

# Application of Management Economics in Enterprise Operation

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## Abstract

**Decision making and management is the core of enterprise operation, which plays a decisive role in the long-term development of enterprises. This paper expounds the basic theories of management economics, including market theory, production theory, production cost theory and manufacturer's Decision-making related knowledge, analyzes the problems that may exist in the operation of enterprises, such as the lack of Decision-making ability, the lack of internal management ability and the lack of policy interpretation ability, and puts forward some suggestions based on the theoretical knowledge and research methods of management economics Suggestions, in order to play a positive role of management economics on enterprise operation, and promote the sustainable development of enterprises.**

## Keywords

**Management Economics; Enterprise Operation; Basic Theory; Suggestions.**

## 1. Introduction

In the process of enterprise operation, management and Decision-making play an important role, which determines whether the enterprise can operate well and survive longer in the fierce market competition. Decision making and management exist in every link of enterprise operation, including price decision, production and sales decision, cost decision, location decision and risk decision. There are economic principles in every management and decision. Making good use of the relevant knowledge of economics and putting forward constructive plans for enterprise management and Decision-making can help enterprises make expected planning, master the trends of competitors and improve enterprise management efficiency. Therefore, when judging the current situation, decision makers and leaders of enterprises should flexibly integrate relevant knowledge into Decision-making and management, and promote the growth path of enterprises to meet the expected planning objectives of enterprises as much as possible, so as to help enterprises better adapt to market competition and achieve long-term development.

## 2. Theoretical Support of Management Economics

Management economics is a discipline that applies the basic theories and methods of economics to the daily operation and management of enterprises. It is a discipline that applies the theory to practice, and then tests the theory and improves the theory by practice. Therefore, management economics has the dual nature of theoretical economics and applied economics. It can not only provide the basic theoretical basis for the operation and management of enterprises, but also introduce the company management application methods that can be used as a reference to the decision-makers and managers of enterprises. Management economics originated from the traditional western theoretical economics, and its main theory still comes from microeconomics. Among them, the manufacturer theory has always been the main theoretical part of management economics. Management economics also absorbs and integrates the theoretical achievements of marketing, statistics, accounting, marketing and

other disciplines. Professor Simon, a famous economist, once said: "management is Decision-making." That is, in the enterprise operation, the orders of enterprise decision-makers and leaders are to manage the enterprise, so that the trend of the enterprise can achieve the goal of Decision-making. Therefore, the content of enterprise management includes enterprise Decision-making. Its main research object is the enterprise management activities in the market economy. How to select the best Decision-making scheme among several feasible economic schemes in order to improve the economic benefits of the enterprise as much as possible. As long as there are activities that must consume resources to achieve the established goals, management economics is of great significance.

## 2.1. Market Theory

Market mechanism is the basic mechanism for allocating resources. The market uses its function of resource allocation to solve the basic economic problems. The basic economic problems are divided into "what to produce", "how to produce" and "for whom". In the market, the price of products shows the demand of consumers, that is, the higher the demand, the higher the price will rise. This information will provide signals to producers and solve the problem of "what to produce". In the production stage, producers will use the lowest cost and the most efficient production method in order to obtain the maximum benefits as far as possible, so as to minimize the production cost. "For whom" depends on the factor price determined by the supply-demand relationship of production factors such as capital, land and labor. The key of market theory is the demand supply model, which mainly describes the behavior of consumers and producers from the law of demand and supply, and then analyzes the changes of the market and how to achieve equilibrium.

## 2.2. Production Theory

In the relationship between market supply and demand, manufacturers are suppliers, that is, producers of products and services. It is generally assumed that the goal of manufacturers' behavior is to maximize profits, that is, the difference between total revenue and total cost is the largest. The theory is to deal with the material and technical relationship between input various production factors and output, and realize how to achieve the best combination of production factors in order to achieve the best output. The main contents of this theory include production function, law of diminishing returns and equal production line. Equal cost line and economies of scale, etc. the production function reflects the relationship between input and output. It can indicate the maximum output that a certain number of input factors can output, or at least how many production factors need to be input to output a certain output. The use of production function plays an important role in solving the relationship between input and output. The law of diminishing returns means that under the condition that the input of technology and other factors remains unchanged, increasing the input of a certain factor will continuously increase the marginal output to a certain point. Beyond this point, the increased input of factors will reduce the marginal output. Equal output line means that a certain amount of products can be produced through different combinations of two production factors. On the equal output line, the output produced by various combinations of labor and capital represented by each point is equal. Equal cost line means that each element combination represented by each point on the line will not change the amount of total cost. When an enterprise defines the equal output line and the equal cost line, it can analyze them together in order to find the best combination point of multiple variable elements. Economies of scale refers to the economic benefits that manufacturers can obtain by adopting a certain production scale. With the expansion of scale, the output will increase correspondingly or even exceed the proportion. When the scale is expanded to a certain extent, due to the limitations of technical level and management level, the use efficiency of production factors is getting lower and lower,

