Assignment

1) Nature and scope of managerial Economics-

micro economics :-

managerial economics is micro in character. This is because it studies the problems of an individual business unit. It does not study the problems of the entire economy of the world or nation.

Normative (prescriptive) science :-

managerial economics is a normative science. It is concerned with what management should do under particular circumstances. It determines the goals of the enterprise. It is prescriptive rather than descriptive.

pragmatic (practical) :- managerial economics is pragmatic. It concentrates on making economic theory more application oriented.

macro economics :- micro economics is also useful to business economics. macro - economics provides an intelligent understanding of the environment in which the business operates.

Theory of firm :- managerial economics largely uses the body of economic concepts and principles towards solving the business problems.

management oriented :- The main aim of managerial economic is ~~to~~ help the management in taking correct decisions and preparing plans and policies for future. It is like patient problem solver.

multi disciplinary :- ~~Uh~~ decision making & planning mathematics, statistics, accounting, finance, operation research tools ~~and~~ are used.

Art & science :- managerial economics is both a science and an art. It establishes relationship between cause and effect by analysing the facts. It points out to the objectives and also shows the way.

Scope of managerial economics :-

Theory of demand :- According to spencer and siegleman, 'A business firm is an economic organisation which transforms productivity ~~firm is~~ ~~an~~ ~~economic~~ ~~organisation~~ sources into goods that are to be ~~sol~~ sold in a market'.

Demand Analysis :- Demand analysis & forecasting is essential for business planning. It is an important aspect of predicting future sales is essential before planning production ~~fech~~ schedule and employing productive resources.

Demand theory :- is the study of behaviour of customers.

Theory of production :- production and cost analysis is important for the smooth functioning of production process and project planning. To obtain productions, costs have to be incurred.

Theory of exchange or price theory :- Theory of exchange is popularly known as price theory. price theory is helpful in determining price of the product in the firm. price policy effects the demand of products. It includes the determination of prices under different market conditions, pricing methods, pricing policies.

Theory of profit :- Every business and industrial enterprise aims at earning maximum profit. It is the difference between total revenue and total cost.

- Demand of the product.
- prices of the factors of production.
- Nature and degree of competition in market.
- price behaviour under changing conditions.

profit planning and profit management are neccessary for improving profit earning efficiency of the firm. It needs more efficient techniques should be used for predicting future.

Theory of capital and investment :-

- selection of most suitable investment project.
- most efficient allocation of capital.
- Assesing the efficiency of capital.
- minimising the possibility of under capitalization or over capitalization.

— capital is foundation of any business.

Envisomental issues :- Contain issues of macro economics also ~~form~~ form a part of manegerial economics. governed products.

- The type of economic system of the country.
- Business cycles.
- price and labour policy.
- industrial policy of the country.
- Taxation policy of the country.
- political system ~~of~~ the country.

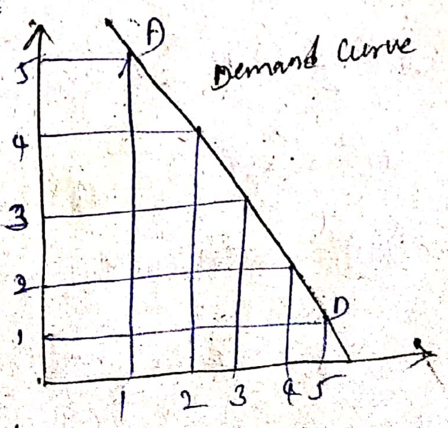
(2) Law of Demand.

Demand :- The desire is backed by willingness and ability to buy a commodity at a given price. A person must have three things in demand for a commodity. They are :

(a) Desire to buy.
(b) willingness to pay.
(c) Ability to pay.

Law of Demand :-

- This is the first law of demand.
- According to professor samuelson, " law of demand states that people will buy more at lower prices and buy less at higher prices, other thing remaining constant ".
- In other words of Alfred marshell; A rise in the prices of commodity on service is followed by a decrease in demand and a fall in the price of commidity is followed by a increasing demand, " other things remaining constant



price	quantity demand
1	5
2	4
3	3
4	2

Types of demand :-

(a) Consumer goods & producer goods :-

Consumer goods :- Consumer goods reffers to such products which are capable of satisfying human need. These goods are available for ultimate consumption. These goods provide direct and immediate satisfaction.

