In association with
AL TAREEQAH
Management Studies FZE

SBS
SWISS BUSINESS SCHOOL

Managerial Economics

SBS – MSc HCM

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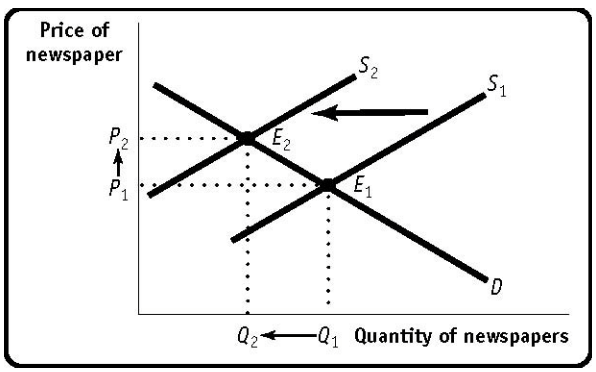
Section A

Answer to Question 1

A-

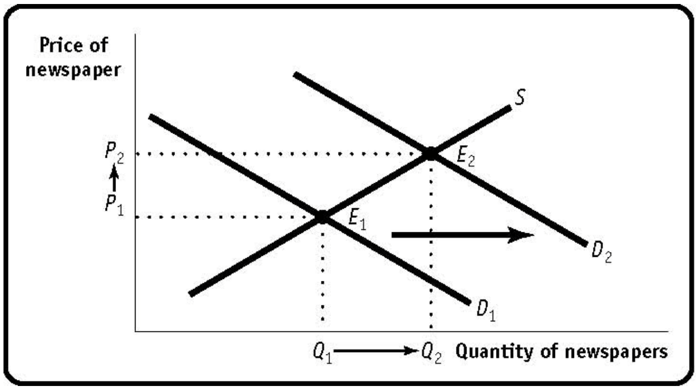
Case 1:

Journalists are the main factor input in the production of industry of newspapers; any increase in their salaries will raise the wage cost and reduce the quantity supplied by publishers at any given price. This represents a leftward movement of the supply curve from S_1 to S_2 which results in a rise in the equilibrium price and a fall in the equilibrium quantity, the equilibrium changes from E_1 to E_2.



Case 2:

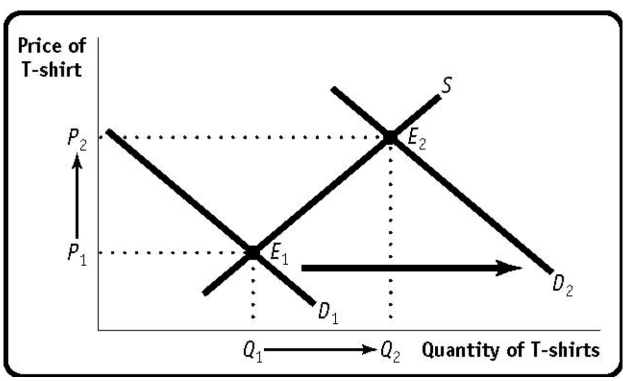
In this case big new event will increase the demand for newspaper, people in the town will purchase more newspapers at any given price. This represents shows a right shift of the demand curve from D_1 to D_2 and that leads to a rise in both the equilibrium price and quantity because the equilibrium changes from E_1 to E_2.



B-

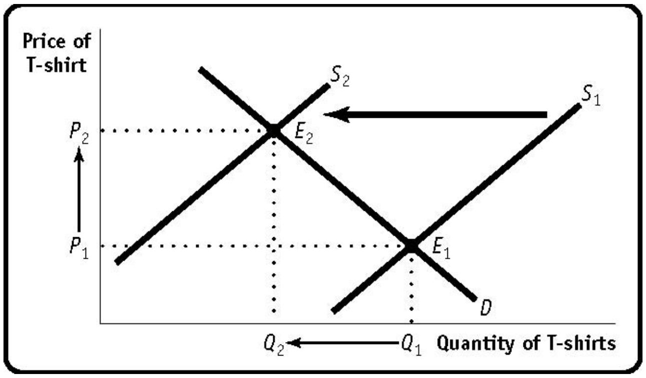
Case 1:

When Rams team wins Super Bowl, fans will demand more St. Louis Rams memorabilia at Any given price. In the below diagram in the demand curve there is a rightward shift from D_1 to D_2 and a rise in the equilibrium price and quantity, the equilibrium changes from E_1 to E_2.



