

UWTSD MBA (Nov 2018 intake)

(1-1)

Introduction to Managerial Economics

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13 January 2019; 10:00 am to 1:30 pm



Suppose that you are hungry and thirsty, but you have only HK\$10, and that there are a piece of cake and a bottle of soft drink available for your purchase at the same price ($P = \text{HK\$}10$). We further suppose that you want to eat and drink because it will make you feel being better off, and that you can bargain with the seller.

What is your decision? What is the seller's decision? Please explain your answers in economic sense!

Lecture Agenda :

- Some Basics
- The linkage of production, exchange, distribution and consumption: An example
- Current Economic Environment

Some Basics

Economics Quantitative Techniques

Barrel/Casing



MBA programme

Nib

Managerial Economics AND Business Strategy



Mc
Graw
Hill
Education

MICHAEL R. BAYE / JEFFREY T. PRINCE

Definition of Economics

Economics is a social science concerned chiefly with the way society choose to employ its limited resources, which have alternative uses, to produce goods and services for present and future consumption.

Definition of Managerial Economics

Managerial economics is the study of how to direct scarce resources in the way that most efficiently achieves a managerial goal. It is a very broad discipline in that it describes methods useful for directing everything **from** the resources of a household to maximize household welfare **to** the resources of a firm to maximize profits.

Nature of Managerial Economics

- Manager
 - A person who directs resources to achieve a stated goal.
- Economics
 - The science of making decisions in the presence of scarce resources.
- Managerial Economics
 - The study of how to direct scarce resources in the way that most efficiently achieves a managerial goal.
 - This decision is made by the managers of a firm.

Entrepreneur is a term applied to the type of personality who is willing to take upon herself or himself a new venture or enterprise and accepts full responsibility for the outcome.

Managerial Economics is a problem solving approach to businessmen.

Inefficiency = Opportunity

Information + Incentive = Good Decision

Do you agree?

Elements contributing to effective management

1. Identify goals and constraints
2. Recognize the role of profits
3. Five forces model
4. Understand incentives
5. Understand markets
6. Recognize the time value of money
7. Use marginal analysis

Economics Reasoning Quiz

Please explain your answers in economic sense!

1. The best things in life are free. (True, False, or Uncertain)
2. The largest cost of going to college is tuition, room and board. (True, False, or Uncertain)
3. The purpose of economic activity is to improve the well-being of some people at the expense of others. (True, False, or Uncertain)
4. Anything worth doing is worth doing well. (True, False, or Uncertain)
5. Life is priceless. (True, False, or Uncertain)

An important economic concept: Scarcity

- Economic resources are scarce in relation to human wants.
- There are never enough at any given time to produce all the things that people want.
- Scarce resources can be increased, if at all, only through effort or sacrifice (cost).
- Since our resources (supply side) are scarce relative to our wants (demand side), we must make **choices** involving the most effective ways of utilizing those limited resources.

Guide to Economics Reasoning

- **People economize**

People choose the alternative which seems best to them because it involves the least cost and the greatest benefit.

- **All choices involve cost**

Cost is the second best choice given up when people make their best choice.

- **People respond to incentives**

Incentives are actions or rewards that encourage people to act. When incentives change, people's behavior changes in predictable ways.

- **Economic systems influence individual choices and incentives**

How people cooperate is governed by written and unwritten rules. As rules change, incentives change and behavior changes.

- **Voluntary trade creates wealth**

People can produce more in less time by concentrating on what they do best. The surplus goods or services they produce can be traded to obtain other valuable goods or services.

- **The consequences of choice lie in the future**

The important costs and benefits in economic decision-making are those which will appear in the future. Economics stresses making decisions about the future because it is only the future that we can influence. We cannot influence things that have happened in the past.

The linkage of production, exchange,
distribution and consumption: An example

Four areas of study in Economics

Means

- Production: The creation of value (or utility)
- Exchange: The transfer of property right
- Distribution: The allocation of production output (or income) to the owners of production factors.

