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Subject :- Managerial economics

Mid term assignment.

Q2 (a) What is utility & what are the approaches to utility?

Ans The satisfaction derived by using any good or service is called utility.

There are two approaches to utility

- i) Ordinal approach
- ii) Cardinal approach

i) Ordinal approach :-

Ordinal approach is a realistic approach. ^{According to} Ordinal approach

~~utility~~ utility can not be measured quantitatively, but it can be estimated by ordering or preferences.

For example:- If some one offer ~~one~~ glass of water and a cup of tea at this time, I would choose the glass of water over cup of tea.

So at this time the utility of water is greater than the cup of tea.

ii) Cardinal approach:-

Cardinal approach is an ideal approach. ^{According to} Cardinal approach

~~utility~~ utility can be

measured or expressed quantitatively in the form of utils.

One util is equal to one unit of money.

For example: At this time consuming a glass of water would give me

8 utils. Eating an apple would give me

4 utils and a cup of tea would give me

2 utils.

Q2 (b) What does the law of equi marginal utility say about consumer behaviour

Ans Law of equi marginal utility states that "Marginal utility of money spent on all

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commodity should be equal."

This law was presented

by H. H. Gossen

This law says about consumer behaviour that

consumer should be in equilibrium with

respect to marginal utility of money.

Consumer will replace one product with

another until he reaches the equilibrium.

For example:-

$$\text{income/budget} = 24$$

Product $x = \text{Rs } 2$ each

$y = \text{Rs } 3$ each

unit	M.U _x	M.U _y	$\frac{MU_x}{P}$	$\frac{MU_y}{P}$
(1)	18	21	9	7
(2)	16	18	8	6
(3)	14	15	7	5
(4)	12	12	6	4
(5)	10	9	5	3

Unit	MU_x	MU_y	MU_x/P	MU_y/P
6	8	7	4	2
7	6	5	3	1

at 6 units of x
 4 units of y
 The consumer is in
 equilibrium and the
 budget is consumed
 fully.

Q1 (a) Define managerial economics
 and why you study
 this subject in MBA?

Ans "Branch of economics
 in which we use
 the micro economic laws
 and theories along
 with mathematics
 and statistical tools to
 make best decision
 making"

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We study managerial economics in MBA because laws and theories of managerial economics helps us in making decision and helps us get business answers like How much should I produce? What should be the price? What is the profit margin?

Q1 (b). How managerial economics can help you in optimal decision making?

Ans Business decision related to products or services normally involve through market research and

analysis of data. The ground reports from market research has huge amount of data. Analyst apply the theories and principle of managerial economics to come up with meaningful findings, from available data that can help business heads make informed and optimal decision.

Q#3 Differentiate between demand and desire. What are the assumptions of law of demand in economics?

Ans Demand:- Demand is the willingness of purchasing some commodity, backed by purchasing power and that commodity must have some price.

Desire:- Desire is a mere wish of a person to have particular commodity for luxury purpose.

Market demand for certain commodity is derived by adding all the individual demands for that commodity
for example:-

A's demand for x is 20 and B's demand for x is 18. Then the market demand for x is 38 if there ~~are~~ ^{are only} A and B in the market.

Assumptions for law of demand:-

- i) No change in income
- ii) No change in population
- iii) Taste and preferences of the consumers remain constant
- iv) Prices of related goods do not change
- v) No change in distribution of income
- vi) No expectation of further changes in the supply of commodity.

Importance of demand:-

Demand has an important role in the economy because when there is no demand for certain commodity, the business will switch their

production to those
comodities whose
demand are high .