Eg:- Bread, rice, toothpaste and soaps etc..

producer goods :- producer goods are those goods which are used for the production of other goods to earn income.

Eg:- machinary or tractor.

∴ Some goods ~~are~~ can be used both as producer goods and consumer goods.

Eg:- grinder in a home — consumer good
grinder in a restuarant — producer good.

(b) Autonomous demand & Derived demand :-

Autonomous demand :- Autonomous demand reffers to demand for products and services directly. The demand for a services provided by a super speciality hospital comes under autonomous demand.

Eg:- Apple, iphone

Derived demand :- When the demand for a good is associated with another parent good, it is called derived demand.

Eg:- demand for medical shop, hostels & restaurants located near to a hospital.

Durable goods Vs perishable goods :-

Durable goods :- Durable goods are those goods which gives services for a longer period.

Eg:- Refrigerator, TV etc..

perishable goods :- The goods which are used when only for a shorter period of time & which are spoiled with in short period are called perishable goods. These goods are consumed only once..

Eg:- Vegetables, fruits, meat, milk.

(i) Firm demand Vs industry Demand :-

Firm demand :- The firm is a single business unit where as industry releases to the groupe to firms carring on similar activity.. The quantity of goods demanded by a single firm is called firm demand.

Industry demand :- The quantity demanded by the industry as a whole is called industrial demand.

Eg:- A construction industry used 100 tons of cement during a given mouth..

Eg:- The construction industry in a particular state may have used long terms.

ⓓ shortrun vs Longrun demand :-

shortrun demand :- The demand with its immediate reactions to price changes is shortrun demands. The demand for a particular product or service in a given range for a particular day can be viewed as short-run demands.

Longrun demand :- Long run demands is that demand which will ultimately exist as a result of changes in prices, promotions or product improvement is called long run demand.

ⓔ Newdemand Vs Replacement demand :-

Newdemand :- New demand reffers to the demanded for the new products in replacement demand, The demand for cars is new demand and the demand for spare parts is replacement demand also reffers to the demand resulting out of replacing the existing set with the new one.

Eg:- TV, pressure cooker, Refrigetator and grinder.

Exceptions to the laws of demand :-

(a) superior goods :- According to weblens a commodity bought not because of its worth but because of social status in the society,

Eg:- gold, diamonds, jewellary, famous paintings.

(b) Emergency situations: At the time of tsunami, earthquakes, floods and feminines etc..

(c) quantity price :- The high quality products are demanding even at higher prices.

(d) Giffin goods / Inferior goods :- Introduced by sir Robert Giffin. These goods are mostly used by the poor people.

Eg:- Rice, wheat.

-- A consumer spents a large part of its income on their goods.

(3) Elasticity of Demand :-

When there is a change in the independent variables there still will be a change in the dependent variable that is demand.

Types of elasticity of demand :-

ⓐ price elasticity of demand :-

It explains the proportionate changes in price of the commodity and the proportionate changes in demand for a commodity. It reffers for the quantity demand of a commodity in response to a given changes in price

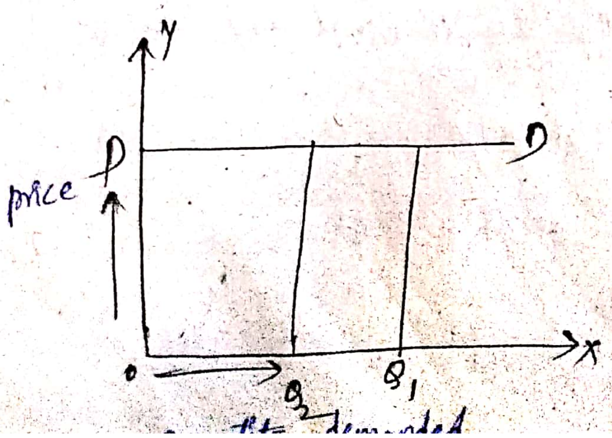
- There is -ve relationship between price and demand. people by more and more with commodity by a very fall in price.

$$E_p = \frac{\text{proportionate changes in quantity demanded}}{\text{proportionate changes in prices of the commodities}}$$

Types of price elasticity of demand :-

i) perfectly elasticity of demand :-

In perfectly elasticity of demand, even if there is a little change or no change in price level there is an infinite changes in quantity demanded.

