



MANAGERIAL ECONOMICS

EIGHTH EDITION

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*Dedicated to
The Memory of
My Mother*

Preface to the Eighth Edition

With ever-changing business environment, more so because of globalization, business decision-making has become a very complex managerial function. The complexity of business decision-making is reflected by the growing need for integrating business decisions with a wide range of business issues related to market assessment, production planning, pricing, marketing, financing, human resource management and business planning taking in view the current business environment and economic prospects of the country. With growing complexity of business decision-making, the application of microeconomic theories and tools of analysis to business decision-making has been a well recognized phenomenon. With the speed of change of business environment, however, various universities, business schools and management institutes have revised their curricula of managerial economics to include the macroeconomic aspects of managerial decisions. The objective of this book has been to provide a comprehensive and rigorous analysis and application of both microeconomic and macroeconomic theories to business decision-making. Although the earlier editions of this book were well received and appreciated highly by the subject teachers and students, the book has been revised thoroughly with added interpretations of economic theories and concepts and their application to managerial decisions.

What Is New in This Edition

Although the organizational structure of the book as given in the earlier edition has been retained, many significant additions and chapter-wise changes have been made in this revised edition. Almost the entire text has been rewritten by adding some new features, new chapters, new topics and by enhancing clarity and precision to the explanations of economic concepts and theories. A greater emphasis has been laid on application of economic theories to business decision-making. Details of the new in this edition are as below.

New Chapters Added

The addition of new chapters is basically the result of reorganization of the subject matter of some chapters in the earlier editions of the book.

- The topics ‘Market Demand’ and ‘Elasticity of Demand’ were discussed earlier together in Chapter 8. In this edition, these topics have been discussed in a greater detail in two chapters—‘Market Demand and Market Mechanism’ in Chapter 7 and ‘Elasticity of Demand’ in Chapter 8. These topics now include ‘Significance of Demand Elasticity’ and ‘Application of Elasticity in Pricing Decisions’.
- The ‘Theories of Price and Output Determination’ under different kinds of market conditions were discussed in the earlier editions in one chapter (Chapter 13) in a somewhat short version. On the advice of the reviewers of the book, subject teachers and the co-author, the discussion on the ‘Theory of Price and Output Determination’ has now been extended over *four new chapters*: (i) Chapter 14: Price Determination under Perfect Competition; (ii) Chapter 15: Price and Output Determination under Monopoly; (iii) Chapter 16: Price and Output Determination under Monopolistic Competition, and (iv) Chapter 17: Price and Output Determination under Oligopoly. The purpose is to present the theories of price determination under different kinds of market conditions in a more exhaustive manner and with added explanation. Thus, four new chapters have been added to this edition of the book.

- In the Macroeconomics part of the book, a new chapter—Chapter 28: IS-LM Model—has been added with the purpose of presenting a complete analysis of macroeconomic system of the economy as a whole. Chapter 28 presents a brief analytical discussion on the integration of the working of the product and money markets. This aspect of macroeconomics has been discussed by taking in view the MBA syllabi of various universities and management institutes.

New Sections Added to Different Chapters

- Each chapter now gives *Chapter Objectives* to make students aware of what they are supposed to learn by going through the chapter.
- Two new sections have been added to Chapter 6: (i) Derivation of Demand Curve with Changing Marginal Utility of Money, and (ii) Why Demand Curve Slopes Downward to Right. The section on ‘Comparison of Cardinal and Ordinal Utility Approaches’ has been deleted as it does not serve any useful purpose in the current environment.
- A new section on ‘Expansion Path’ of the production based on modern concept has been added to Chapter 10. The derivation of the ‘Expansion Path’ shows the trend in production with increase in the scale of production.
- A new section on ‘Price Determination in Long Run’ under perfect competition has been added with an extended interpretation of the theory of price determination.
- In Chapter 15, a new section ‘Equilibrium of Multi-plant Monopoly’ has been added and the ‘Deadweight Loss of Monopoly’ has been re-explained with new examples of deadweight loss.
- In Chapter 18, a new section on ‘Basis of Game Theory’ has been added to show the importance of game theory in business decision-making under the condition of intensive competition.
- In Chapter 27, new sections on Kinds of Money, Functions of Money and Supply of Money have been added and sub-sections on Demand for Money have been revised thoroughly with added explanation.
- Two new sections: (i) ‘Theory of Interest Rate Determination’ and (ii) ‘Monetary Sector Equilibrium’, have been added in Chapter 27.
- A new section on ‘Meaning and Extent of Globalization’ has been added in Chapter 32 and sections remotely related to international business have been deleted.
- In Chapter 34, a new section on ‘Current Foreign Trade Policy of India’ has been added.
- Chapter 36 has been rewritten with greater details on various aspects of Balance of Payments and a new section on Equilibrium and Disequilibrium of BOP has been added.
- In Chapter 37 titled ‘International Monetary System’, a new section on ‘The Current Role of the IMF’ has been added.
- In Chapter 39 titled ‘Monetary Policy’, a new section on India’s monetary policy has been added with a detailed discussion.
- The Chapter on ‘Fiscal Policy’ has been almost rewritten with a new section added on Meaning and Objective of Monetary Policy, Fiscal Instruments and India’s Fiscal Policy.
- In Chapter 43, a new section on ‘Current Scenario of CSR in India’ has been added in this edition of the book.

