players in the market. He will have all the knowledge of that particular business and the target market beforehand. Through managerial economics, a person knows the demand and supply rule, why big corporations make particular decisions and what circumstances they are based on (Samuelson, and Marks, 2011).

Being an HR manager I believe economic labor laws, workforce productivity and talent management lessons are the most important. This is because of my belief that a firm should not only aim to obtain maximum benefits from its workforce but also aim at returning maximum benefits to it. Furthermore, workforce productivity ensures efficient and accurate employment of labor. It helps an HR manager spot the gaps or over-lapping bridges in the business,

i. e. where there is more workforce required or where it is in excess. Talent-management helps to recruit the right individuals for the job; it helps assess the employees efficiently. In a box, it helps keep the strings between the firm and its workforce oiled and smooth (Samuelson, and Marks, 2011).