Name : Syed Gohar Ali shah
Roll No : 15701
Paper : Managerial Economics
Teacher : Sir Zafar-Ul-Haq
Exam : Mid Term

Q.1
a. Define managerial economics & why you study this subject in MBA/MS?

DEFINITION # 1 :-

Managerial economics is "the application of economic theory & methodology to business administration practices.

(E.F.Brigham & Poppas)

DEFINITION # 2 :-

"The integration of economic theory with business practice for the purpose of facilitating decision making & forward planning by management."

(Spencer and Siegelman)

PURPOSE OF STUDY :-

Managerial economics applies economic theory & methods to business & administrative decision making. Because it uses the tools & techniques of economic analysis to solve managerial problems, managerial economic links traditional economics with the decision sciences to develop vital tool for managerial decisions

making. The aims of managerial economics subject or course is to identify how the firms' & organizations policies are being analyzed & implemented in the frames of strategic decision making.

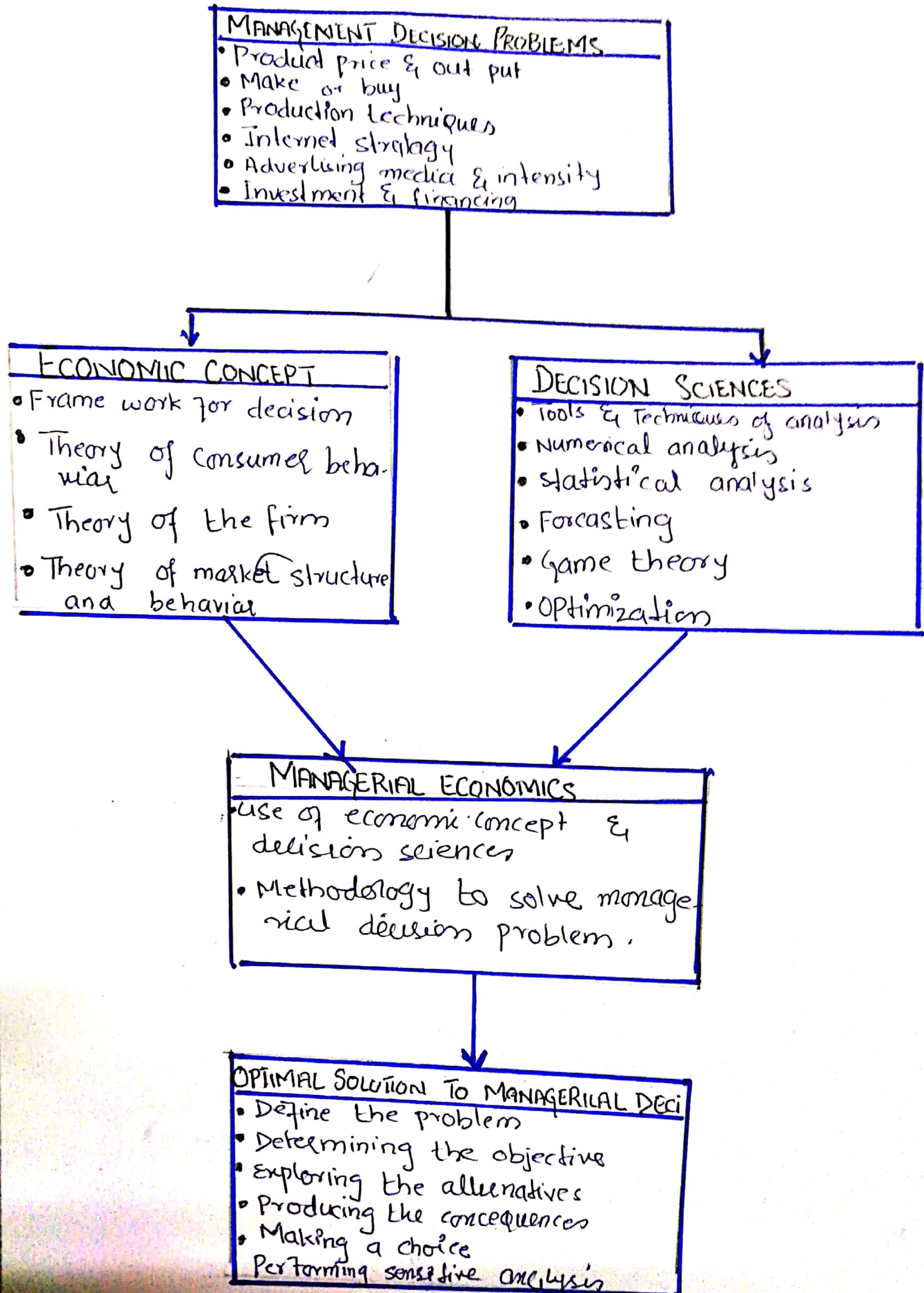
We study this subject in MBA for the purpose of, to develop his skills, to avail opportunity to practice the study of managerial economics, to develop a critical understanding of methods, procedures & current issue & debates appropriate to the study of Managerial economics.