Case 2:

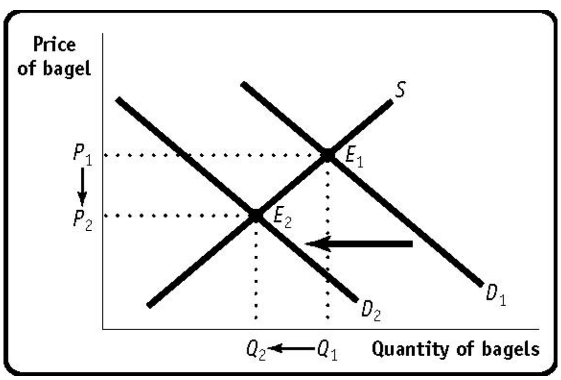
Cotton is the main factor input in the industry of T-shirts. The increase in the cotton price will cause the manufacturers to reduce supplied quantity at any price, in the following diagram represents a leftward shift of the supply curve from S_1 to S_2.which leads to a rise in the equilibrium price and a decrease in the equilibrium quantity, the equilibrium changes from E_1 to E_2.



C-

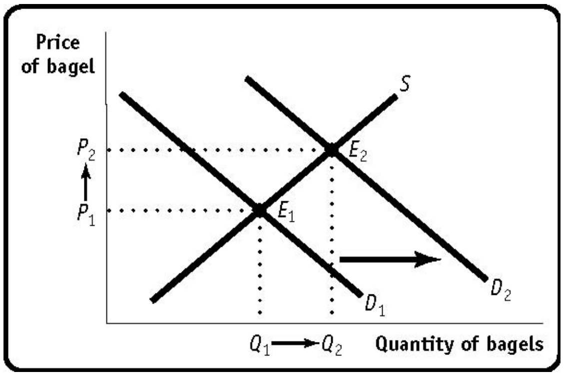
Case 1:

People will lower its demand at any given price .This shifting the demand curve a leftward from D_1 to D_2 and causes a fall in both the equilibrium quantity and price, the equilibrium changes from E_1 to E_2



Case 2:

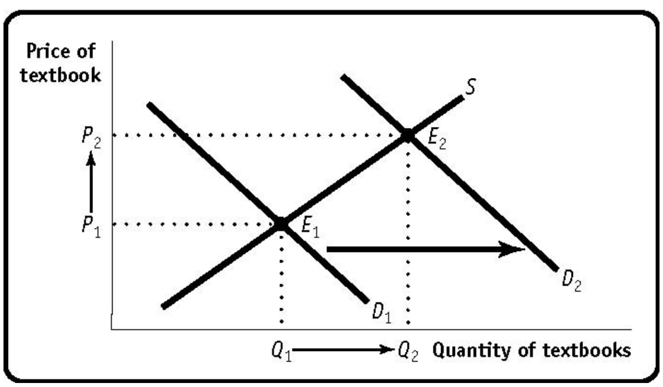
People will prefer to buy more bagels at any given price. In the following diagram a rightward shift of the demand curve from D_1 to D_2 and causes to a rise in the equilibrium price and quantity as the equilibrium changes from E_1 to E_2.



D-

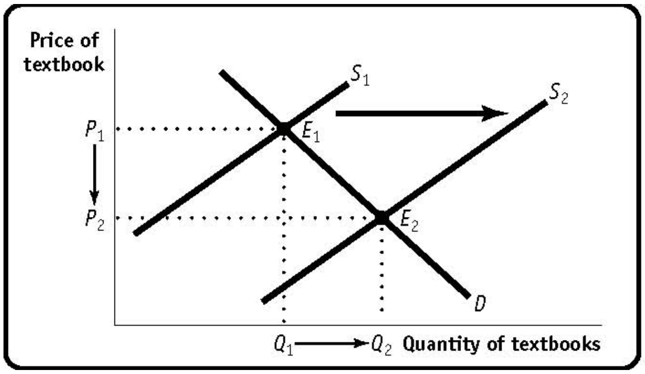
Case 1:

Making this textbook needed will increase its demand, which in the diagram representing a rightward shift of the demand curve from D_1 to D_2. Also the rise in equilibrium price and quantity changes from E_1 to E_2.



Case 2:

Lower printing cost will lower the cost of production, and increase the supply of newspapers. This representing a rightward shift of the supply curve from S_1 to S_2. Equilibrium price will fall and equilibrium quantity will rise, also the equilibrium changes from E_1 to E_2.


Price of textbook
S_1
S_2
P_1
E_1
P_2
E_2
D
Q_1
Q_2
Quantity of textbooks

Answer to Question 2

A Perfect Competition market is the type of market associated with large numbers of buyers and sellers, they buy and sell a homogeneous product without any restrictions and possessing perfect knowledge of the market at a time.

A market described as perfect when the potential buyers and sellers are aware of the prices when the transaction take place. Sometimes the price of the commodity will be equal everywhere.

Perfect competition features are:

1-Large number of buyers and sellers in the market: these buyers and sellers compete between themselves. Because of the large number, No single buyer or seller can influence the price and the market affect.

2-Product homogeneity: described as the sold products by the entire seller must be identical and homogenous. The offered goods for the sale are good and perfect substitutes of one another.

