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MBA-90

Course : Managerial Economics

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MID TERM ASSIGNMENT

Q1

a. Define Managerial Economics and why do we study this subject in MBA?

That Economics in which we study the theories and laws related to MicroEconomics and use Statistical and Mathematical tools to make best decision, and to solve practice problems in business.

As a business administration student, managerial economics enables us to make optimum decision in business. It's valuable tools and laws helps us analyzing business situations to take better decision.

b. How managerial Economics can help in optimal decision making?

Managerial economics tools and statistics analyze market and business situation and helps in taking better decision.

For instance, the demand analysis can help in sales forecasting, pricing decision, Market ~~and~~, production

and financial decision. A manager of a firm can adopt strategies on demand analysis. If demand is high, sales will be high. The firm can make different decisions to increase or reduce productions or push up sales on the basis of sales forecast.

Other than this, other numerous tools can be used to in optimal decision making.

Q2:

a- What is utility and what are the approaches to utility?

Utility:

Utility is a term in economics that refers to the total satisfaction received from consuming a product or service. Utility is usefulness or enjoyment a consumer can get from a product or service.

Approaches to Utility

- Cardinal approach
- Ordinal approach

Cardinal utility is the idea that economic welfare can be directly observable and be given a value.

For example

Consuming a cup of tea gives me 5utils of satisfaction.

Utils is the unit of utility

Ordinal approach states that magnitude of satisfaction cannot be given.

Although the consumer can rank choices in terms of preferences, but we do not give exact numerical

figure for utility.

For example

I would prefer fast foods over the continental dishes, I cannot express it in numerical data but  $\neq$  consuming fast foods gives me more satisfaction/utility.

⑤. What does law of Equi-Marginal Utility says about consumer behavior?

Law of Equi-Marginal utility is based on the principle of obtaining maximum satisfaction, from a limited income. It explains the behavior of a consumer when he consumes more than one commodity. The law states that a consumer should spend his limited income on different commodities ~~that~~ in such a way that each commodity yield equal marginal utility ~~and~~ in order to get maximum satisfaction.

## Assumptions

- There is no change in the price of goods
- The income of consumer is fixed
- Marginal utility of money is constant
- Consumer is normal person, so he seeks maximum utility.

## Limitation

- Law is not applicable in case of knowledge.
- Law is not applicable on fashions and customs.
- Law fails in case of frequent price change.

Q3: Differentiate between demand and desire  
----- what is the importance  
of demand in Managerial economics.

Demand:

Demand for a commodity is combination of need, ability to pay and willingness to pay. Demand is economic concept and one of the major market forces.

For example

In the outcome of COVID-19, demand for masks, hazmat suits, sanitizers increased in markets.

Desire:

Desire is simply a wish to possess a commodity, irrespective of fact whether one can buy it or not.

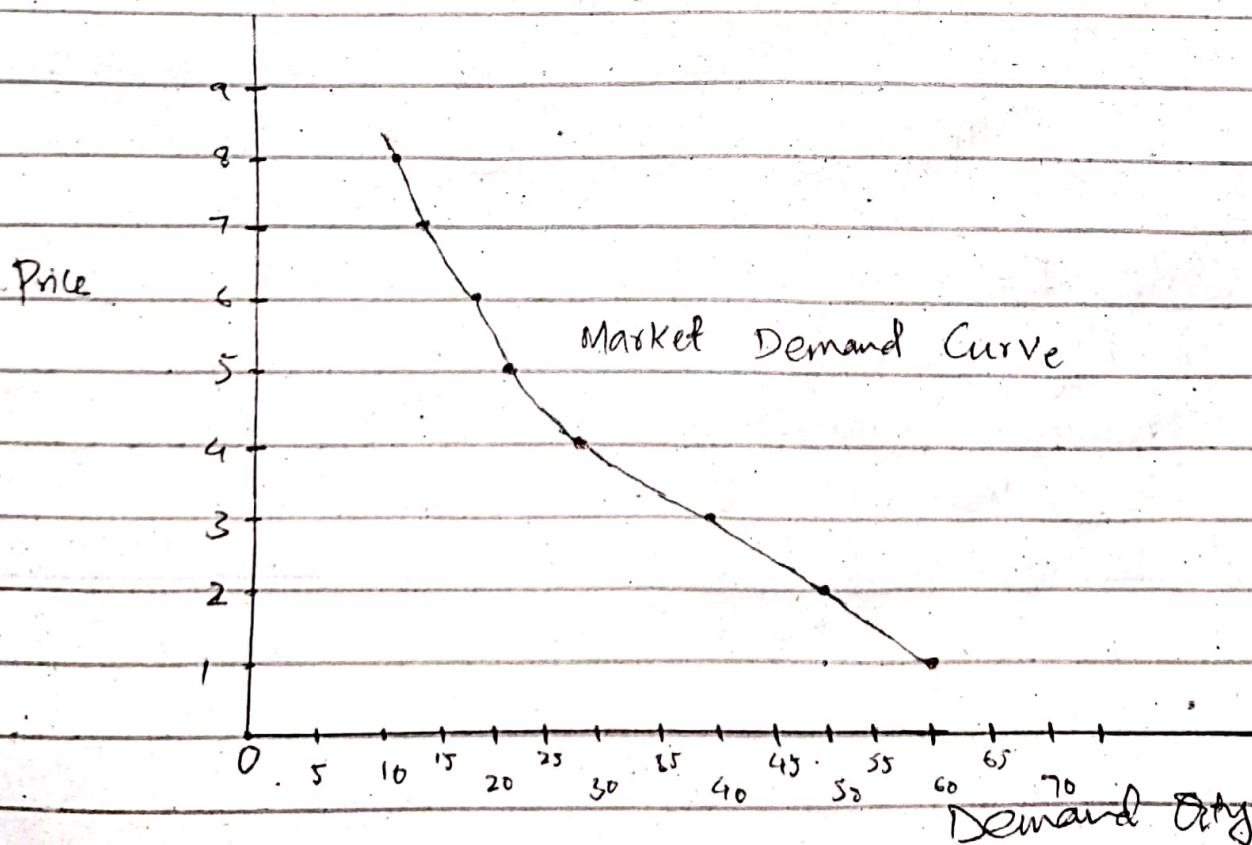
For example

One may desire to own a luxury ~~vehic~~ vehicle without having the ability to buy.

Market demand is the sum of individual demand for a commodity in the market.

For example

Unit Price	Individual demand			Market demand
	Ali	Ahmad	Faisal	
8	3	5	4	12
7	4	6	4	14
6	5	8	5	18
5	7	9	6	22
4	9	11	8	28
3	13	15	11	39
2	18	17	15	50
1	20	21	19	60





## Assumption of law of demand:

- No change in price of related commodities
- No change in income of consumers
- No change in Taste and Preferences
- Avoids any changes in fiscal policies.
- & weather remains same

The demand analysis is of crucial importance to business enterprise. It is source of many useful insights for business decision making. The success or failure of business firms depend primarily on its ability to generate resources by satisfying the demand of consumers.

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

- Sales Forecasting
- Pricing decision
- Market decision
- Production decision
- Financial decision