

Mid Term Assignment (Spring 2020)

Program: MBA-90

Semester: 4th

Course: Managerial Economics

Lecturer Name: Muhammad Zafar Ul Haq

Assignment Submitted By: Ali Latif Awan

Roll No: 15319

Q1. Part (a) Define Managerial economics and why you study this subject in MBA / MS?

Answer:

Managerial Economics: deals with the application of the economic concepts, theories, tools, and methodologies to solve practical problems in a business. As such, it bridges economic theory and economics in practice. It draws heavily from quantitative techniques such as regression analysis, correlation and calculus.

Managerial Economics is synchronized between the planning and control of any institution or firm and hence its importance increases. Thus, it plays a huge role in business decisions. For example, using managerial economics helps to scrutinize the hazards of business choices and evaluate marketing techniques and procedures.

Why we study this subject in MBA?

The study of Managerial Economics subject in our MBA gives us preparing in applying huge picture thinking to widespread business abilities, making us qualified for a wide scope of positions, which includes: Pricing analyst, Global management & Financial analyst.

Furthermore the subject Managerial Economics in MBA is a crucial skill to learn. The course is mainly analytical in nature and focuses on clarifying fundamental concepts from microeconomic viewpoint. It studies the problems and principles of an individual business firm or industry.

After studying of Managerial Economics, we will gain confidence in our business decisions, because we will be familiar by strong economic data.

Q1. Part (b) How Managerial Economics can help you in optimal decision making?

Answer:

The most important function in managerial economics is optimal decision-making. It involves the complete course of selecting the most suitable action from two or more alternatives. The primary function is to make the most profitable use of resources which are limited such as labor, capital, land etc

It helps in assisting cost control and profit planning methods that helps in the increase of business profits. In the business organization, managerial economics is important. It plays effective role in managing the forward planning and decision making in the internal operations of the business.

It mainly deals with the development of economic theory of the firm and helps the management to take decision smoothly with regard to sales and profits. It also enables to take decisions about production as well as inventory policies for the future.

Managerial economics can be used to identify the pricing and a production strategy, which helps for taking decisions to meet this short-run objective quickly and effectively. Similarly, managerial economics provides production and marketing rules that permit the company to maximize net profits once it has achieved growth or market share objectives.

Some of the important types of managerial decisions are as follows:

- Individual and Group Decisions. ...
- Routine (Tactical) and Basic (Strategic) Decisions. ...
- Programmed and Non-programmed Decisions. ...
- Major and Minor Decisions. ...
- Organizational and Personal Decisions. ...
- Policy and Operating Decisions.

Q2. Part (a) what is Utility and what are the approaches to Utility?

Answer:

Utility: It is a measure of satisfaction an individual gets from the consumption of the commodities. In other words, it is a measurement of usefulness that a consumer obtains from any good. A utility is a measure of how much one enjoys a movie, favorite food, or other goods or something useful to the home such as electricity, gas, water, cable and telephone.

There are four different types of utility:

1. Form
2. Place
3. Time
4. Possession Utility.

Approaches to Utility:

There are two major approaches towards measurement of utility.

1. Cardinal Approach
2. Ordinal Approach

Cardinal Approach: is also known as classical approach and is the one, which rests on the assumption that utility can be measured, or we can say that Cardinal utility is the utility wherein the satisfaction derived by the consumers from the consumption of good or service can be measured numerically.

Ordinal Approach: The Ordinal Utility approach is based on the fact that the utility of a commodity cannot be measured in absolute quantity, but however, it will be possible for a consumer to tell subjectively whether the commodity derives more or less or equal satisfaction when compared to another.

Distinguish between the Cardinal utility approach and Ordinal utility approach are given below:

- Cardinal utility refers to the satisfaction that can be measured number whereas Ordinal utility refers to the satisfaction that cannot measure by number.
- Cardinal utility concept was used by Marshal whereas Ordinal utility concept was used by JR Hicks.
- Cardinal utility is less realistic whereas Ordinal utility is more realistic.
- Cardinal utility is quantitative measure whereas Ordinal utility is qualitative measure.
- Cardinal utility follows the marginal utility analysis whereas Ordinal utility follows indifference curve analysis.
- Cardinal utility measured in terms of units whereas Ordinal utility measured in terms of ranking.

Q2. Part (b) What does Law of Equi-Marginal Utility says about consumer behavior?

Answer:

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

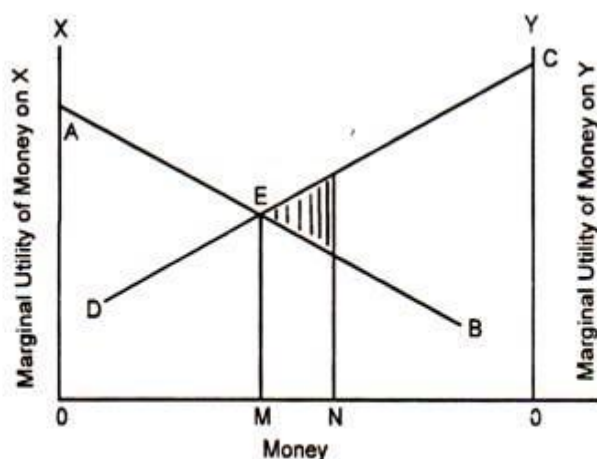


Fig. 4. Equi-Marginal Utility and Consumer's Equilibrium

Alfred Marshall made significant refinements of this law in his 'Principles of Economics'. The law of equi-marginal utility explains the behavior of a consumer when he consumes more than one commodity. Wants are unlimited but the income which is available to the consumers to satisfy all his wants is limited.