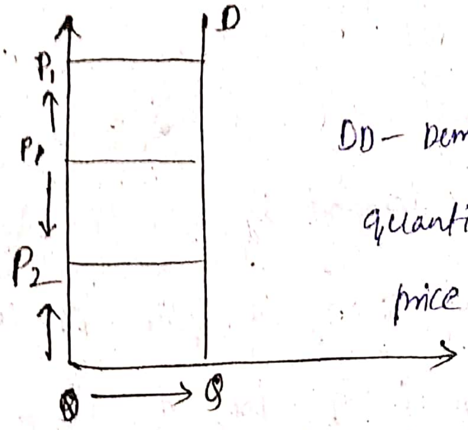


DD= Demand curve

No change in price, but change in demand.

ii) perfectly inelasticity of demand :-

In this, the change in price of a commodity fails to influence the demand that commodity that is increase or decrease in price levels no impact on quantity demanded.



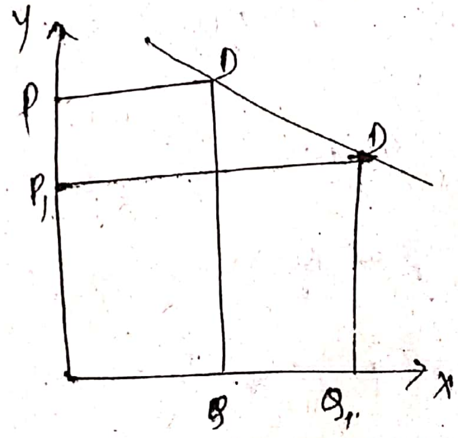
DD – Demand curve

quantity demanded – x axis

price – y – axis.

iii) Relatively elasticity of demand :-

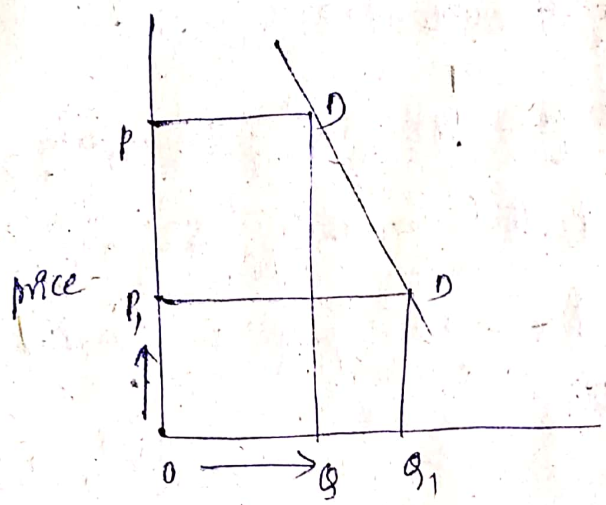
It reffers to a situation when a small changes in price leads to a big change in a quantity demand i,e, the proportionate change in quantity demand is greater than the proportionate change in price of commodity.



DD – Demand curve

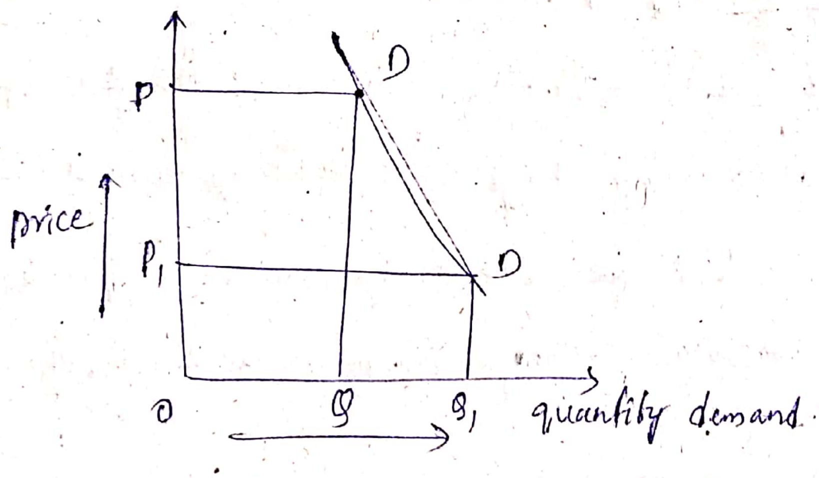
iv) Relatively inelasticity of demand :-