3-Free Entry and Exit of Firms: firms can enter or exit the market freely with no restriction for both buyers and sellers. If the existing sellers make high profits, new sellers will start entering the market and if the existing sellers suffer and loss, some of the sellers will start exiting from the market.

4-Perfect knowledge of the market from buyers and sellers regarding the market conditions (the market stock quantities of goods, the market circumstances and prices at which transactions of sale or buying are existing.). Buyer will be prepared to pay a higher price than the usual one. And, the sellers will not pay a price higher or lower than the usual one.

5-Perfect mobility of the factors of production and goods leading to factor-price equalization throughout the market.

6-Efficient and cheap transport and communication: uniform price for the commodity would possible if the prices changes are quickly adjusted, or the commodity are quickly transported.

7-“u” shaped short run average and marginal cost curves

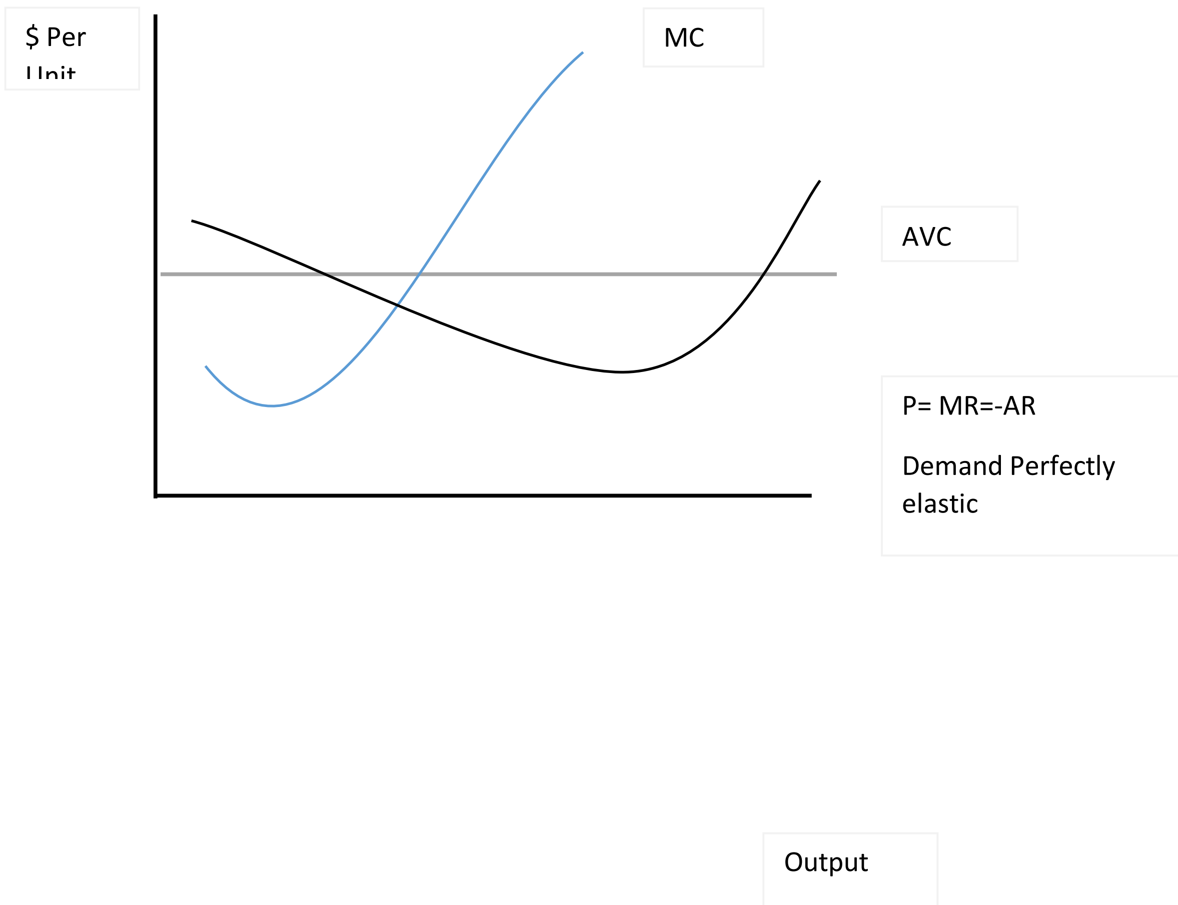
8-The demand curve is perfectly elastic (horizontal) and the $P = AR = MR$

Examples:

The agricultural market products, for example: wheat, coffee, corn, milk, etc.

Financial instruments, for example: stocks, foreign exchange, bonds, etc.

Precious metals, for example: platinum, silver, gold, etc.



Answer to Question 3

There are four different forms of market which described as:

Perfect competitive market – characterized by a large number of buyers and sellers, if there is a single buyer or seller, it can't influence the market, and this form of market for similar products and prices is determined by supply and demand. Examples of perfect competition market: Potato and onion market, etc.

