Assignment Mid-Term (Spring-2020)

Program: MBA-90

Course: Managerial Economics

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Q1. A. Define Managerial economics and why you study this subject in MBA / MS?
B. How Managerial Economics can help you in optimal decision making?

Answer: A. Definition of Managerial Economic: Managerial economics is the study of how scarce resources are directed most efficiently to achieve managerial goals. It is a valuable tool for analyzing business situations to take better decisions by applying the theories and principles of microeconomics and macroeconomics.

"Managerial Economics is the study of the allocation of resources available to a firm of other unit of management among the activities of that unit." **(W.W. Haynes).**

"Managerial Economics as a fundamental academic subject which seeks to understand and analyses the problems of business decision making." **(D.C. Hague).**

Example; How to use economic theory to set prices that maximize profits.
How to use economic theory to choose the cost minimizing production technique for a given scale of output.

Why Study Managerial Economic in MBA (Importance): The application or system of Managerial economics is very significant for every business as it helps in the development of different leadership qualities. It allows the creation of decision making that is very effective and further helps in providing good profit for the company or the organization. There are certain reasons based on the method of economics that could lead towards the overall development of the professionals at different levels.

B. Managerial Economics can help in optimal decision making; Managerial economics helps the management by using his analytical skills and highly developed techniques in solving complex issues of successful decision-making and future advanced planning. The overall role of managerial economics is to increase the efficiency of decision making in businesses to increase profit.
Following are the steps helps to managers while taking decisions..
. Establish objectives.
. Define the problem.
. Identify factors that affect the problem.
.Specify alternative solutions.
.Collect data and other information's.
.Evaluate and screen alternatives.
.Implement best alternative and monitor result.
Example; Chalking out Business Policies, Business Planning, Cost Control, and coordination of Business activities, Demand for Casting, Profit Planning and Control and so on.

Q2. A. What is Utility and what are the approaches to Utility?

B. What does Law of Equi-Marginal Utility says about consumer behavior?

Answer: A. Utility Definition: Power of good that satisfy the human wants.

Approaches to Utility: It's difficult to measure a qualitative concept such as utility, but economists try to quantify it in two different ways **Cardinal utility and Ordinal utility**. Both of these values are provide an important foundation for studying consumer choice.

B. Equi-Marginal Utility: The law of equi-marginal utility explains the behaviour of a consumer when he consume more than one commodity. Wants are unlimited but the income which is available to the consumers to satisfy all his wants is limited. This law explains how the consumer spends his limited income on various commodities to get maximum satisfaction. The law of equi-marginal utility is also known as the law of substitution or the law of maximum satisfaction or the principle of proportionality between prices and marginal utility.

Definition of Professor Marshall, 'If a person has a thing which can be put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility in all'.

Assumptions of Equi-Marginal Utility

1. The consumer is rational so he wants to get maximum satisfaction.
2. The utility of each commodity is measurable.
3. The marginal utility of money remains constant.
4. The income of the consumer is given.
5. The prices of the commodities are given

Example: Suppose there are two goods X and Y on which a consumer has to spend a given income. The consumer being rational, he will try to spend his limited income on goods X and Y to maximize his total utility or satisfaction. Only at that point the consumer will be in equilibrium.

Q3. Differentiate between demand and 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: Differentiate between demand and desire

Desire: It refers to the mere wish of a person to have a particular commodity.

Example: When a poor person imagines to travel through airplane, but he is not willing to pay for it, it is said to be a 'desire'.

Demand: It refers to a desire backed by the ability and willingness to pay for a particular commodity.

Example: A rich person wish to buy a car and he willingness to pay.

Assumptions of Law of Demand:

The law of demand studies the change in demand with relation to change in price. In other words, the main assumption of law of demand is that it studies the effect of price on demand of a product, while keeping other determinants of demand at constant.

There are certain assumptions underlying the law of demand, which are as follows:

1. Assumes that the consumer's income remains same. If the income of an individual increases, the demand for products by him/her also increases, which is against the law of demand. Therefore, the income of consumer should not change.

2. Assumes that the preferences of consumer remain same.

3. Considers that the fashion does not show any changes, because if fashion changes, then people would not purchase the products that are out of fashion.

4. Assumes that there would be no change in the age structure, size, and sex ratio of population. This is because if population size increases, then the number of buyers increases, which, in turn, affect the demand for a product directly.

5. Restricts the innovation and new varieties of products in the market, which can affect the demand for the existing product.

6. No change in income of the consumer.

7. Avoids any type of change fiscal policies of the government of a nation, which reduces the effect of taxation on the demand of product.

Importance of Demand in Managerial economics: All business organizations aim at profit maximization. It should cautiously monitor the demand conditions for its product. It should also forecast or estimate the changes in demand in future. A forecast or estimation of future demand for the product is known as demand forecasting. Usually every business organization predicts a number of interrelated forecasts. As because the future is uncertain, these forecasts may not be hundred percent accurate. But every organization tries to get the forecasts as accurately as possible. In Managerial Economics, demand forecasting achieved a prominent place.

