The book should be useful to the readers in academic community as well as to those in corporate sectors, particularly to those operating in India. On the whole, the author's effort has been quite successful.

**Uttam Kumar Sarkar**
IIM Calcutta

*Business Economics* by Roger Perman and John Scouller, 1999, Oxford University Press, New York, Price not stated.

There are now a very large number of books on "Business Economics" or "Managerial Economics". Usually much of the material in such books is sourced from standard microeconomic theory, though authors who target students in business schools generally expend more effort to include real life examples and applications than authors of books aimed at economics students. These books also contain detailed analysis of topics like investment decisions, managerial decision-making, etc. These books are more properly thought of as books on *economics for business students.* It is felt that certain topics from economics might be useful for business students and these (sometimes disparate) topics are put together in a book. However, there is generally no attempt to develop an integrated view of "Business Economics" per se.

Some attempts are now being made to marry economics with management science. Economics is sought to be used as an unifying framework for understanding and analysing some of the most important questions faced by management theorists. This is what I want to refer to as *business economics.*

The book by Perman and Scouller is the first book I have come across that makes a heroic attempt to develop an integrated framework for business economics and succeeds to a remarkable extent. The central theme of the book is "value" and the search for value. The tools from macroeconomics, industrial organization, strategic management and business environment are relentlessly brought to bear upon the question of value creation. The questions raised are : When and how does a firm create value ? How does it appropriate value ? When is the process of value creation sustainable ?

The book is divided into four parts In Part. I, the basic economic concepts of scarcity, choice and opportunity cost are used to develop the concept of value and then the amount of value created in market exchange process is identified. The text then follows the usual procedure of looking at market equilibrium, analysing consumer behaviour to arrive at market demand and then discussing firm theory and costs of production. In Chapter 4, there is, I believe rightly, a focus on the transaction cost theory of the firm. The links between the various concepts of profit, value and rent are discussed in detail.

Part II uses the theory of imperfect competition to continue the analysis. In perfect competition, all supernormal profits get dissipated in the long run. So how can a firm continue to make a appropriate supernormal profits ? By raising all kinds of barriers to entry, including product differentiation, largeness of scale, patent protection, etc., etc. But while trying to do these things in a strategic environment, the firm has to anticipate and react to responses of rival firms. If firms could get together and cooperate, they could realise and share monopoly profits - a happy state of affairs. But we now know that even when cooperative arrangements are reached, the incentive to cheat remains. Then firms have to devise means to detect and deter cheating. Many of the results here come from Game Theory, and Perman and Scouller review the basic results on the formulation and success of cartels.

Part III brings together a number of issues. First, the firm's investment decisions are analyzed in Chapter 9, specially in the context of uncertainty. Investment relates to the identification of projects which will potentially create value and this provides the rationale for the inclusion of this chapter, not just the need to discuss present value and internal rate of return. The authors, I was happy to see, have a brief discussion of the option theory of investment in this chapter. Game Theory teaches us the value of commitment and inflexibility in certain types of situations. The option theory of investment on the other hand, highlights the value of flexibility, especially in uncertain situations.

The chapter on investment is followed by a chapter on "capabilities". How does a firm come to have a unique set of capabilities, which enables it to do better than its rivals? Economists have discussed the possibility of some firms being more cost-efficient than others, and therefore continuing to earn supernormal profits even in competitive situations. But if knowledge is freely available and transferable between firms, no firm can be more efficient than others. The literature on capabilities provided us with an answer to this conundrum and also alerts us to the fact that efficiency does not mean merely cost-efficiency, it also refers to what we might loosely call an ability *to exploit market opportunities.* Perman and Scouller rely heavily on Kay's work for the discussion of capabilities, though they also cover the resource-based approach developed by Peteraf.

Traditional economic theory has not devoted much attention to the *scope* of a firm's activities. The concept of economies of scope is designed to analytically capture what is loosely talked about as the benefits of synergy. Issues of related and unrelated diversification, mergers and acquisitions, relate to the question of the efficient boundary of a firm's activities and are covered in Chapter 11. It is a bit surprising to find that the chapter does not include any discussion of vertical integration. Whether a steel producing unit should integrate backward into mining of pig iron or forward into production of (say) cars, is also a question about the scope of a firm's activities. It seems unnecessarily restrictive to confine the discussion to horizontal integration, particularly as economists have done a lot of work on vertical integration.

Chapter 12 raises the question of the divorce of ownership from control and the issue of corporate governance. It talks about the mechanisms for keeping managerial discretion in check and then discusses organizational design. It concludes the consideration of micro issues and leads to Part IV which is mainly about the environment of business.

In Part IV, Chapter 13 sets out the regulatory environment in which firms operate. It considers in some detail the existence of negative externalities and the impact of the environmental regulations that seek to correct for these externalities. Chapter 14 gives a quick tour of basic macroeconomics and I found this chapter to be the least integrated with the rest of the book. Chapter 15 covers Economic Forecasting. This chapter just adds to the toolkit of a manager and could easily have been included in an appendix, without interrupting the flow of the book.

Chapter 16 deals with International Trade, and also deals with the theory of the multinational enterprise. Logically the last chapter should have come earlier (perhaps after Chapter 11), because globalization of operations is one of the ways a firm can expand and grow. In fact, while there is a discussion of economic growth, the book, does not consider why and how a firm grows and try to link this up with the process of value creation.

Thus, all in all, the book by Perman and Scouller does provide a framework in which economic theory can be fitted to illuminate some of the pressing issues in management. In spite of the fact that the authors finally succumb to the temptation of including topics for their own sake, I would heartily recommend the use of this book in business schools.

**References**

Kay, John, 1993, *Foundations of Corporate Success*, Oxford University Press. Oxford.

Peteraf, M. A., 1993, The Cornerstones of Competitive Advantage : A Resource-Based View, *Strategic Management Journal,* 14.

**Anindya Sen**
IIM Calcutta

***Managerial Economics*** by Ian Dobbs, Oxford University Press, New York, 2000, 493 pages, Price not stated.

There is nowadays a veritable flood in the market for managerial economies texts. Most of them assume little background knowledge of economics and offer the same topics at a fairly uniform level of treatment. They tend to follow, as the author aptly puts it, the American model of "slick presentation, extensive use of case studies, vignettes on prominent business leaders, economists or management gurus, along with companion study guides and workbooks." The present reviewer feels that the result has not been entirely beneficial. The model has been mostly successful in producing the