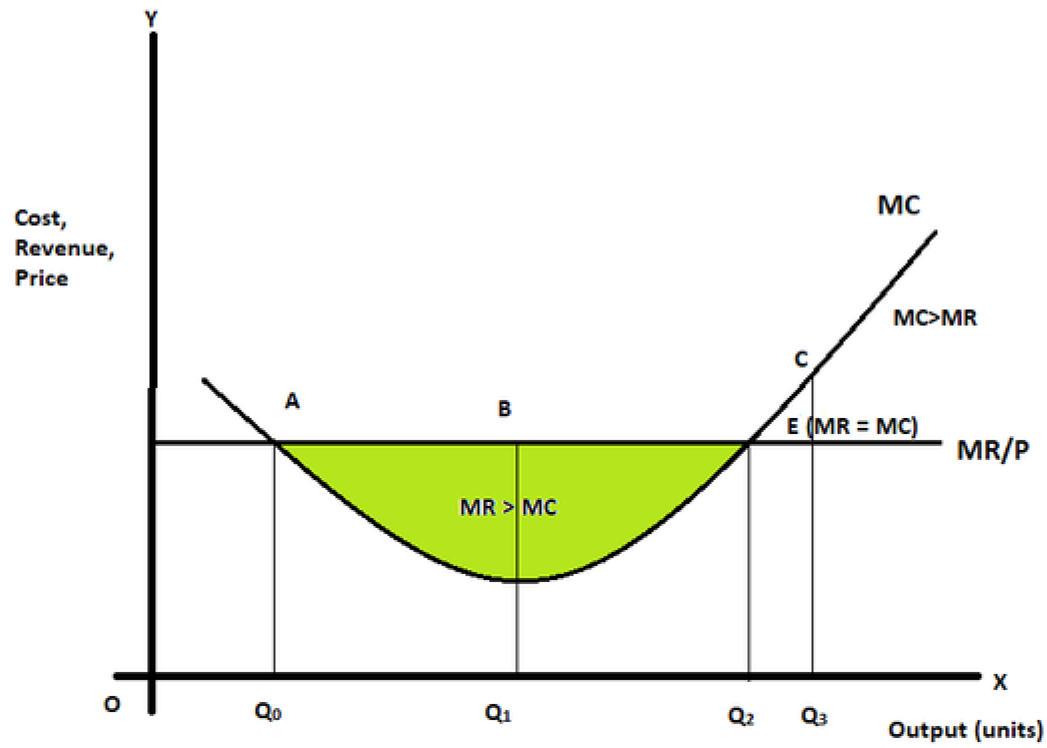
Monopolistic competitive market – market goods are different and that makes big difference product by the buyer in perception. They are the same product and the difference described in appearance, quality, packing and fragrance. Some examples of the monopolistic competition: shampoo market, tooth paste market, soap market etc.

Monopoly market – characterized by a single seller who influences the product price associated with an entry barriers for this type of market, such as the railway network.

Oligopoly market – there are two or more companies come together and control the market without competition between them. Examples of oligopoly: Cement industry, manufacturing airline industry, etc.

In perfect competitive market firm stops hiring employees when the marginal revenue (MR) equals the marginal cost (MC), which means that the marginal revenue (MR) of hiring one more employee is zero, in other way until the Value of Marginal Product of Labor (VMPL) is equal the wage rate and stop hiring employees at the point where wage rate exceeds the VMPL

The demand for worker in perfect competitive market increase as there is increase in product demand and vice versa.



Firms must determine how much of the input to demand when taking the decisions regarding output and pricing. The most common type of input are labor and capital.
Labor market decides the supply and demand of the labor. Labor market factors are workers and firms. Workers supply labor to firms in the exchange for wages and vice-versa.

The demand of the firms to the labor is a derived demand from the firm's output, If increases, the firm will demand and hire more labor, thus if decreases, the firm will demand less labor.

Marginal revenue product of labor: when the firm knows the demand level for its output, it determines how much labor to demand through the marginal revenue product of labor. The marginal revenue product of labor is the additional earned firm revenue by employing one more unit of labor. In competitive market, the firm's marginal revenue product of labor described as the value of the marginal product of labor.

The marginal revenue product of each additional worker is calculated through multiplying the marginal product of each additional worker by the market price. The marginal revenue product of labor shows additional revenue generated by the firm when an additional worker is hired. Thus, it is a point of wage rate is determined i.e. how much the firm will to pay to each additional worker. The firm wage which pays is the market wage rate.