so that the growth rate of output is less than the proportion of scale expansion, and this proportion will be further reduced with the continuous expansion of production scale.

### **2.3. Production Cost Theory**

The cost of producing a product or providing a service is equal to the product of the number of input factors and the price per unit factor. By studying the manufacturer's production cost and its related laws in the short term and long term, this theory finds the minimum cost of manufacturer's production in different stages of the market, and determines the number of factors to be input in production. Combined with production theory, the manufacturer can maximize the output and minimize the cost, so as to maximize the profit of the manufacturer.

### **2.4. Firm Decision-making in Perfect Competition and Complete Monopoly Market**

In different types of markets, manufacturers' decisions will be very different. In a perfectly competitive market, when there are profits in an industry, manufacturers will continue to enter. With the continuous increase of the number of manufacturers in the industry, the output of goods will be more and more, and the price of goods will fall, which will reduce the profits of manufacturers. Until the profits of each manufacturer in the industry are 0, no new manufacturers will enter. On the contrary, If the profit of manufacturers in the industry is negative, some manufacturers will withdraw, the output of goods will decrease, and the price will rise until the profit of the industry is 0. In the complete monopoly market, because monopoly manufacturers have monopoly advantages, ordinary manufacturers cannot compare the price and output with them. Monopoly manufacturers have more space to set prices and take away more consumer surplus. Based on different market types, this theory analyzes how manufacturers should formulate output and price in the long term and short term, so as to maximize the income of enterprises and finally realize the balance of the industry.

## **3. Possible Problems in the Company's Operation**

### **3.1. The Decision-making Ability of Enterprises is Insufficient**

Decision making ability is the ability to understand the current situation, predict the future and determine the optimal action plan according to the established objectives. It is the comprehensive performance of managers' quality, knowledge structure, tolerance to difficulties, mode of thinking, judgment ability and innovative spirit in Decision-making. Enterprise Decision-making runs through every link of enterprise survival. Therefore, the Decision-making ability of the leadership plays an important role in the long-term development of the enterprise . At present, there are still some problems in the Decision-making ability of many Chinese enterprises, especially small and medium-sized enterprises. Since the new century, China's economy has continued to prosper and develop. In recent years, the economy has changed from a high-speed growth stage to a high-quality development stage, and has entered a new normal of economic development. The market changes with each passing day, and the political and economic environment at home and abroad is also unpredictable. In such a changeable market environment, some enterprise leaders are still arrogant and complacent, satisfied with the existing achievements and blindly optimistic about expectations, resulting in enterprises unable to be vigilant in times of peace and unable to make timely and effective decisions in the face of sudden changes. In addition, the Decision-making of enterprises is also reflected in the long-term planning objectives and short-term planning objectives. Due to the lack of relevant professional knowledge and the lack of capital, technology and other reasons, the decision-makers of many small enterprises can only focus on the present and have no way to focus on the future, which is quite unfavorable to the long-term development of enterprises.

### **3.2. Insufficient Internal Management Ability of the Enterprise**

Management ability refers to the general term of a system's organizational management skills and leadership ability. Fundamentally, it is the ability to improve organizational efficiency. The management ability of an enterprise determines whether an enterprise can develop. If an enterprise's management ability is very backward, the enterprise will be quickly eliminated in the cruel market competition. In the process of operation and management of many enterprises, the phenomenon of intervention and cross-border management is very serious. In addition, the internal management of the enterprise will make the most favorable plans for their own interests, which leads to the confusion of the management of the enterprise, reduces the efficiency of the company's operation, makes the development strategy of the leadership unable to be implemented and the management work unable to be in place, thus reducing the cohesion of the company and invalidating the management system, Employees have no enthusiasm and self-motivated, and the enterprise naturally cannot survive.

