Fundamental Economic Concepts:

- Incremental Principle,
- Opportunity Cost Principle,
- Discounting Principle,
- Equi-marginal Principle.

Incremental Principle:

- The incremental concept is very important concept in economics and It is most frequently used in Managerial Economics.
- It is closely related to the mar-ginal cost and marginal revenues of economic theory.
- The two major concepts in this analysis are incremental cost and incremental revenue.
- Incremental cost refers to change in total cost, whereas incremental revenue means change in total revenue resulting from a decision of the firm.

According to the incremental principle a decision is clearly a profitable one if:

- It increases revenue more than costs.
- It decreases some cost to a greater extent than it increases others.
- It increases some revenues more than it decreases others.
- It reduces costs more than revenues.

We may conclude that a decision is fine if it ultimately helps in increasing profits.

Opportunity Cost Principle:

- In the field of economics, the economists make abundant use of the fundamental concept of opportunity cost.

- In everyday life, all people apply the theory of opportunity cost in practical.
- In Managerial Economics, the opportunity cost concept is useful in decision involving a choice between different alternative courses of action.
- Resources are scarce, and hence, we cannot produce all the commodities.
- For the production of one com-modity, we have to forego the production of another commodity.
- Opportunity cost of a decision is the sacrifice of alternatives required by that decision.
- Sacrifice of alternatives is involved when carrying out a decision requires using a resource that is limited in supply with the firm.
- Opportunity cost, therefore, represents the benefits or revenue forgone by pursuing one course of action rather than another.

We may conclude that:

- The calculation of opportunity cost involves the measurement of sacrifices.
- Sacrifices may be monetary or real.
- The opportunity cost is termed as the cost of sacrificed alternatives.

Discounting Principle:

- A rupee today is worth more than a rupee will be two years from now.
- It is because in the intervening period a sum of money can earn a return which is not possible if the same sum is available only at the end of the period.
- The mathematical technique for adjusting for the time value of money and computing present value is called ‘discounting’.
- It is important when se have to decide to invest in more than 1 projects.
- Formula for calculating $PV = FV / (1+i)^n$

We may conclude that:

- in case of selection of one better investment option out of many
- we can get the present value of future earnings from all options
- by discounting the future return of all options
- and can take better decision.

Equi-marginal Principle:

- This principle states that an input should be allocated in such a way that value added by the last unit is the same in all cases.
- This generalization is popularly called the equi-marginal.
- An optimum allocation cannot be achieved if the value of the marginal product is greater in one activity than in another.
- Let us assume a firm is involved in three activities A, B and C. The firm will be in equilibrium when: $MP_A = MP_B = MP_C$

We may conclude that to get maximum benefit resources should be allocated in such a way so than MP of every activity equals.