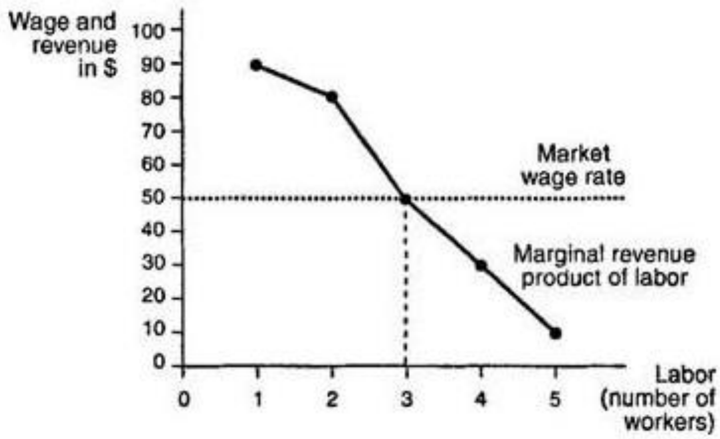


Figure 1
A perfectly competitive firm's profit-maximizing labor-demand decision

Answer to Question 4

Price elasticity of demand is the percentage change in the demanded quantity of a commodity divided by the price percentage change of the commodity.

$$\text{Calculation Elasticity of Demand} = \frac{\%\ \text{Change in Quantity}}{\%\ \text{Change in Price}}$$

A-

$$\text{Calculation Elasticity of Demand} = \frac{\%\ \text{Change in Quantity}}{\%\ \text{Change in Price}}$$

Thus the Jacky's elasticity of demand is calculated as:

% Change in the Quantity = (8 - 10) / (10) = -0.20 = -20%

% Change in the Price = (3.75 - 3.00)/ (3.00) = 0.25 = 25%

Elasticity = (-20%)/ (25%) = - 0.8 = 0.8

Elasticity of demand described as the absolute value of -0.8, or 0.8. The elasticity of demand for Jacky is inelastic, because it is less than 1.

B-

The elasticity of demand of Katy, should divide the percent change in quantity by the percent change in price.

% Change in the Quantity = (40 – 50)/ (50) = - 0.20 = - 20%

% Change in the Price = (6.00 - 4.00)/ (4.00) = 0.50 = 50%

The Elasticity = (-20%)/ (50%) = -0.4 = 0.4

The elasticity of demand is 0.4

The quantity when the price is $10 a box, same formula should be used, Elasticity = 0.4 = (% Change in Quantity)/ (% Change in Price)

% Change in Price = (10.00 - 4.00)/ (4.00) = 1.5 = 150%

Remarks: before taking the absolute value, elasticity was -0.4, so use -0.4 to calculate the quantity changes.

-0.4 = (% Change in Quantity) / (150%)

% Change in the Quantity = -60% = -0.6

-0.6 = (X - 50) /50

X = 20

The new demand at $10 a dozen will equal 20 dozen cookies

Answer to Question 5

Market failure is very common in many markets around the world, and occurs when a well-established market fails in the process of properly resources allocation. When this market fails the whole economy of the country affected and fails and due to this the government intervenes when the market fails.

There are different method used by the Government to overcome market failure, which are:

1-Taxation on particular things if there will be more income through increasing the price and reducing the supply that gives request for that product due to less supply. Tax policy is used to discourage some of the negative externalities. The objective of this policy is to raise the cost of the manufacture to private firm to the level that causes the firm to make the same manufacture choices as it should made if it take the external costs of manufacture into account in the first instance, e.g. Petrol.

2-Stabilize price of some goods by the government by selling and buying the goods, e.g.: sugar, rice wheat.

3-Supports some particular goods through creating demand for product by increasing manufacture and reducing taxes and prices, e.g. Public transport

4-Controls the usage of few goods by the government through striking rules and procedures and charges the usage of that product, e.g.: smoking

One of the most important responsibilities of the government is correcting the market especially when it fails, and the government role in the market cannot be ignored because without this intervention from government in the market, the market would not be resourceful.

The government steps that takes to correct the market failure are always appropriate, as they are usually for the benefit of all the stakeholders in the market.

