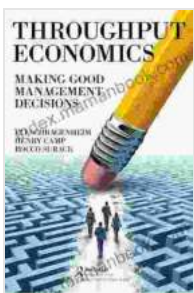


# Throughput Economics: Making Good Management Decisions

Throughput economics is a theory of production that focuses on the flow of materials and information through a production system. The goal of throughput economics is to maximize the throughput of the system, which is the rate at which finished products are produced.

Throughput economics is based on the idea that there is a single constraint or bottleneck in a production system that limits the overall throughput. By focusing on identifying and removing the bottleneck, throughput economics can help to improve the efficiency and profitability of a business.

Throughput economics uses four key metrics to measure the performance of a production system:



## Throughput Economics: Making Good Management Decisions by Eli Schragenheim

★★★★☆ 4.4 out of 5

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Screen Reader : Supported

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- **Throughput:** The rate at which finished products are produced.
- **Inventory:** The amount of raw materials, work-in-progress, and finished goods in the system.

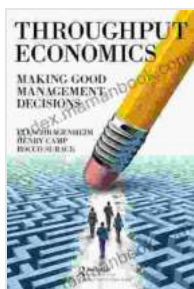
- **Operating Expense:** The cost of operating the system, including labor, materials, and overhead.
- **Net Income:** The profit or loss generated by the system.

The goal of throughput economics is to maximize throughput while minimizing inventory, operating expense, and net income.

Throughput economics can be used to make a variety of management decisions, including:

- **Identifying and removing bottlenecks:** By understanding the flow of materials and information through a production system, throughput economics can help to identify the bottlenecks that are limiting throughput. Once the bottlenecks have been identified, they can be removed or reduced, which will lead to an increase in throughput.
- **Improving inventory management:** Throughput economics can help to identify the optimal level of inventory for a production system. By maintaining the correct level of inventory, businesses can reduce the cost of holding inventory and improve the flow of materials through the system.
- **Reducing operating expenses:** Throughput economics can help to identify the areas where a production system is wasting money. By reducing waste, businesses can lower their operating expenses and improve their profitability.
- **Increasing net income:** By maximizing throughput, minimizing inventory, and reducing operating expenses, throughput economics can help to increase the net income of a business.

Throughput economics is a powerful tool that can help managers to make better decisions and improve the performance of their businesses. By understanding the flow of materials and information through a production system, throughput economics can help to identify and remove bottlenecks, improve inventory management, reduce operating expenses, and increase net income.



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