B How managerial economics can help you in optimal decision making.

Managerial Economics Help in Decision Making:

Business decisions related to products or services normally involve through market research & analysis of data. The ground reports from market research has huge amount of data which analysts should deal with. The analysts apply the principles & theories of managerial economics to come up with meaningful findings from the available data that can help business heads make informed decisions. The statistical records of past, the current market scenario & various factors with in the market, the forcaste

ROLE OF MANAGERIAL ECONOMIC IN MANAGERILA DECISION MAKING



of demand, the competition & other factors are considered during the course to arrive at re-sult.

Q2
a. What is utility & what are approaches of utility?

UTILITY:-

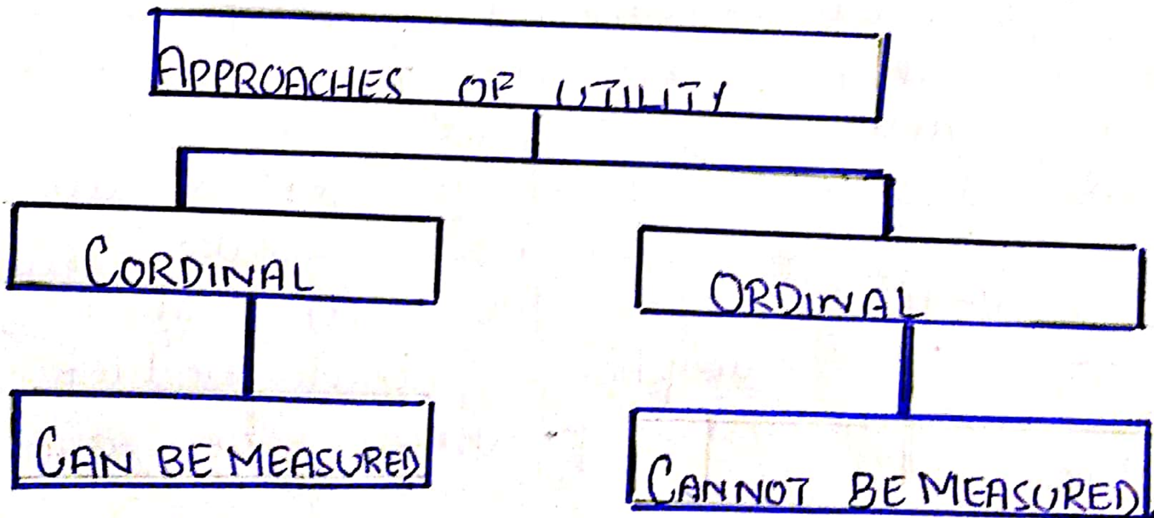
Utility means the satisfaction obtained from consuming commodity.

OR

Utility is term in economics that refers to the total satisfaction received from consuming a good or services.

APPROACHES:-

i-e. There are two types of approaches.



1 **CORDINAL APPROACH:-**

Cordinal approach is one, which rests on the assumption that utility can be measured. It can measured in utils. i-e. 1, 2, 3

& so on. It shows the preferences of consumer in cordinal number. e.g. a fish burgar may provide a utility of 90 utils & chicken burger may provides utility of 30 utils to a consumer. It shows that fish burger has more utility to the consumer than the chicken burger. & has by how many utils the burger provides more utility. is also inferred.

So the above example indicate that cordinal utility makes use of utils to arrive at the utility. Its give intengible satisfaction & not physical in nature. It also indicate the preferences of the consumer & preferences vary across the consumer therefore it would not be appropriate to generalize or make interpersonal comparison.

Another important aspect in this case, is the proportional of amount spent on the product. More amound paid indicate more utils. If consumer paid 100 for chocolate cake & 150 for cheese cake so the consumer get 100 utils from cheese cake & 50 from chocolate cake. The utility than consumer get from product is on the basis of consumption of that product only & not through interdependence of any another products.

