Unit 1:

Managerial Economics Basic

Economy

- An entire network of producers, distributors, and consumers of goods and services in a local, regional, or national community.

Defining Moments of Economics

- Events that change some manners in areas of our life like society, lifestyle, business, attitude, civilization, economy, governance and so on.

Industrial revolution

– Includes radical changes in

- Power consumption sources
- Locomotives

- Communication

Industrial Revolution

- First IR (1760 – 1840)
- Second IR (1850s – 1930s)
- Third IR (1940s – onwards)

First Industrial Revolution

- Manual labor to Mechanized Production
- Birth of factory based production
- Power Source
  - Water, Coal and Steam
- Inventions
  - Machine based production of textiles
  - Steam engines

  - Railways
- Urban cities were born
  - Cities where factories resided

Second Industrial Revolution

- Faster machines with automation introduced
- Assembly line in factories made mass production easy for other products, like steel
- Power Source
  - Hydro Electricity and Fossil Fuel
- Inventions
  - Combustion engine
  - Automobiles
  - Roadways
  - Communication media (telephone, radio)
- Labour unions started to emerge

Third Industrial Revolution

- ***The Information Revolution***
- New Energy sources:
  - Renewable energy, Green energy
- Shift from mechanical and analog to Digital approach
- Electronics and Computing based systems with digital technology
- Internet as a working platform
- Powerful ICTs
- “Smart” of almost everything
- Computer technology replacing human beings’ work
- Loss of jobs due to computers fast capabilities

Bonus Material: Fourth Industrial Revolution

- Fusion of digital, cognitive, physical and biological technology
- Reliant on Artificial Intelligence
- Very less human intervention required on regular tasks
  - Extreme Automation
- Better accuracy of tasks
- Based on cyber-physical systems

Technological Change in Global Economy

Technological change

- Technological change may involve new products, improvements or cost reductions for existing products, or better ways of managing the operations of a business.
- Technological change is the process of invention, innovation and diffusion in technologies and processes
- May be simple or brilliant.

- *Technological change can be thought of as altering the firm's production function.*

- Alvin Toffler, 1970s, "*Future Shock*"
  - The average person is emotionally and intellectually left behind by the rapid pace of technical and cultural change.
- Many firms have found it difficult to keep pace.
- Complicating the situation is the need for firms to stay close of new developments within their own industry.

- Electronics companies
  - use the new digital technologies for their audio and video equipment
- Automobile manufacturers
  - Using advanced robotics for assembly

- Computer suppliers
  - Include state-of-the-art chips, display terminals, and storage devices.

The Impact of Technological Change

- Reduction in Cost of Production
- Increase speed of Production

- Increase production Quality
- Loss of Jobs otherwise performed by Humans
- Need for firms to adapt frequently to new technology
- Rapid fluctuations in product price
- Shorter product life cycles

Market:

- Collection of buyers and sellers that through their actual or potential interactions, determine the price of the product or set of products

- Types of Market – Product Market
- Final goods(Shops)
  - Factor Market
- Land, labor, capital
- Wages(Job market), Land Value(Real estate), Stocks market, etc

Market Failure

- Allocation of goods is not efficient
- Rational behavior doesn't result in rational output

- Despite having sufficient supply, the demand doesn't exist for a particular product or an industry

Externalities

- Activities that either benefit or harm the third party who is not involved in supply and consumption of a product or a service

- Types
  - Negative
- Factories creating **Pollution** for the Residents – Positive

- Research done by a Business helping a business student
- Rise in price of real estate due to opening of business houses nearby

Goods types

- **Rival goods**
  - One party consuming it prevents another party . Eg. Food, bus seat, etc
- **Non-rival goods**
  - One person's consumption doesn't affect others. Eg. Radio stations, Streetlights
- **Exclusive goods**
  - Consumer needs to have certain characteristics, eg. Pay fees to get admitted to college, be old age to receive pension, etc.

- Non exclusive goods – No bias for consumption
  - Eg. National defense, fireworks display, Army parade in tundikhel, etc

- Non rival but excludable
  - Eg. Higher education in colleges, concert with ticket prices

- Rival but non excludable
  - E.g. Fishing in river, cutting grass in hill, etc
  - There is limited supply but anyone can have it

Public Goods

- Supplied by Government

- For the common benefit of the society
- Generally non exclusive in nature
- Meant to be consumed by the general public, with no bias for people
- Examples
  - National defense, Law enforcements, Public TV channels(NTV), Public Parks

Free Rider Problem

- Situation in which a person doesn’t contribute anything but consumes the public goods since they are non exclusive in nature

- There is contribution from one party but another party enjoys with for free
- For example
  – A beggar doesn't pay tax but still can use public parks, sleep in bus stands, walk in footpath and enjoy the brightness of street light.

END OF CHAPTER