**Q1. It is said that firms are generally organized for profit earning. In the managerial economics, profit management is a challenging issue. Explain?**

**Ans:** Success of a firm depends on its primary measure and that is profit. Firms are operated to earn long term profit which is generally the reward for risk taking. Appropriate planning and measuring profit is the most important and challenging area of managerial economics.

The critics argue that business managers are interested, at least partly, in factors other than the firm's profits. In particular, they may be interested in power, prestige, leisure, employee welfare, community well-being, and the welfare of the larger society. The act of maximization itself has been criticized. There is a feeling that managers often aim merely to "satisfice" (seek solutions that are considered satisfactory), rather than really try to optimize or maximize (seek to find the best possible solution, given the constraints). This question is often rhetorically posed as: does a manager really try to find the sharpest needle in a haystack or does he or she merely stop upon finding a needle sharp enough for sewing needs?

Under the structure of a modern firm, it is hard to determine the true motives of managers. A modem firm is frequently organized as a corporation in which shareholders are the legal owners of the firm, and the manager acts on their behalf. Under such a structure, it is difficult to determine whether a manager merely tries to satisfy the stockholders of the firm while pursuing other goals, rather than truly attempting to maximize the value (the discounted present value) of the firm. It is, for example, difficult to interpret company support for a charitable organization as an integral part of the firm's long-term value maximization. Similarly, if the firm's size is increasing, but profits are not, can one attribute the manager's decision to expand as being motivated by the increased prestige associated with larger firms, or as an attempt to make the firm more noticeable in the marketplace? As it is virtually impossible to provide definitive answers to these and similar questions, the attempt to analyze these issues has led to the development of alternative theories of firm behavior. Some of the preeminent alternate models assume one of the following:

(1) A firm attempts primarily to maximize its size or growth, rather than its present value

(2) The managers of firms aim at maximizing their own personal utility or welfare

(3) The firm is a collection of individuals with widely divergent goals, rather than a single common, identifiable goal

**Q2. Under the umbrella of Business Management demand analysis and forecasting play key role for a successful business. Discuss?**

**Ans**: The following show the growing importance of business forecasting:

1. **Promotion of new business**: Forecasting is of utmost importance in setting up a new business. It is not an easy task to start a new business as it is full of uncertainties and risks. With the help of forecasting the promoter can find out whether he can succeed in the new business; whether he can face the existing competition; what is the possibility of creating demand for the proposed product etc. After discovering the business opportunity, he will see the possibilities of assembling men, money, materials etc. The success of a business unit depends upon as to how sound is the forecasting? Proper forecasting will help to minimise the role of luck or chance in determining business success or failure. A successful promoter is also the prophet of economic conditions.
2. **Estimation of financial requirements:** The importance of forecasting can’t be ignored in estimating the financial requirements of a concern. Efficient utilisation of capital is a delicate issue before the management. No business can survive without adequate capital. But adequacy of either fixed or working capital depends entirely on sound financial forecasting.
3. **Smooth and continuous working of a concern:** ‘Forecasting of earnings’ ensures smooth and continuous working of an enterprise, particularly to newly established ones. By forecasting, these concerns can estimate their expected profits or losses. The object of a forecast is to reduce in black and white the details of working of a concern.
4. **Correctness of management decisions:** The correctness of management decisions to a great extent depends upon accurate forecasting. As Meivin, T. Copeland says, “Administration is essentially a decision making process and authority has responsibility for making decisions and for ascertaining that the decisions made are carried out.

Forecasting plays an important role in various fields of the concern. As in the case of production planning, management has to decide what to produce and with what resources. Thus forecasting is considered as the indispensable component of business, because it helps management to take correct decisions.