2 **ORDINAL APPROACH:-** It does not give any measure units. It simple state that the utility is used for greding /ranking of the product depending

on the preferences but it can not be measured.

consumer may prefer burger over sandwich so it is Quite clear that the consumer choose burger over sandwich. But don't know about how much burger is prefered over sandwich. The ordinal approach give sense of preferences, like & dislikes, but there is no numerical measurement. comparison can be made but can not computed Quantitatively.

b. what does law of Equi-managerial says about consumer behavior?

LAW OF EQUI-MANAGERIAL

This law was first propounded by Gossen. It is known as Gossen's second law. It is the second important law of the utility analysis.

This law point out how a consumer can get maximum satisfaction out of given expenditure on different goods.

DEFINITION:

If a person has a thing which he can put to several uses, he will distribut it among these uses in such a way, that he has the same marginal utility in all.

TWO STATEMENT OF LAW:-

The two statement of law is:

1. Traditional statement.
2. Modren statement.

TRADITIONAL STATEMENT:-

The consumer will spend his money income in such away that last rupee spend on each product will give him equal satisfaction.

$$MU1 = MU2 = \text{------} MUn$$

CONDITIONS:-

There must be two or more commodities.

→ what ever marginally utility he get from both commodity must be equal.

→ He must spend all the income.

EXAMPLE :-

Suppose X spent's income = Rs 100

→ Price of 1 mongo is = 20 & Price of 1 orange = 10

e.g 1*20 = 20 & 3*10 = 30 then Total income spent = 50

3*20 = 60 & 4*10 = 40 Total income spent = Rs. 100

MODRRN STATEMENT:-

It also call law of proportionality. According to modren economist a person get maximum satisfaction when he weighted marginal utilities are equal. In other words when marginal utility of one commodity divided by its price & the marginal utility of the other commodity divided by its price are equal.

$$MUa/Pa = Mub/Pb = Muc/Pc$$

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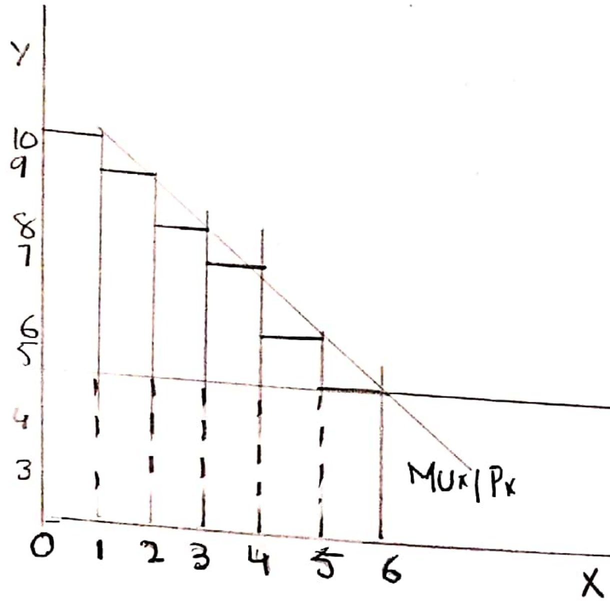
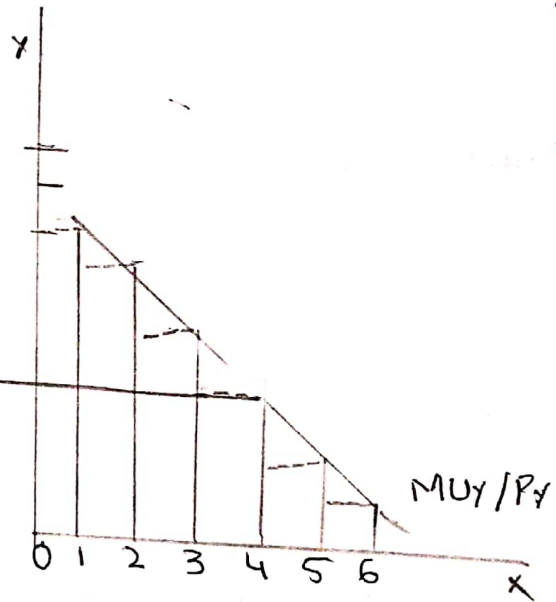
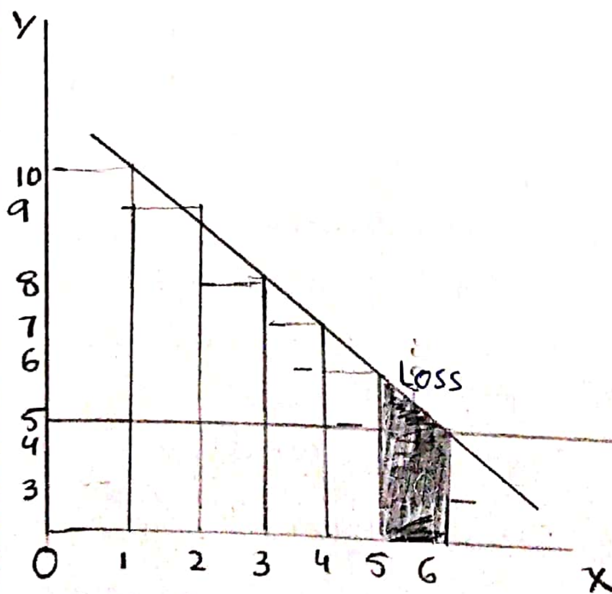
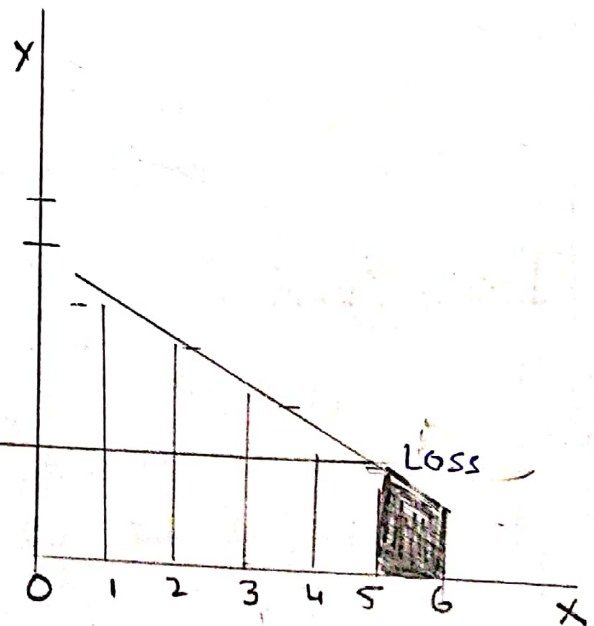
Consumer's choices under Law of equal marginal utility.