The consumer is in equilibrium position when marginal utility of money expenditure on each good is the same. The Law of Equi-Marginal Utility states that the consumer will distribute his money income in such a way that the utility derived from the last rupee spent on each good is equal.

Importance of Law of Equi Marginal Utility

This law is very important in the field of consumption because every consumer wants to get maximum satisfaction from his limited income. Along with those goods which consumers are consuming presently; they also keep goods for future consumption, so that they can get equal utility at both the times.

Limitations of the Law of Equi-Marginal Utility

Firstly, the utility derived from commodities is not measurable in cardinal numbers. Secondly, the marginal utility of money cannot be constant. As the money you possess depletes, the marginal utility of money increases.

Q3. (a) 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 simply refers to the mere wish of a person to have a particular commodity. Demand refers to a desire backed by the ability and willingness to pay for a particular commodity. A person can desire anything at any point of time.

Market Demand Derived

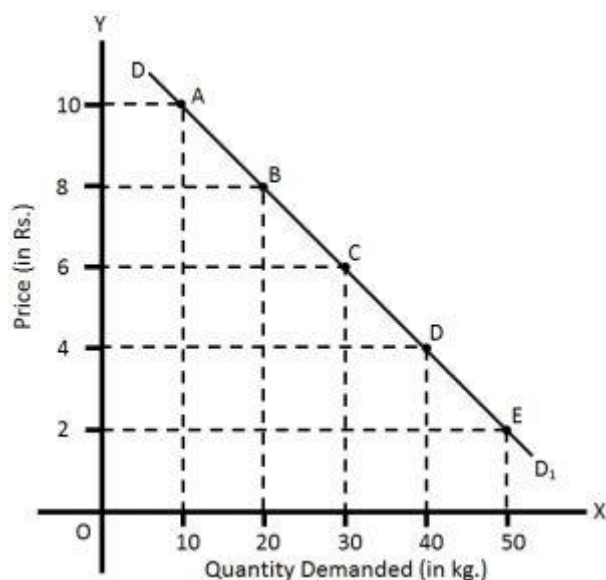
The market demand curve is the compilation of the individual demand curves of market participants. The individual demand curve represents the demand each consumer has for a particular product, and the market demand curve shows the cumulative relationship between consumers in general and the product.

To derive a market demand curve, simply add the quantities that each consumer buys at each price. The prices on the vertical axis do not change, but the quantities on the horizontal axis are the sums of the consumers' demand. This group of quantities is called horizontal summation.

Assumptions of Law of Demand

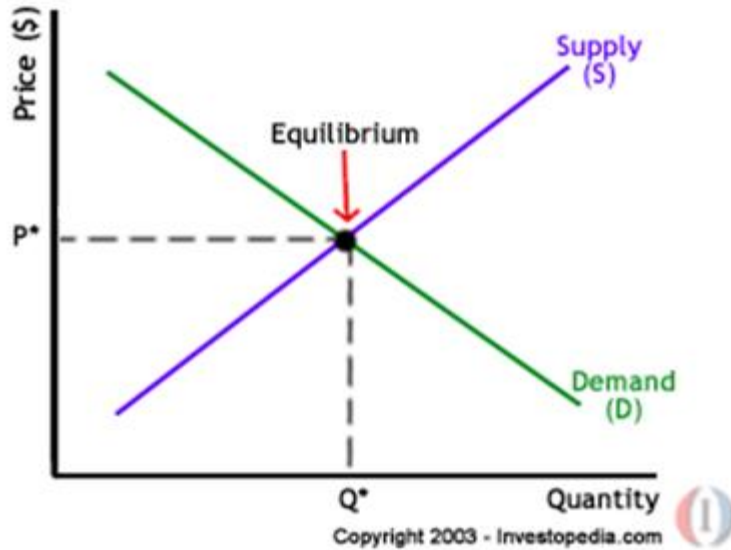
The law of demand studies the change in demand with relation to change in price. In other words, the main assumption of law of demand is that it studies the effect of price on demand of a product, while keeping other determinants of demand at constant.

No change in price of related commodities. No change in income of the consumer. No change in taste and preferences, customs, habit and fashion of the consumer. No expectation regarding future change in price.



Importance of Demand in Managerial Economics:

Demand has an important role in the economy because when there is no demand for e.g for biscuits therefore the businesses will switch their resources in producing those goods and services whose demand are high in order to maximize profit.



Demand analysis helps firm forecast the market which is of importance in the modern business activities. It helps to design the appropriate pricing policy. In the present global market, it is not at all possible for a firm to exist without adequate knowledge on consumer behavior.

In Managerial Economics Demand is the quantity of good and services that customers are willing and able to purchase during a specified period under a given set of economic conditions. The period here could be an hour, a day, a month, or a year.

Importance of Law of Demand:

We 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. The schedule of market demand can provide the information about total market demand at different prices.