1. **Success in business:** The accurate forecasting of sales helps to procure necessary raw materials on the basis of which many business activities are undertaken. The accurate sales forecasting becomes the basis for several other budgets. In the absence of accurate sales forecasting, it is difficult to decide as to how much production should be done. Thus, to a great extent, the budgets of other departments depend upon the compilations based on the sales forecasts and the accuracy of these budgets also depends upon correctness of sales forecasting. Thus, the success of a business unit depends on the accurate forecasting by the various departments.
2. **Plan Formulation**: The importance of correct forecasting is apparent from the Key role it plays in planning. It should not go unaccounted that forecasting is an essential element in planning since planning premises include some forecasts. There are forecast data of a factual nature having enormous implication on sound premises. Undoubtedly, forecasting is a prelude to planning and indeed it is the foundation on which planning takes place. Infact, planning under all circumstances and in all occasions involve a good deal of forecasting, i.e. appraising the future in the light of existing conditions and environment. Forecasting and planning are closely related. Adequate planning, no matter whether it is overall or sectoral, short-term or long term, largely depends on forecasting.
3. **Co-Operation and co-ordination:** Forecasting is not one man’s job. It needs proper co-ordination of all departmental heads in a company. Thus, by bringing participation of all concerned in the process of forecasting, team spirit and co­ordination is automatically encouraged. According to Henry Fayol, “The act of forecasting is of great benefit to all who take part in the process, and is the best means of ensuring adaptability to changing circumstances. The collaboration of all concerned leads to a united front, an understanding of the reasons for decisions and a broadened outlook.”
4. **Complete Control**: Forecasting provides the information which helps in the achievement of effective control. The managers become aware of their weaknesses during forecasting and through implementing better effective control they can overcome these weaknesses.

**Q3. Define Supply? Discuss determinants of Supply.**

**Ans: Definition**: Supply refers to the amount of a good or service that the producers/providers are willing and able to offer to the market at various prices during a period of time.

**Determents of Supply**: While the price is an important aspect for determining the willingness and desire to part with goods/services, many other factors determine the supply of a product or service as discussed below: -

1. **Price of the Good/ Service**. The most obvious one of the determinants of supply is the price of the product/service. With all other parameters being equal, the supply of a product increases if its relative price is higher. The reason is simple. A firm provides goods or services to earn profits and if the prices rise, the profit rises too.
2. **Price of Related Goods**. Let’s say that the price of wheat rises. Hence, it becomes more profitable for firms to supply wheat as compared to corn or soya bean. Hence, the supply of wheat will rise, whereas the supply of corn and soya bean will experience a fall. Hence, we can say that if the price of related goods rises, then the firm increases the supply of the goods having a higher price. This leads to a drop in the supply of the goods having a lower price.
3. **Price of the Factors of Production**. Production of a good involves many costs. If there is a rise in the price of a particular factor of production, then the cost of making goods that use a great deal of that factors experiences a huge increase. The cost of production of goods that use relatively smaller amounts of the said factor increases marginally. For example, a rise in the cost of land will have a large effect on the cost of producing wheat and a small effect on the cost of producing automobiles. Therefore, the change in the price of one factor of production causes changes in the relative profitability of different lines of production. This causes producers to shift from one line to another, leading to a change in the supply of goods.
4. **State of Technology**. Technological innovations and inventions tend to make it possible to produce better quality and/or quantity of goods using the same resources. Therefore, the state of technology can increase or decrease the supply of certain goods.
5. **Government Policy**. Commodity taxes like excise duty, import duties, GST, etc. have a huge impact on the cost of production. These taxes can raise overall costs. Hence, the supply of goods that are impacted by these taxes increases only when the price increases. On the other hand, subsidies reduce the cost of production and usually lead to an increase in supply.

**Q4. Discuss Monopoly Equilibrium in the Firm?**

**Ans**. The Equilibrium level in monopoly is that level of output in which marginal revenue equals marginal cost. The producer will continue producer as long as marginal revenue exceeds the marginal cost. At the point where MR is equal to MC the profit will be maximum and beyond this point the producer will stop producing. His profits will be maximum and he will attain equilibrium at the level of output at which marginal revenue equals marginal cost. If he stops short of the level of output at which MR equals MC, he will be unnecessarily forgoing some profits which otherwise he could make.

The firm will be earning maximum profits and will therefore be in equilibrium when it is producing and selling OM quantity of the prod­uct. If he increases his output beyond OM, mar­ginal revenue will be less than marginal cost, that is, additional units beyond OM will add more to cost than to revenue. Therefore, the monopolist will be incurring loss on the additional units beyond OM and will thus be reducing his total profits by producing more than OM. Thus, he is in equilibrium at OM level of output at which marginal cost equals marginal revenue (MC = MR).

The price under perfect competition is equal to marginal cost, but under monopoly price is greater than marginal cost. The monopolist, unlike perfectly competitive firm, faces a downward-sloping average revenue curve and his marginal revenue lies below average revenue curve. Therefore, in monopoly equilibrium when marginal cost is equal to marginal revenue, it is less than price (or average revenue).