LOSS & GAIN BETWEEN X & Y.





ASSUMPTION OF LAIN:

There is no change in price of good or service.
The consumer has fixed income.
The marginal utility of money is constant.
A consumer has perfect knowledge of utility.
consumer tries to have maximum satisfaction.

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The utility is measurable in cordinal terms.
- There are subtitute for goods.
- A consumer has many wants.

LIMITATION OF LAW:.

There are some limitation to this law. They are:
- The law is not applicable in case of knowledge. Readings books provide more knowledge & has more utility.
- This law is not applicable incase of fashion & customs.
- This law is not applicable for very low income.
- There is no measurement of utility.

Not all consumer care for variety.
- The law fail when there is no choices available for the goods. & also in frequent price change.

IMPORTANCE :.

- It is applicable to public finance.
- It is useful in case of saving & spending.
- It is useful to look for substitution incase of price rise.
- The law is useful for workers in allocating the time between the work & rest,
- This law is helpful in the field of exchange. The exchange of anything like some goods, wealth trade, import, & export.

of a person's money income & tastes remain the same, & if the prices of all other commodities & the value of money remain unchanged, then the lower the price of the commodity the more he will buy in a given period. It's in human nature & behavior.

Q.3 Differentiate between demand & desire. How market demand is derived & what are the assumption of law of demand & what is the important of demand in managerial economics.

DEMAND	DESIRE
Demand is whatever you wish or want & is affordable with your current income. **Example:-** Samad is having Rs. 12000 & want to buy the same phone of Rs. 10,000. This is called demand (want something which he can afford within his income.)	Desire is whatever we wish to have or something we want, but don't have sufficient money or income to afford it. **Example:-** Sara is having Rs. 9,000 & want to buy a phone of worth Rs. 10,000. This is called desire (want something but can't buy)

ASSUMPTIONS-

The assumptions of law of demand include.

1. No change in price of related commodities.

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- No change in income of the consumer.
- No change in the taste & preferences, customs, habit & fashion of the consumer.
- No change in size of population.
- No expectation regarding future change in price.

MARKET DEMAND:

The Total quantity that all the individuals are willing to & are able to buy at a given price, other thing remaining the same is called as market demand.