The proportionate changes in the quantity demand is less than the proportionate changes in prices of commodity.



v) Unitary elasticity of demand :-

If the proportionate change in price of commudity an the proportionate change in quantity demanded are equal when the demand ~~the~~ curve is unitary elasticity of deman



(b.) Income elasticity of demand :-

It reffers to the quantity demand of a commudity in response to change in ~~price~~ of income of the Consumer.

$$E_Q = \frac{\text{proportionate changes in quantity demanded}}{\text{proportionate changes in income of the Consumer.}}$$

... elasticity ... always positive (+ve) ...

③ Cross elasticity of demand :-

It reffers to the quantity demanding for a commodity in response to change in price of related commodities, which may be complementary or substitute products.

$$E_c = \frac{\text{proportionate changes in quantity demanded of commodity 'x'}}{\text{proportionate changes in prices of commodity 'y'}}$$

④ production function variables with all variable inputs.

S.NO	capital	Labour	total product	marginal product	
				3	increasing
1	1	2	3	4	
2	2	4	7	5	
3	3	6	12	6	constant
4	4	8	18	6	
5	5	10	24	6	
6	6	12	30	6	
7	7	14	36	5	decreasing
8	8	16	41	4	
9	9	18	45	3	
10	10	20	48		

- production function may be defined as the behaviour of production when all the production factors increased or decreased simultaneously in the same ratio.

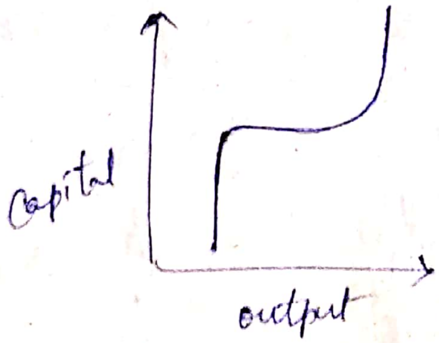
- Law of returns explains the behaviour of production when quantity of some factors of production are kept

Constant and others remain changed.

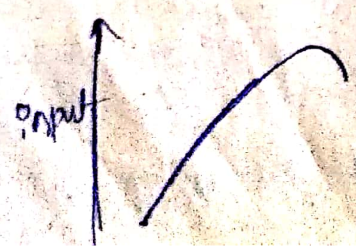
- The above table explains that increase in scale of factors results in a increasing outputs, increase in scale of factors results in constant returns and increasing scale of factors results in decreasing returns.

- Varying all the inputs results in 2 situations.
  - i) increasing return to scale
  - ii) Constant return to scale
  - iii) decreasing return to scale.

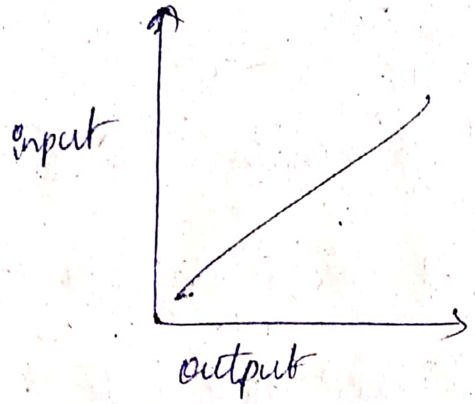
i) Increasing returns to scale :- If proportional increase in the output is greater than proportional increase in the input than we have increase in returns to scale.



iii) Decreasing returns to scale :- If the proportionate decrease in the output is larger the proportionate decrease in the input we have decreasing returns to scale.



iii) Constant returns to scale:- If the proportional increase in the output is equal to proportional increase in the input we have constant returns to scale



5) Costs:-

The expenses which are incurred by the producer in the production is called costs. They include,

- purchase of land
- Construction of building
- installation of machinery and electronic
- wages of workers.
- purchase of raw material
- packing charges
- Transportation charges etc.

