<u>**Question No.1**</u>

(A)

Managerial Economics concerns the application of economic theory and economic analysis to the problems of rational management decision making.

It is the integration of economic theory and business practice with a view to simplifying decision-making and planning by management.

Importance of managerial economics

Managerial economics is important for MBA students because I helps them becoming a better leader as a professional. It helps them in management decision making as it related to micro and macro economics analysis. It helps them to have broad view in decision making. As a better business professional and taking the right decisions at right time by analyzing all the factors involving in decision making can maximize the return within limited resources as it also involves planning and controlling of expenses. It provides optimal solutions to managerial decision making issues.

(B)

Optimal Decision making is difficult for managers because a false decision can ruin the organization and the stakeholders. It is therefore necessary for them to have Broadview and make decision by evaluating all the aspects.

Managerial economics helps us in optimal decision making as it focuses on firms profit maximization within limited recources.it helps firms in cost control and go more profitable.

To take a better decision managers must know the economic environment in which they are operating. Either it is related to pricing strategy for example if your firm's customer market is upper class the pricing should be more because mostly upper class is price conscious they prefer goods more with high pricing as its their society demand.it helps in making decision for what products should go with more profit and on what products the firm should cut down profit for better customer relation.

Therefore managerial economics helps us in better decision making at right time.

Question No.2

(A)

Utility is a term in managerial economics that refers to completely satisfied from consuming a good.it means the product fulfills the want of consumer.

For example cigarette is surely injurious to health but it fulfills the want of a smoker therefore it is utility to the smoker.

Approaches to utility

There are two approaches to utility

- Cardinal utility
- Ordinal utility

Cardinal utility:

Cardinal utility refers to a particular utility value is given to different choices.
It qualify consumer to rate the proportion of how much they prefer one thing over another.
For example Toyota corolla GLI gives 4000units of utility to a consumer while Audi A8 gives him 8000 units of utility.
And the consumer is willing to pay more for Audi on basis on his satisfaction level.

Ordinal utility:

Classify choices by order of preference.
It does not give proportion of how much a consumer prefer good we do not give numerical value for utility.
If we are going for dinner we decide either to go for Thai or for fast food but we do not conclude the exact level of utility.

(B)

Law of Diminishing marginal utility is one of the important concept it states all else as consumption increases the marginal utility obtain from each additional unit decreases.
For example an individual likes chocolate he may buy chocolate for some times, soon he buy chocolate less as the supply increases and prefer a brownie or something over it .
As the available supply increases the person’s utility reach to maximum then the utility starts decline. Each excessive unit of good results in less value end.

If a person consumed a plate of biryani and his marginal utility is 10 the utility value with decrease on each plate.

Amount of food consumed	**Total utility**	**Marginal utility**
1 plate	10	10
2 plate	19	9
3 plate	27	8
4 plate	34	7
5 plate	40	6

<u>**Question No.3**</u>

<u>***(A)***</u>

Desire

Desire related to someone's wish to have to have specific product.

Demand

Demand is related to desire of an individual's desire, ability to pay for desire and willingness to pay for desire.
Factors affecting market demand
There are several factors that affect market demand that are

- Price of that good
- Prices of substitute and complementary goods
- Income of the consumer
- Tastes, preferences and choices of the consumers
- Factors affecting individual's consumption decisions.

Price of the good:

The price of good greatly influence the market demand .Price of the good should be suitable according to the the product and target customers. The pricing is the main factor in market demand the product with suitable price will be more demanding.

Prices of substitute and complementary goods:

The prices of substitute product also influence the market demand for example if the price of Pepsi is 100 rupees and the price of coke is 80 the customers will prefer coke over Pepsi. Same is with other substitute.

Income of consumer:

The market demand is greatly affected by the income of consumer either the product is affordable by the consumer if the prices are suitable related to targeted customers the market demand will be more.

Tastes, preferences and choices of the consumers:

Taste and preferences greatly affect the market demand for which the targeted market should keenly observed if people are price conscious the consumers are mostly middle class and you increase the prices or either they are more towards western and you start making hijab's then the market demand will be greatly affected.

Other factors affecting individual's consumption decision:

Other factors may include the presentation ,belief of consumer or the society for example supplying beef to Hindu's will never be a great idea and will affect market demand.

Law of demand:

Law of demand state

"If the price of product increase the demand will decrease, if the price of product decrease the demand will increase."

The assumptions of law of demand are

- No change in the income.
- No change in size and composition of the population.
- No change in prices of related goods.
- No change in consumer's taste, preference, etc.
- No expectation of a price change in future.
- No change in the climatic conditions.