End

- Consumption: The destruction of value or utility so as to satisfy human wants ◦

12 month's total output produced by two individuals

	Mr. Wong		Mr. Zhao		Total (kg)
	Month	Kg	Month	Kg	
Pork	4	320	9	90	410
Rice	8	320	3	90	410
Total (Months)	12	--	12	--	820 24

Their productivities per month

	Mr. Wong	Mr. Zhao
Port (kg)	$320 \div 4 = 80^*$	$90 \div 9 = 10$
Rice (Kg)	$320 \div 8 = 40^*$	$90 \div 3 = 30$

* More output demonstrating an absolute advantage

Productivity is a measure of the efficiency of a person, machine, factory, system, etc., in converting inputs into useful outputs. It is computed by dividing average output per period by the total costs incurred or resources (capital, energy, material, personnel) consumed in that period. Productivity is a critical determinant of cost efficiency.

The opportunity cost of producing 1 Kg of pork/ Rice

	Mr. Wong	Mr. Zhao
Pork	$\frac{1}{2}$ Kg rice*	3 Kg rice
Rice	2 Kg pork	$\frac{1}{3}$ Kg pork*

* It shows that the individual has a lower opportunity cost in producing the product, and thus Mr Wong has a comparative advantage in producing pork, Mr Zhao has a comparative advantage in producing rice.

Opportunity cost is defined as the value of the next-best alternative that must be given up when scarce resources are used for one purpose instead of another.

- Mr. Wong's opportunity cost of producing 1 Kg of pork is $\frac{1}{2}$ Kg of rice, Mr. Zhao's opportunity cost of producing 1 Kg of pork is 3 kg of rice. Thus, Mr Wong enjoys a comparative advantage in the production of pork; so he should be specialize in pig raising.
- Mr. Zhao's opportunity cost of producing 1 Kg of rice is $\frac{1}{3}$ Kg of pork, Mr. Wong's opportunity cost of producing 1 Kg of rice is 2 kg of pork. Thus, Mr Zhao enjoys a comparative advantage in the production of rice; so he should be specialize in planting rice.

Results of 11 months of collaboration in producing pig and rice

	Mr. Wong		Mr. Zhao		Total (kg)
	Months	Kgs	Months	Kgs	
Pork	9	720	0	0	720
Rice	2	80	11	330	410
Total (Months)	11	--	11	--	1130 22

Through specialization in production, Mr. Wong and Mr. Zhao each has one month rest in the year, but they can increase production output; Assuming the rate of exchange between Pork and rice is 1 to 1, rice consumption can maintain their original level, but everyone can eat more pork.

Consumption of pork and rice after exchange

	Mr. Wong		Mr. Zhao		Total (kg)
	Month	Kg	Month	kg	
Pork					
	9	$720 - 240 = 480$	0	$0 + 240 = 240$	720
Rice	2	$80 + 240 = 320$	11	$330 - 240 = 90$	410
Total (Months)	11	--	11	--	1130 22



Did economic exchanges exist on Robinson Crusoe's island?

