MEANING AND DEFINATION OF FIRM

Introduction

In economics, a firm holds important position as at the firm level managerial decisions are taken. In common language a firm is considered as a manufacturing unit involved in production of goods. The scope of the term firm in economics is broad. It represents any business organization inhering service & agriculture organization also.

Definition of Firm

Some definitions of firm given by renowned economists are given below.

1. Firm is a unit of production that employs factors of production (or inputs) to produce goods & services under given state of technology.

2. It is an independently administered business unit – Hanson.

3. It is a center of control where the decisions about what to produce & how to produce are taken.

4. It is a business unit which hires productive resources for the purpose of producing goods & services.

5. A firm is an independent organization whose destiny is determined by the magnitude of the aggregate pay off & in which the aggregate pay off production & sale of goods or services (Harvey Leibenstein).

All these definitions have evolved during different time periods. They try to emphasis the different economic problems faced by firms. From various definitions different characteristic features of firm emerge which are listed below.

1. It is a place where all decision making related to production are taken *viz* what, where & how much to produce.

2. It is a place where manpower is hired for production.

3. It is a place where all the resources of production are brought together, production is done as well as sale & distribution of the manufactured product is carried out.

4. The state of technology is defined by the firms production function.

A firm is required to carry out all diverse functions related to production & marketing at the same time. While earning profit, firm as a production unit tries to manufacture the goods or provide service as per the consumer demand. The main objective of any firm is to maximize profit. Traditionally it was assumed that firm tries to maximize profit in each time period. But now it is realized that firm's objective should be to maximize profit in long run irrespective of profit or loss in short run.

Economic Theory and Managerial Theory:

Economic Theory is a system of inter-relationships. Among the social sciences, economics is the most advanced in terms of theoretical orientations. There are well defined theoretical structures in economics. One of the most widely discussed structures is the postulational or axiomatic method

It insists that there is a logical core of theory consisting of postulates and their predictions which forms the basis of economic reasoning and analysis. This logical core of theory cannot easily be detached from the empirical part of the theory. Economics has a logically consistent system of reasoning. The theory of competitive equilibrium is entirely based on axiomatic method. Both in deductive inferences and inductive generalisations, the underlying principle is the interrelationships.

Managerial theory refers to those aspects of economic theory and application which are directly relevant to the practice of management and the decision making process. Managerial theory is pragmatic. It is concerned with those analytical tools which are useful in improving decision making.

Managerial theory provides necessary conceptional tools which can be of considerable help to the manager in taking scientific decisions. The managerial theory provides the maximum help to a business manager in his decision making and business planning. The managerial theoretical concepts and techniques are basic to the entire gamut of managerial theory.

Economic theory deals with the body of principles. But managerial theory deals with the application of certain principles to solve the

Economic theory has the characteristics of both micro and macro economics. But managerial theory has only micro characteristics.

Economic theory deals with a study of individual firm as well as individual consumer. But managerial theory studies only about individual firm.

Economic theory deals with a study of distribution theories of rent, wages, interest and profits. But managerial theory deals with a study of only profit theories.

Economic theory is based on certain assumptions. But in managerial theory these assumptions disappear due to practical situations.

Economic theory is both positive and normative in character but managerial theory is essentially normative in nature.

Economic theory studies only economic aspect of the problem whereas managerial theory studies both economic and non-economic aspects.