SECTION B

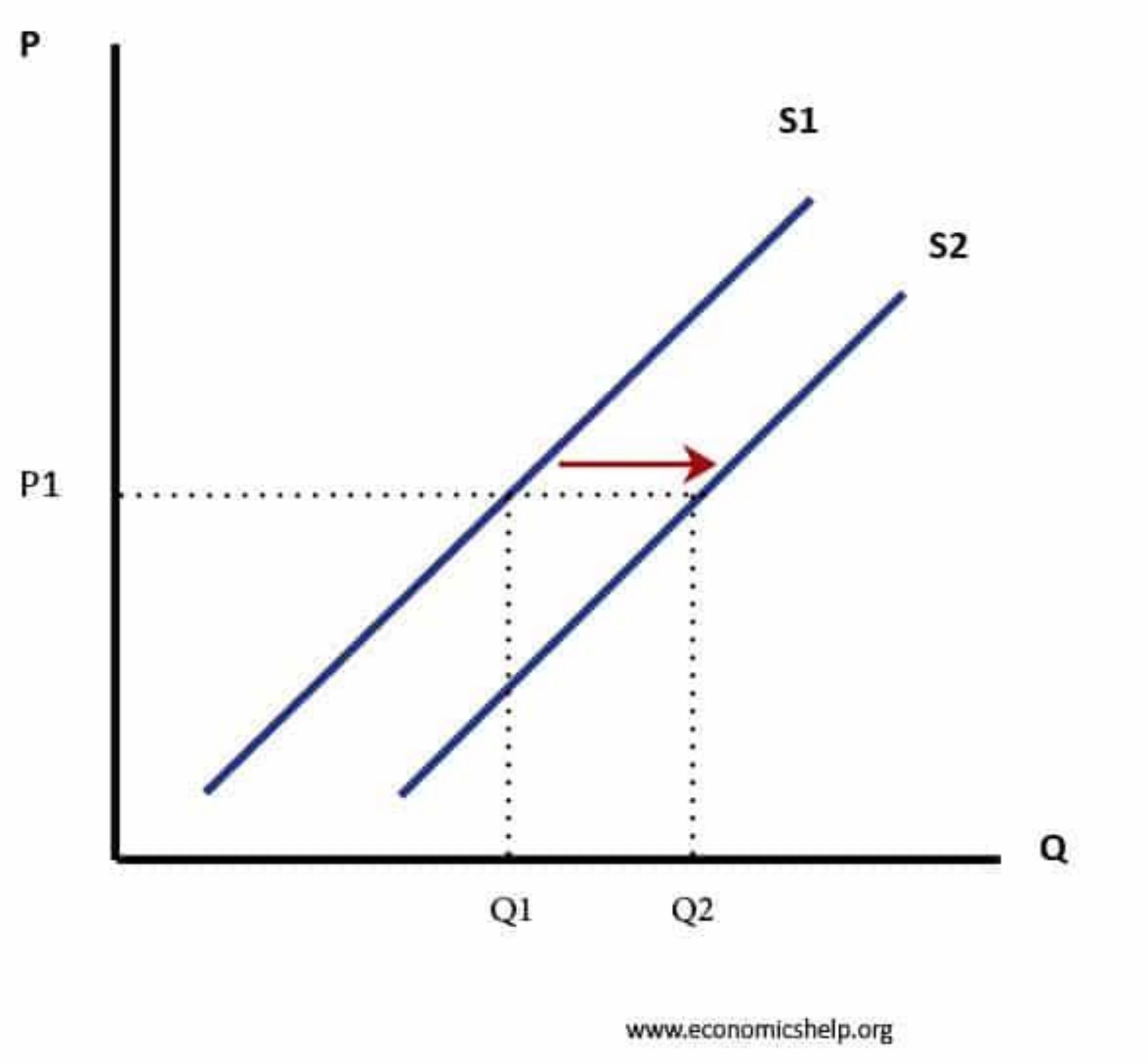
Answer to Question 1

A-

The supply schedule refers described as the table which depicts a relationship between the good supplied quantity and good price. The supply schedule can be appeared in a graph as the supply curve.

Law of Supply or Supply Schedule described as a direct relationship between supplied quantity and price, as increase in price will increase the quantity supplied or the increase in profitability occurred since the increase in price which more quantities will be supplied to the market.

Price	Quantity
0 $	0
1 $	3
2 $	6
3 $	9
4 $	12
5 $	15
6 $	18


P
S1
S2
P1
Q
Q1
Q2
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Market supply is affected by multiple factors, e.g. price, natural conditions, technology, production cost, government policies, transportation and associated goods prices.

Price: There is a direct association between goods price and supply. When the good price increases directly the supply will increase and vice versa.
Natural Conditions - Climatic conditions impacts certain goods supply like agricultural products. Agricultural goods supply increases during good climatic conditions and decreases during bad climatic conditions.
Technology: advanced technology increase goods production, and that leads to increase in its supply.
Production cost: A product or service supply decreases with the production cost decrease and vice versa, because the production cost and good supply are inversely related.
Transportation: Better transport facilities will increases goods supply. Always transport constrains the goods supply as the goods cannot be availed on time as a result of poor transportation
Prices of associated goods - substitute and complementary goods prices affect the good supply. For example, if wheat`s price increases, farmers will grow more of it. And, this will decrease supply of rice
Government policies - Different policies such as industrial policy and fiscal policy have a big effect on products supply. For example, increasing tax on the excise duties will decrease products supply, while if tax rate is reduced this will lead to increase in products supply.

B-

Demand is the commodity desire which backed with sufficient purchasing power and spend willingness. (This entire relationship between the commodity quantity that buyers want to purchase in a period of time and the commodity price, other things equal.

When the demand become inelastic, the supply doubles due to innovative production technique.