Current Economic Environment

Current Economic Environment

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graph LR; A[Current Economic Environment] --- B[Microeconomic Environment]; A --- C[Macroeconomic Environment];
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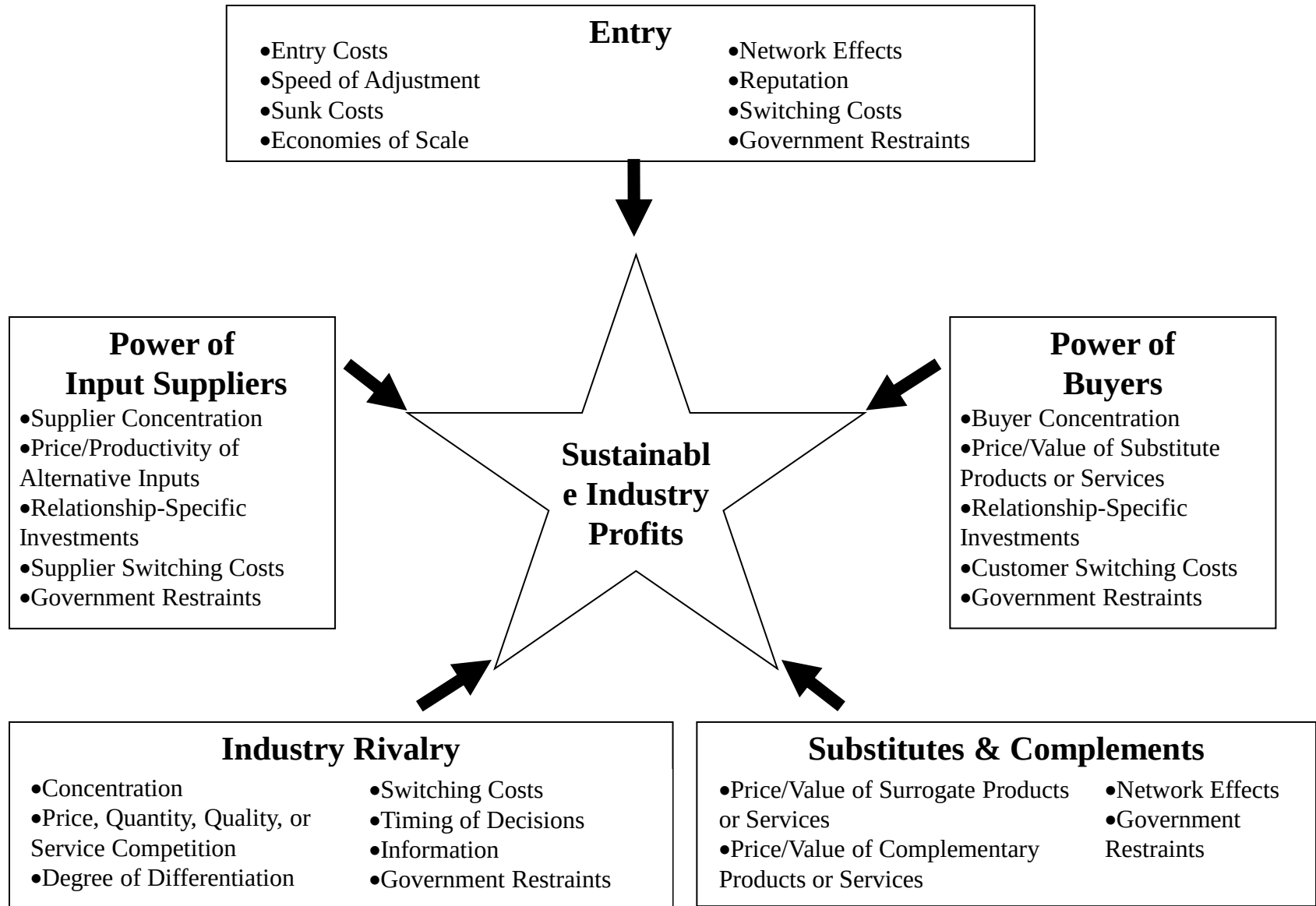
Microeconomic Environment

The study is focus on the determination of product price and quantity in an industry or a firm.

Macroeconomic Environment

The study is focus on the determination of Gross Domestic Product (GDP), employment, and general price level firm.

Microeconomic Environment: The Five Forces Framework



Macroeconomic
Economic Environment

Hong Kong

China

Macau

Taiwan

Global

Hong Kong Macroeconomic Data

- Census and Statistics Dept.
<https://www.censtatd.gov.hk/home.html>
- Previous Budgets
<https://www.budget.gov.hk/2018/eng/previous.html>
- Office of the Government Economist
<https://www.oge.gov.hk/>
- Policy Innovation and Co-ordination Office
<https://www.pico.gov.hk/en/home/index.html>
- Hong Kong Economy Today
<https://www.hkeconomy.gov.hk/>
- The HK Centre for Economic Research
<http://www.hkcer.hku.hk/>
- IMF Country Report
<https://www.imf.org/en/Publications/CR/Issues/2018/01/22/People-s-Republic-of-China-Hong-Kong-Special-Administrative-Region-Staff-Report-for-the-2017-45572>

