

04/03/24

POORNIMA

## Assignment - 01

Q1 What do you mean by Managerial Economics?

ans: Managerial economics is sometimes referred to as business economics and is a branch of economics that applies microeconomic analysis to decision methods to of business or other management ~~unit~~ units to assist managers to make a wide array of multifaceted decisions.

Q2 Distinguish b/w Stock & flow with the help of examples.

ans:  $\Rightarrow$  Stock:-

When a variable is measured at a specific point of time, it is known as stock. The goods that are consumed over a period of time that do not wear out immediately, or intermediate goods, which do not change over time or can be measured at a given point of time are called stocks.

$\rightarrow$  For ex, the number of units of goods in the warehouse on a specific date is stock. Certainly, one can add or subtract the quantity of stock at any time, but when we study the change in stocks over a period of time, it comes under the concept of flow.

⇒ Flow:-

Flow is a concept or a variable, measured over a period of time. As flow variables are measured for a period of time, these variables are time dimensional.

→ for ex, when we take into account the production of cars by different automobile, from 2000 to 2022, we stress the importance of specifying the time period. A fun example to understand would be to take a concept that you are quite familiar with, i.e. grades. When you observe your grades over two terms, it becomes a flow variable.

Q3 Why do economic problem arise?

ans: We all know that human wants are unlimited, but the means to satisfy these wants are limited. Therefore, all the wants cannot be fulfilled. An economic problem means the problem of making choices occurs because of the scarcity of resource. It arises because people have unlimited wants, but the means to satisfy them are limited.

Q4 What are the three methods of National Income. Elaborate.

ans: National Income refers to the value of goods & services



produced by a nation during a particular financial year. Therefore, it is the net result of all the economic activities that take place during a financial year and is valued in monetary terms.

⇒ Methods of Calculating National Income.

- ① Value Added method or Product method
- ② Income method
- ③ Expenditure method.

① Value Added Method:-

Value added is a method of calculating the National Income of an economy in different production phases in a circular flow. The production process of a good or service involves different production units. The value added method shows the value added or contribution of such units.

$$GDP_{MP} = GVA_{MP} \text{ of Primary Sector} + GVA_{MP} \text{ of Secondary Sector} + GVA_{MP} \text{ of Tertiary Sector.}$$

$$\rightarrow \text{National Income/NMP}_{fc} = GDP_{MP} - \text{Depreciation} - \text{Net Indirect Taxes} + NFIA$$

### ③ Expenditure Method:-

The Expenditure method of calculating National Income takes the final expenditures of an economy into consideration. The factor income earned by different factors of production is spent by the different sectors of an economy in the form of expenditure on the purchase of goods and services manufactured by the firms.

$$\text{National Income / NNP}_{FC} = \text{GDP}_{MP} - \text{Depreciation} - \text{Net Indirect Taxes} + \text{NPIA}$$

POORNIMA

### ② Income Method:-

The Income method calculates the National Income of an economy based on the idea that what ever the firm earns in exchange for goods and services is used to make the factor payments. In other words, to calculate the national income of an economy through the Income Method, the income received by residents of a country from the productive services provided by them during a year are added together.

$$\rightarrow \text{National Income / NNP}_{FC} = \text{NDP}_{FC} / \text{Domestic Income (Compensation of employees + Rent and Royalty + Interest + Profit + Mixed Income)} + \text{NPIA}$$

Q5 "Economics is a science as well as an art." Explain also the basic activities of an economy?

ans: It has been always part of the profound debate and discussion about whether economics is art or science. But ultimately there is no watertight conclusion that can be drawn on any judgement or categorization on the basis of following arguments:-

⇒ Economics as an Art:-

- Economics can be considered as an art bcz art



includes the manifestation or execution of a variety of theories into practical forms.

- Also, economics uses assumptions so that situations for the execution of theories, laws and relationships b/w economic variables can be well defined.

### ⇒ Economic as Science:

- Since science can be defined as a systematic, organized and logical body of knowledge in which economic facts are studied and analyzed.
- Economic also provides interpretation of economic activities as accurate and appropriate and since economics explains it comprehensively, it also has the ability to forecast economic events.

⇒ Production, consumption and capital formation are called the basic economic activities of an economy. Scarce resources are used in the production of goods and services with objective of satisfying our needs and wants. The process of production of goods and services is carried by combining the factors like, land, labour, capital and entrepreneurship.