We can describe and draw the diagram as follow:

D1 is the inelastic demand curve

S1 is the initial supply curve

S2 increased supply curve

In the above diagram, innovative technique cause the supply doubled and shifts from S1 to S2. Demand Curve D1 is a vertical because of inelastic demand. The new price of the equilibrium is at P2 and equilibrium quantity remains at Q1 due to increase in supply. Equilibrium price falls from P1 to P2 but the equilibrium quantity remain same at Q1 due to the demand is perfectly inelastic.

In this case you can adopt the innovative technology if the demand is elastic. The increased supply will be met with the demand which as well change. That will help the supplier to maximize and increase their revenue. Furthermore, the technology improvement will reduce the production cost and it will shift the supply curve to the right and cause a greater quantity to be produced at any given price

During such condition not recommended for the seller to adopt the technology when demand is perfectly inelastic because the consumers will continue to buy the same units number if there is a reduced price due to supply increase. This will lead to decrease revenue and lower firm profit.

Answer to Question 2

The telecommunication market in UAE transitions from the monopoly market structure into the oligopoly one. The oligopoly one has 2-10 players in the market. Also the market has the similar products. If it transitions to the oligopoly market structure, all firms in the market will compete which will result in price wars.

A-

The telecommunication market is going towards oligopoly, which means only a few sellers offer similar or identical products. There will be price making companies and the firms will have substantial market power to influence, then price being set. There will be intense advertisements to stand out in the market. All the participating firms in the market will have similar services. Furthermore, there will be more data wars among the providers in sharing and using data.

It started with Monopoly Market from 1976 till 2006

1-One supplier (Etisalat) and a lot of Buyers.

2-Influence the market price, therefore (Etisalat) have the market power.

3-Entry barriers in Telecom industry.

4-High goods quality without close substitutes.

& then from 2006 du enter Telecom market and creating Oligopoly market

1- Competitive market created with more advertisement and marketing campaigns.

2-Lower prices from Etisalat to keep their customers and avoid beaten by competition

3-Similar services provided from both suppliers.

4-Less influence on market power and prices since not Monopoly Market.

& then after du expires license, telecom market will get back to monopoly again.