China Macroeconomic Data

- National Bureau of Statistics of China
<http://www.stats.gov.cn/>
- The State Council
<http://www.gov.cn/>
- The National people's Congress
<http://www.npc.gov.cn/>
- PBC
<http://www.pbc.gov.cn/>
- IMF Country Report
<https://www.imf.org/en/Publications/CR/Issues/2018/07/25/Peoples-Republic-of-China-2018-Article-IV-Consultation-Press-Release-Staff-Report-Staff-46121>

Macao Macroeconomic Data

- Macao SAR

<https://www.gov.mo/zh-hant/>

- Macao Statistics and Census Services

https://www.dsec.gov.mo/home_zhmo.aspx

- AMCA

<https://www.amcm.gov.mo/>

- IMF Country Report

<https://www.imf.org/en/Publications/CR/Issues/2017/02/14/People-s-Republic-of-China-Macao-Special-Administrative-Region-2016-Article-IV-Consultation-44661>

Taiwan Macroeconomic Data

- POC Government

<https://www.gov.tw/Default.aspx>

- National Statistics, Republic of China (Taiwan)

<https://eng.stat.gov.tw/mp.asp?mp=5>

- Central Bank of the Republic of China (Taiwan)

https://www.dsec.gov.mo/home_zhmo.aspx

Global Macroeconomic Data

- The World Bank: Statistical Capacity Country Profile
<http://datatopics.worldbank.org/statisticalcapacity/CountryProfile.aspx>
- International Monetary Fund: IMF DataMapper
https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD
- Bank For International Settlements
<https://www.bis.org/>
- United Nations Economic and Social Council
<https://www.un.org/ecosoc/en/>



EMED Consensus Forecasts for Advanced Economies: November 2018 Survey

ADVANCED ECONOMIES	Gross Domestic Product		Private Consumption		Capital Formation		Consumer Prices		Unemployment Rate	
	(% yoy)		(% yoy)		(% yoy)		(% yoy)		(%)	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Australia	3.2	2.8	2.7	2.6	3.8	3.4	2.1	2.2	5.4	5.1
Canada	2.1	2.1	2.1	2.0	6.0	2.8	2.3	2.1	5.9	5.8
Euro Area	2.0	1.8	1.5	1.6	3.4	3.1	1.8	1.7	8.3	7.9
France	1.6	1.6	1.0	1.5	3.0	3.1	2.0	1.7	9.1	8.6
Germany	1.9	1.8	1.5	1.7	3.3	3.1	1.8	1.9	5.2	4.9
Italy	1.1	1.1	0.9	1.1	4.0	2.5	1.3	1.3	10.8	10.5
Japan	1.1	1.0	0.7	0.9	2.1	1.7	1.0	1.2	2.4	2.4
New Zealand	2.8	2.9	2.7	2.7	4.4	3.4	1.7	1.9	4.4	4.2
United Kingdom	1.3	1.5	1.4	1.4	0.1	1.1	2.5	2.2	4.1	4.2
United States	2.9	2.5	2.7	2.6	6.7	3.9	2.5	2.3	3.9	3.6

Sources: Emerging Markets Economic Data

Available at: <http://www.emed.com.hk/forecast.html>

(Accessed 6th January 2019).