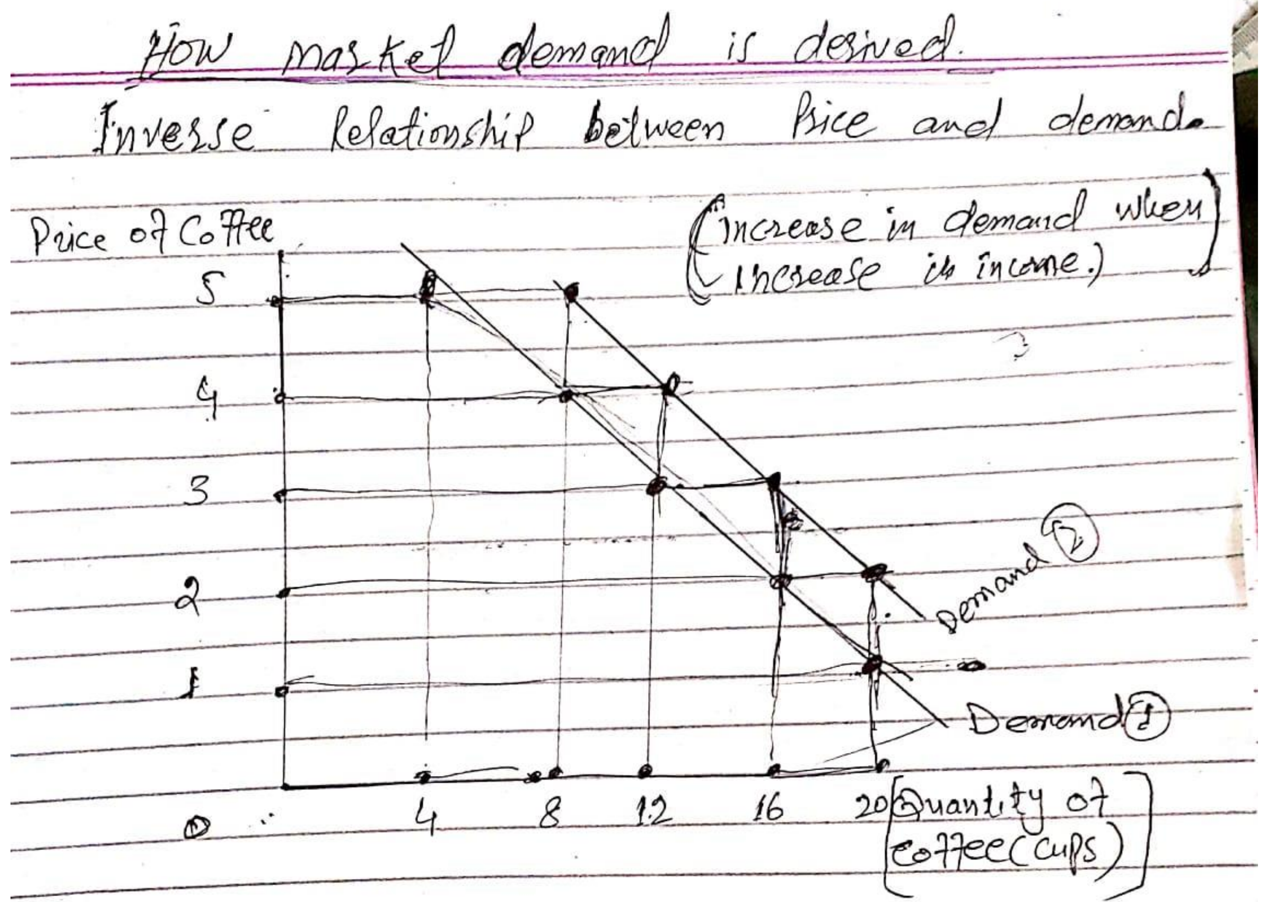
Demand forecasting has a huge importance in business planning and in managerial economics. A precise demand forecasting aids the organization in many ways. It makes the organization able to produce the requisite quantities at the proper time. It aids to organize the different factors of production well in advance. It aids an organization to estimate the upcoming demand for its finished products and plan its production. Sales forecast is the base for planning. All phases of the operations of the organization depend on sales. For instance, some managerial functions like procurement, cash budgets, inventory plans, production plan, etc. will be formulated based on sales forecasts.

Demand forecast has a vast popularity in industrially developed countries. The demand conditions are always uncertain than the supply conditions in developed countries. It is getting importance in developing countries also.

Organizations which offer quick and on-time delivery of their products to their customers will tend to dominate all competitors in the market. So, every firm involved in the market needs to produce its products based on a forecast of future demand. The ability to precisely forecast demand, affords the organization opportunities to control costs through leveling its production quantities, rationalizing distribution, and efficient logistics operations. Inaccurate forecasts will certainly lead to inefficient, high cost logistic operations and poor levels of customer service. Managerial function will be questionable if it fails to produce and supply the products at least cost.

How market demand is derived: Inverse relationship between price and demand. Below is the demand changing factors.
Consumer Income
Price of related Goods
Consumer Test
Consumer expectation
Number of buyers (population).

Example: the below mention diagram shows the demand curve, (factor) when consumer income increase.



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