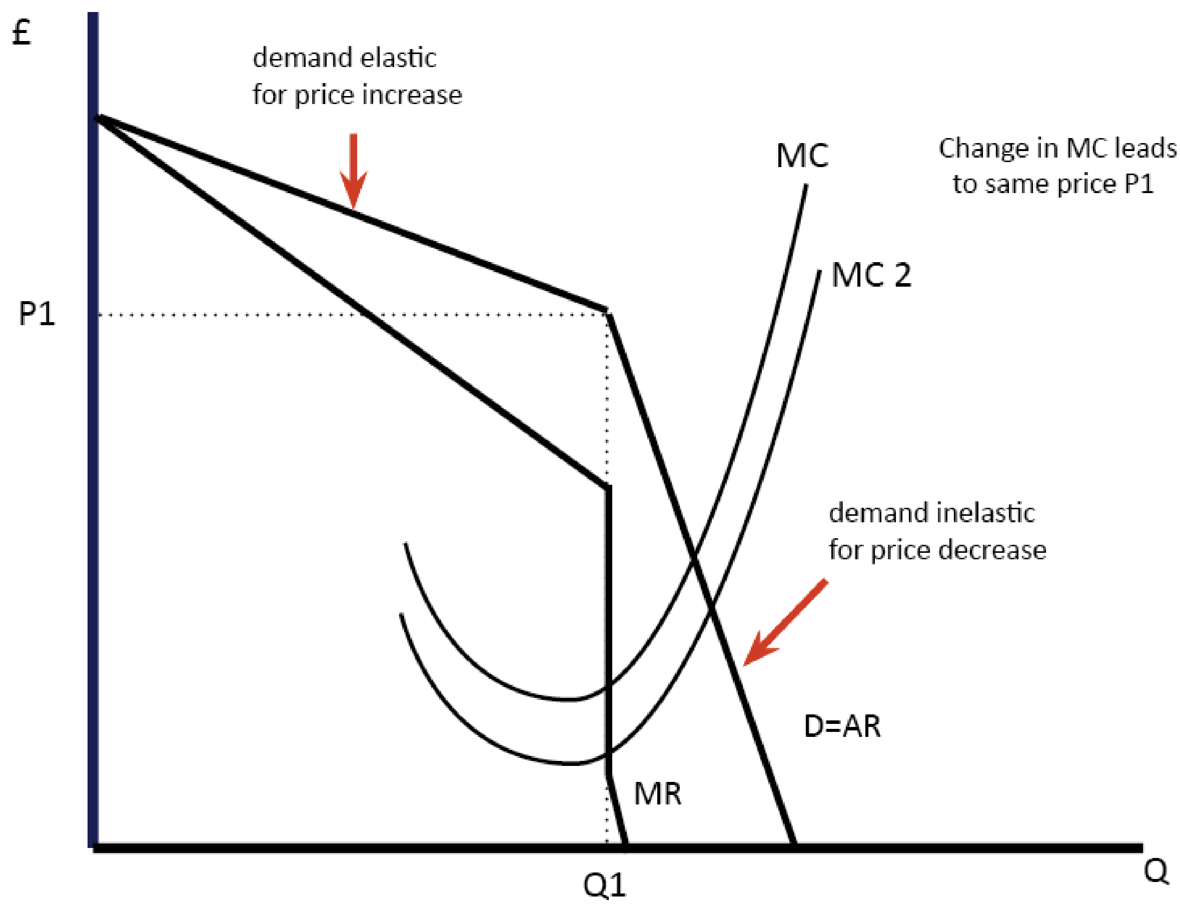
B-

The firms in the market will maintain a profit-maximizing output, by match its marginal revenue with its marginal cost. Also, they will follow the kinked demand curve theory. If any one of the oligopoly firm decreases the price, all other firms will follow. But, if any one of the firm raises the price, the rest of the firms will not follow.

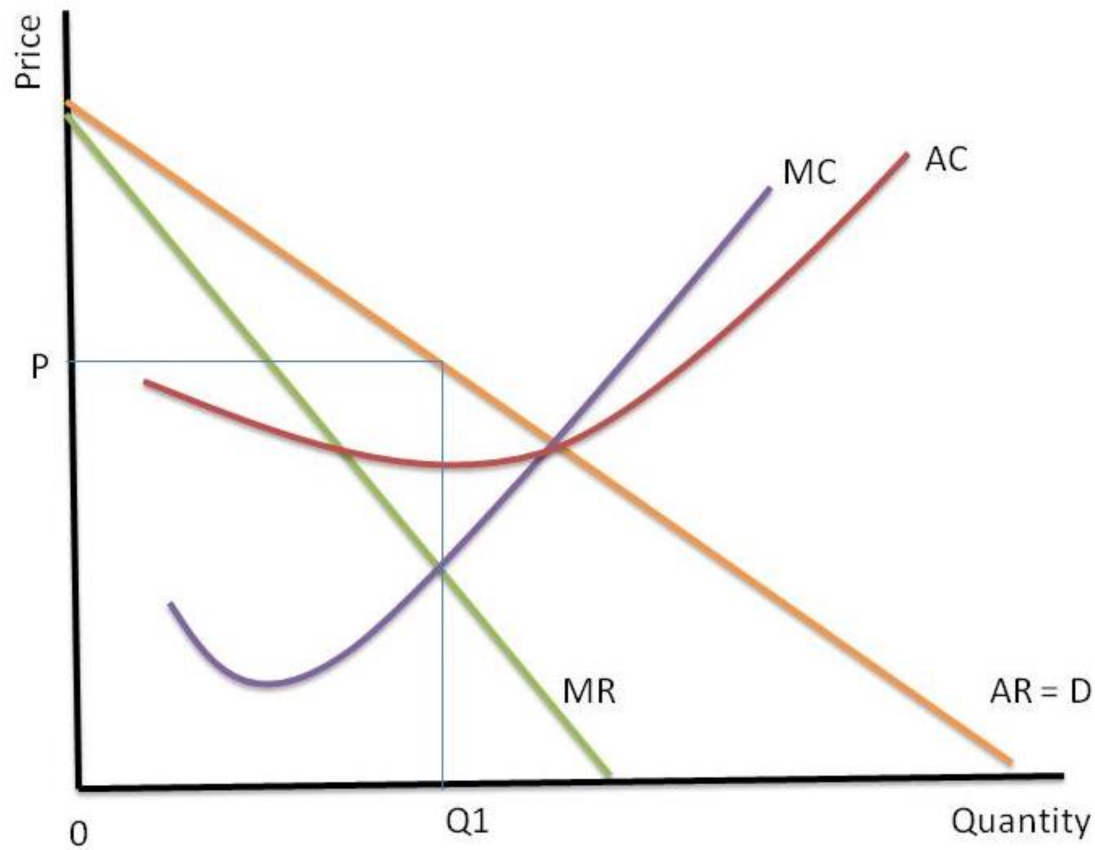
The oligopoly firms will increase the price if the barriers to entry are high and reduce it if the barriers to entry are low. There may be collusion between the oligopolistic firms to fix prices or restrict competition to earn as monopoly profits, which will allow firms to increase their profits by producing that output quantity where marginal revenue equal marginal cost.

C-

Oligopoly firms have a shape of a kinked demand curve if they are not colluding and competing against other. If one firm decreases the price, also, other firms will lower the prices. However, if a firm increases the prices, the rest will not follow. Therefore the demand curve is kinked. The diagram is as follow:



However, they may operate as a monopoly if they collude with each other. In this case, they will increase their profits by producing that output quantity where the marginal revenue equals marginal cost. The diagram for as follow:



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