EMERGING MARKETS	Gross Domestic Product (% yoy)		Private Consumption (% yoy)		Fixed Investment (% yoy)		Consumer Prices (% yoy)		Unemployment Rate (%)	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Argentina	-1.6	0.1	-0.8	0.3	-4.5	-5.0	32.9	30.0	9.2	9.0
Brazil	1.3	2.2	2.1	2.3	2.4	4.6	3.7	4.3	12.2	11.4
Chile	3.8	3.3	3.9	3.3	4.0	4.1	2.5	3.1	6.8	6.7
China	6.6	6.2	8.5	7.7	5.9	5.8	2.1	2.4	4.0	4.0
Colombia	2.6	3.2	2.6	3.4	2.7	4.0	3.3	3.4	9.9	10.0
Czech Republic	3.0	3.0	3.4	2.3	6.7	4.2	2.2	2.2	2.3	2.2
Hong Kong	3.5	2.5	3.4	2.5	1.9	1.9	2.3	2.3	3.2	3.2
Hungary	4.1	3.0	4.1	3.1	12.9	7.2	3.0	3.2	3.6	3.2
India	7.5	7.4	7.1	6.9	10.3	8.1	4.6	4.7	—	—
Indonesia	5.1	5.2	5.1	5.0	6.2	4.7	3.5	4.0	5.5	5.3
Malaysia	4.9	4.8	6.7	5.4	4.4	7.1	1.5	2.5	3.4	3.3
Mexico	2.1	2.1	2.7	2.6	1.6	2.0	4.8	3.9	3.4	3.6
Philippines	6.4	6.5	5.8	5.7	14.3	10.7	5.1	4.1	5.5	5.3
Poland	4.6	3.5	4.5	4.0	7.2	6.0	1.8	2.3	3.9	3.9
Russia	1.8	1.6	2.8	1.9	2.1	2.2	3.0	4.4	4.9	4.8
Singapore	3.0	2.6	2.9	3.5	2.1	4.1	0.7	1.4	2.2	2.4
South Korea	2.8	2.7	2.6	2.3	0.9	2.0	1.6	2.0	3.7	3.7
Taiwan	2.7	2.4	2.4	2.0	2.0	1.3	1.5	1.5	3.7	3.6
Thailand	4.4	3.8	3.9	3.6	3.8	5.1	1.2	1.5	1.0	1.0
Turkey	3.6	0.6	3.8	0.4	2.6	0.0	16.1	18.0	11.4	11.9

EMED Consensus Forecasts for China: November 2018 Survey

CHINA	Gross Domestic Product (% yoy)		Consumer Prices (% yoy)	
	2018	2019	2018	2019

CHINA	Gross Domestic Product (% yoy)		Consumer Prices (% yoy)	
	2018	2019	2018	2019

ABN AMRO	6.7	6.3	2.0	2.5
Allianz	6.5	6.2	2.5	2.8
Bank Julius Baer	6.6	6.2	2.0	2.6
Bank of East Asia	6.6	6.3	2.1	2.0
BayernLB	6.6	6.2	2.2	2.4
BBVA	6.5	6.0	2.2	2.5
Berenberg Capital Markets	6.6	6.3	2.2	2.2
BMO Capital Markets	6.6	6.2	2.2	2.2
BNP Paribas	6.4	6.1	2.1	1.9
Capital Economics	6.7	6.5	2.0	2.0
Commerzbank	6.5	6.2	1.7	2.3
Credit Agricole	6.6	6.4	2.2	2.5
Credit Suisse	6.6	6.2	2.1	2.0
Daiwa Institute of Research	6.5	6.3	2.0	2.1
Danske Bank	6.6	6.4	2.3	2.3
DBS Bank	6.6	6.2	2.1	2.2
Deka Bank	6.6	6.4	2.0	2.3
DIW Berlin	6.5	6.3	2.0	2.4
DZ Bank	6.5	6.5	2.2	2.2

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Intesa Sanpaolo	6.7	6.3	2.2	2.3
Kiel Institute	6.6	6.1	2.1	2.3
Moody's Analytics	6.6	6.3	2.2	2.5
NIESR	6.6	6.4	2.3	2.6
OCBC Bank	6.6	6.2	1.8	2.5
Prometeia	6.6	5.9	2.1	2.4
Schroders	6.6	6.2	2.1	2.4
Scotia Capital	6.6	6.2	2.4	2.5
Societe Generale	6.6	6.1	2.3	2.6
UOB	6.6	6.3	2.1	2.4
Wells Fargo	6.6	6.1	2.1	2.3
CONSENSUS				
Median	6.6	6.2	2.1	2.4
Mean	6.6	6.2	2.1	2.3
High	6.7	6.5	2.5	2.8
Low	6.4	5.9	1.7	1.9
Standard Deviation	0.1	0.1	0.2	0.2

Thank you
for your attention !