Saadat Ullah Jan.
16627.
MBA-72.

Managerial Economics.
MID TERM
APR 2020.

Question 1a: Define Manegerial Economics and why you study this subject in MBA?

Answer: For any buisness to truely gain a competitive edge, integrating manegerial economics into its decision making process is essential. It is the study of how economics forces effect organizations and how their leaders can use economic principles to achieve optimal outcomes. found everywhere from large corporations to non profits, in all sectors of the economy, this concept is a profoundly useful tool that helps leaders make sound buisness decisions.

As a study, the students who complete an MBA are expected to hold key manegerial positions in their organizations for that purpose, understanding the ins and outs of the economics of the organization is very important for such ~~leaders~~ indivisuals who are destined to become leaders. Leaders use managerial economics to ensure they are making the best possible decisions for their organisations. Problems they might look to solve include:

1- Selecting or developing Products.
2- Deciding on Product output & Pricing.
3- Creating an internet strategy.
4- Organisational design.
5- Promotional Strategies.
6- Procurement.

In this modern era, where competition is at its peak, the buisness leader with a strong education and experience in managerial economics will continue to be in high demand for the organisation desiring to stay financialy viable in today's world market. Managers who lack the working knowledge ~~of~~ in the areas of microeconomics, cost of capital and rate of return may find themselves struggling to make competant decisions based on data analysis and forecasting.

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**1b: How manegerial Economics can help you in optimal decision making?**

**Answer:** The success or failure of any firm depends on the decisions being made by the managers. As the complexity of a buisness increases the decision making becomes more and more Challenging. A buisness enviroment depends on a number of things and hence decision making is also influenced by a number of factors. Steps for decision making are given below.

1: **Problem Defination:** It is to understand what the actual problem or issue is and how is a manager involved. Decisions are mostly made as per firm's planning. Also managerial decisions are at times not well defined thus causing problems for the firms at times.

2- **Determine the Objective:** All decisions are to be made keeping the objective/goal of the organization in mind. The goals are set to maximize profit and benifit cost analysis. It is to guage all the investments and figure out rate of returns for each project or new venture.

3- **Discover Alternatives:** The manager always need to look for alternatives options that are of the same callibre but use less resources of the organizations and only take decision when no other viable alternative is available. This can be done by guaging the factors that are under the control of the manager. Also all the variables that constrain the choice of options are to be guaged.

4- **Forcasting:** Working should be done to predict the consequences of each alternative. Condotions can change severely by applying each alternative hence it is crucial to decide which alternative action to use when outcomes are uncertain.

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5- Make a choice: Once the complet analysis is done, the preffered actions are selected. This is the major step of the entire process It depends on how the decision maker puts the problem, how he formalizes the objectives, look for alternatives and comes up with the most favourable set of actions. This step makes the objectives and outcomes of a firm/organization quantifiab

Question 2 (a): What is utility & what are approaches to utility?

Answer: Utility means the satisfection that a consumer experiences from a product or sevice. Utility plays a pivotal role in product selection but at the same time presents a problem for economists trying to blend it into a microeconomics model. Utility varies among consumers for the same product and can be influenced by other factors such as price and the availability of alternatives.

Cardinal Utility is the assignment of a numerical value to utility Models that incorporate cardinal utility use the theoratical unity (util) of utility, in the same way in which any other measurable quantity is used. for instance a bar of chocolate might give a utility of "10" to one consumer while "5" to th other. The draw back of cardinal utility is that there is no fixed scale to work from. The utility might vary from one consumer to the other and thus doesnot give a standard measure. Having a standard helps in comparing and hence helps in product choice and use.

Diminishing Marginal Utility is a concept related to cardinal utility and states that after a certain point (threshold), every extra unit of a good/product consumed will provide less and less utility. for instance the first glass of water consumed by a thirsty consumer has a utility of "10", the second glass might also have a utility of "10" but the utility for the third glass will fall and will keep on falling for every glass. This data can be used to estimate a customer's demand curve.

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Ordinal utility is an alternative way to measure utility. which makes use of ranks instead of values. The best part is that the subjective differences between products and consumers are eliminated and all that remains are the ranked preferences. One consumer might prefer apples over peaches while the other might prefer peaches over apples.

Utility is used in the development of indifference curves, which represents the combination of two products that a certain consumer values equally and independantly of price. for instance, a consumer might be equally happy having one apple and 2 oranges or two apples and 3 oranges. Thus these are two points of the indifference curve.

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Question 2(b): What does the law of equi-marginal utility says about consumer behaviour?

Answer: Law of equi-marginal utility has high importance in the marginal utility analysis. The consumer's equilibrium is explained through this law. It tells you how a fixed income consumer has to spend on the various goods that he wants.

The challenge to the consumer is that how is he/she going to spend his money allocate his income among various goods that is to say what his equillibrium position will be with respect to the purchases of various goods. Generally, the consumer is considered to be rational which means he/she carefully and wisely substitutes goods for one another so as to maximise the utility. for instance there are two good "A & B." on which the consumer has to spend from a given income. The consumer behaviour will be guaged by 2 factors; the first being the marginal utility of the goods and the second being the prices of each of the two goods.

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The law of equi-marginal utility states that the consumer will distibute his money between goods in such a way that the utility derived from the last rupee spend on each good is equal which means that consumer is in equilibrium position when marginal utility of money expenditure on each good is the same.

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Question 3: Differentiate between demand & desire. How market demand is derived and what are the assumptions of law of demand and what is the importance of demand in Managerial Economics?

Answer: Desire means to wish for something. It means to have a wish for the buying or owership of a particular commodity. Demand refers to a desire and at the same time having the ability & willingness to pay for that desired commodity. There are several limitations directly or indirectly affecting the demand. The two most important limitations are the ability to pay and the willingness to buy. The law of demand states that, other thing remaing constant, the quantity demanded of a commodity is inversely related to its price. If the price of a commodity, the quantity demanded will rise and vice versa.

Assumptions of law of demand are stated below. This means that the law will only be applicable if the below mentioned condations are met.

(a) No change in price of related commodity.

(b) No change in income of the consumer.

(c) No change in taste and prefferances, customs, habits and fashion of the consumer.

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d- No change in size of Population.

e- No expectation regarding future change in price.

One of the major roles of buissness planning is to analyze/forecast the demand. inorder to compete in the market, every company must know about the number of quantity (demand) to set the price. The law of demand is of high importance to any company as maximum profits can be made once the demand of the product is high. The main importance of law of demand is the determination of price. It is helpful for a trader to fix up the price of a commodity. A trader will know how much demand will fall by increase in price to a particular level and how much it will rise by decrease in price of the commodity.

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