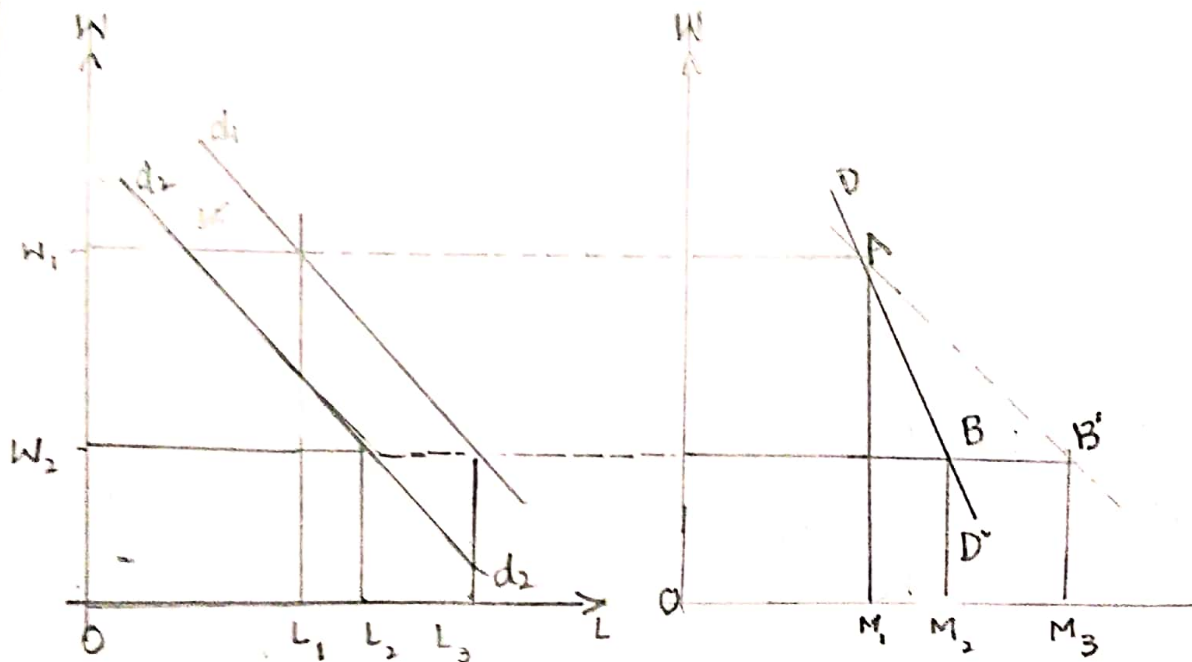
MARKET DEMAND DERIVED BY ADDING TOGATHER INDIVIDUAL DEMAND

Market demand is obtained by adding togather the individual demands of all the house holds in the economy. Because the individual demand curves are downward sloping, the market demand curve is also downward sloping.

However, the situation is different in the case of monopolistic competition & oligopoly (with or without product differentiation) in product market. Here the demand curve for variable input of any one producer is derived in the same way as a monopolist's demand curve for any individual firm here, the demand curve for the product is negatively sloped, But when all the firms in monopolistic competition or oligopoly expand output, market prices of their product diminish as under perfect competition -

Therefore, to obtain the market demand for the variable input from individual demands, we have to consider the fall in price (P) & marginal revenue (MR)

It is concluded that graphically the derivation of market demand curve here is exactly the same as in figure. The only difference is that here the individual demand curve are based on MRP, Rather than VMP.



Individual firm's demand for labour Market demand for labour

IMPORTANCE OF DEMAND.

The success of failure of business firms depend primarily on its ability to generate resources by satisfying the demand of consumers. The firms unable to attract consumers are soon forced out from the market.

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The importance of demand in business decision can be explained under following headings:

Sales Forecasting:-

The demand is a basis the sales of the production of firm. Hence sale forecasting can be made on the basis of demand. e.g demand is high sale will be high.

Pricing Decision:-

The analysis is demand is the basis of pricing decisions of a firm. If the demand for the product is high, the firm can charge high price, otheething remaining the same on the countey. If the demand low the firm can not high price.

Marketing Decisions:-

The demand helps a firm to formulate marketing decisions. The demand analyses & measure the forces that determined demand. The demand can be influenced by manipulating the factors on which consumeres bases their demand on allractive packages.

Production Desicision:-

Production decision is taken on the basis of firm capicity. But how much it should produce depend on demand. Production is not necessary if there is no demand.

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out contineous production schedual is necessary if the demand for the production is relatively stable If the demand is less than the quantity of production, new demand should be created by means of promotional activities. such as advertising.

Financial Decision:-

The demand condition in the market for firms products affects the financial decision as well. If the demand for the firm's product is strong & growing, the need for additional finance will be greater. Hence, the financial manager should make necessary financial arrangement to finance the growing need of the capital.

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