### **3.3. The Policy Interpretation Ability of Enterprises is Insufficient**

Economist Smith believes that the market competition mechanism is like an invisible hand. It will drive people to pursue their own interests as much as possible, but ultimately make the social interests achieve great results. However, the market competition mechanism also fails, such as welfare loss caused by imperfect competition and monopoly, macroeconomic imbalance, unfair income distribution and so on. The role of government in the market can not only regulate the market and improve the overall efficiency of society, but also ensure stability, promote equality and protect social welfare. Therefore, the government needs macro-control, including but not limited to fiscal policy and monetary policy, which have a great impact on the market. If enterprises do not grasp the policy spirit in time and make full use of the policy to develop themselves, it will be a huge loss for enterprises.

## **4. Application of Management Economics in Company Operation**

### **4.1. Scientific Market Forecast and Decision-making**

In the theoretical analysis, we calculate the operation status of the market through various assumptions, but in reality, manufacturers may not easily know the status of the industry and various cost conditions, which means that enterprises fall into a market full of uncertain factors. Therefore, Market forecast will become the basis and key link of enterprise management Decision-making . Market forecasting is to minimize the uncertainty of future events. Due to the continuity of economic structure change and development in different time periods, we can sort out and analyze what happened in the past, grasp some development laws, infer the future economic development trend, and formulate the company's short-term and long-term goals accordingly. Scientific Decision-making does not come out of thin air, but by studying the past development context, determining the prediction objectives, and then collecting and sorting out relevant data and materials, formulating models, analyzing and evaluating, so as to make decisions for the next actions.

### **4.2. Innovation and Development Management System**

Management is an important part of enterprise operation. A perfect management system will effectively improve the internal operation efficiency of the enterprise, the macro direction of the top-level design and the strong execution of employees at all levels at the lower level, which is also a way to reduce the production cost of the enterprise. Such enterprises can stand out in the cruel market competition. Therefore, enterprises should actively adjust the internal structure, constantly innovate and improve the management system, evaluate the utilization rate of human resources, and avoid people working hard and lazy, but the final treatment is the same. Do a good job in staff training and reserve, strengthen the input of corporate culture,

enhance the cohesion and centripetal force of the enterprise, further improve human resource management and improve the production efficiency of the enterprise.

### 4.3. Enterprise Development Conforms to Policy Orientation

In the market, the government's macro-control role should not be underestimated. The government will mainly adjust the market through fiscal policy and monetary policy to make the economic operation develop in the established direction. Enterprises should capture policy information and respond in time. When the government increases expenditure, manufacturers should know that the market will increase the demand for their products. Therefore, they should make decisions to expand investment and production scale, expand product sales and increase benefits. When the government reduces taxes, the tax burden of manufacturers will be reduced, which is equivalent to increasing the profits and investment capacity of manufacturers, so as to stimulate manufacturers to make decisions on increasing production. When the government increases the money supply, it means that the economic recession reduces the interest rate, which will reduce the investment cost of manufacturers, which is equal to increasing the relative income of investment. At this time, manufacturers should increase investment. Therefore, in the market, manufacturers should observe the economic situation of the market and the development trend of the industry, as well as the economic policies, and make corresponding responses to the policies in time.

## 5. Conclusion

Good management and Decision-making is the prerequisite for the long-term development of enterprises. In enterprise operation, we should make full use of the theoretical knowledge and analysis methods of management economics, rationally analyze the market, make timely and calm decisions, constantly innovate and improve the enterprise management system, improve production efficiency and reduce production costs. We should also grasp the economic dynamics, always grasp the policy direction, fully combine the policies and develop the enterprise itself. The leadership and management of the enterprise need to strengthen the study of professional knowledge, cultivate innovation and rational thinking, clarify the positioning of the enterprise, short-term planning and long-term planning, improve the utilization rate of employees, funds and other resources, and strengthen the cohesion and centripetal force of the enterprise, so that the strategic Decision-making of the enterprise can be implemented and the management arrangement can be in place in time, Improve the overall operation efficiency of the enterprise, so as to make the enterprise survive in the fierce market competition and promote the long-term development of the enterprise.

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