Other Important Changes

In addition to the new chapters and sections, many significant revisions have been made in almost all chapters of the book. Some important ones are briefly noted down.

Introductory Chapter 1 has been almost rewritten with the objective of showing relevance and application of *managerial economics* with reference to real-life business decision-making problems. Chapter 2 dealing with business objectives has been revised by adding some business objectives. Schumpeterian theory of profit has been rewritten by adding a greater precision to the theory. The method of profit measurement has been discussed in a greater detail. Chapter 4 has been thoroughly revised by highlighting the need for and application of tools of economic analysis with added precision. The title of Chapter 6, 'Basics of the Market System and Market Equilibrium' has been changed to 'Market System and Market Equilibrium'. The section on 'Derivation of Individual Demand Curve' has been elaborated with added examples. While some unnecessary details have been deleted with the purpose of adding precision, some sections have been detailed with some added argument. Chapter 10 has been thoroughly revised and its content reorganised to put it in a more logical sequence. Major revisions made in this chapter include a detailed explanation of (i) long-run theory of production with added diagrams, and (ii) meaning and measurement of *marginal rate of transformation*.

In Chapter 14, the section on 'Price and Output Determination' has been revised with a greater theoretical orientation of price and output determination with a greater analytical clarity. In Chapter 16, Sweezy's model of oligopoly, collusive oligopoly model and joint profit maximization model have been revised thoroughly with added explanation and examples. The Williamson's model on 'Managerial Utility Maximization' discussed in Chapter 19 has been re-explained extensively with an additional diagram.

Several important changes and additions have also been made in macroeconomics aspects of managerial economics. In Chapter 25, the section 'Definition of National Income' has been revised with the addition of some new concepts. Also, national income data has been updated. Chapter 31 on 'Theories of Inflation' has been reorganised by shifting the section on 'Desirability of Inflation' to a more appropriate place.

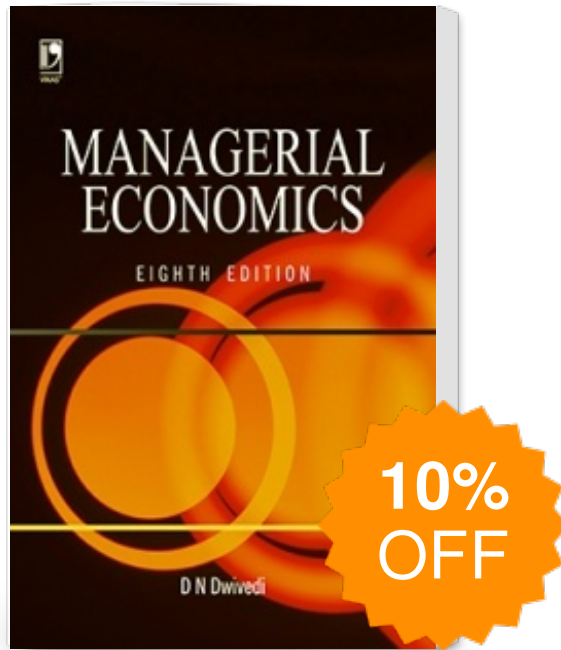
In Chapter 33 dealing with theories of international trade, the section on Introduction has been transformed to a new section 'The Basis of Foreign Trade' with current and relevant facts about modern trade. The section on Heckscher-Ohlin Theorem II has been revised with a detailed and theoretically sound analysis. Chapter 35 dealing with 'Balance of Payments' has been thoroughly revised for conceptual clarity and precision. In Chapter 38, the section on the 'Drawbacks of Free Market System' has been revised with additional empirical facts. The chapters on Monetary Policy (Chapter 39) and Fiscal Policy (Chapter 40) have also been revised with more recent and relevant data on India's monetary and fiscal policies. In Chapter 41, an introduction section has been added. Also, while dealing with India's industrial policy, the content has been revised with more appropriate and recent data. Besides, some extensive details which have lost their relevance have been deleted to make these chapters more relevant to managerial decision point of view.

Some more important revisionary changes have been made in this edition of the book. The introductory sections of almost all chapters have been revised to show the importance of the subject matter of the chapter and its relevance and applicability to business decision-making. At the end of each chapter, a section on *Summary* has been added in the end in the form of a short note for the benefit of students. 'Review Questions' of almost all chapters have been revised with addition of new questions and 'exercises'.

I am fully confident that this book will meet the requirement of the students of business management and also the manager in practice for their requirements of present times.

I am profoundly grateful to the editorial staff of Vikas Publishing House for getting the book reviewed by the subject experts. They provided me guidelines for reorganising and revising the text of the book. I express my gratefulness once again to all those who contributed to the earlier editions of the book. I would appreciate comments and suggestions from the readers of the book.

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