- All costs involve a sacrifice of some kind or other to acquire some benefits.

Eg:- If I want to purchase a pen I have to sacrifice money.

Types of costs:-

(a) **Total Cost**:- Total costs are derived into two types

(a) fixed cost, (b) variable cost.

(a) **fixed cost**:- The cost which remain fixed in a constant manner and which doesn't change with the changes in production are called fixed costs.

(b) **variable cost**:- Variable cost change according to changes in production. It includes,

- purchase of raw material
- packing charges
- Transportation charges etc..

(b) semifixed (or) semi variable cost:-

These are reffered to that are fixed to some extent and beyond which they are variable.

eg:- telephonic charges or electricity charges.

(c) Longrun & shortrun costs:-

Longrun costs:- The cost which are incurred for a longer period of time are called 'longrun costs', it includes;

- establishing a new plant (factory)
- purchase of machinery and equipement.

— introducing a new product into the market
— purchase of land
— Construction of building etc..

Shortrun costs:- The costs which are incurred for a short period less than 1 year are called shortrun costs.

It includes;

— purchase of raw material
— wages of workers
— packing charges etc..

(8) Explicit vs implicit costs:-

Explicit cost:- The payments which are made to the outsiders of the company are called explicit costs. These costs all are recorded in the books of accounts.

Explicit cost includes,

— purchase of raw material from suppliers
— wages paid to workers.
— advertising costs
— transportation costs
— insurance premium
— license fee.

Implicit cost:- The cost which are not recorded in the books of accounts and which do not take in the form of cash are called implicit cost.

It includes;

- owner's salary
- Rent on land and buildings.
- Invested in the business.

(2) opportunity cost:- opportunity cost refers to the cost of next best alternative one is selected. it means that the opportunity gaining one; you have to leave other ones.

Eg:- In Engineering we have various branches, in that we select one branch, we had ~~foregon~~ foregone the opportunity of studying other.

(3) Actual cost:- The actual expenditure incurred by the producer in the production is called 'actual cost'.

Eg:- Rent on buildings, raw material cost etc..

(4) Out of packet costs:- out of packet costs are those costs that involved immediate out flow of cash. these are spent day to day working life of business such as pretty expenses like tea or snaks.

(5) marginal cost:- It refers to the additional cost incurred. It is useful for make or buy decision.

(i) Book cost :- These are costs which are incurred in Depreciation (decrease in the value of an asset) which do not require current cash expenditure.

(j) Sunk cost :- Sunk costs are those costs for which an expenditure made in the past that can not be changed and the management.

(k) Incremental cost :- Incremental costs are those additional cost that are incurred due to the change in the nature.

Eg:- purchase of new technology, new advertisement, and new packing.

(6) Write about monopoly market?

a) mono - single
(b) poly - seller
(c) monopoly - single seller market

The word monopoly means a single producer.

It is a market where one producer or a firm suppliers the commodity to a market.

- The product supplied by a monopolyst will not have close substitutes in the market.

- A consumer will not find a substitute product for a monopoly product.

- This happens mainly because there is no freedom for other firms to enter into the monopoly market
- The reasons are huge investment, lack of technology, lack of resources, paytents.
- The firm and industry are same in a monopoly market

Eg:- railways, electricity board.

Main features :-

- A single firm produces the commodity in the mark.
- Consumers will not find any close substitutes for this production the market.
- New firms donot enter due to certain restrictions.
- Hence, there is no competition in the market firm and industry are same
- firm and industry are same.
- In this market, the producer is a 'price marker' and market is a 'price taker'.

(7) perfect Competition market.

This market is a market with a very large number of buyers and sellers.

In this method, the seller is a 'price taker' and market is a "price maker".

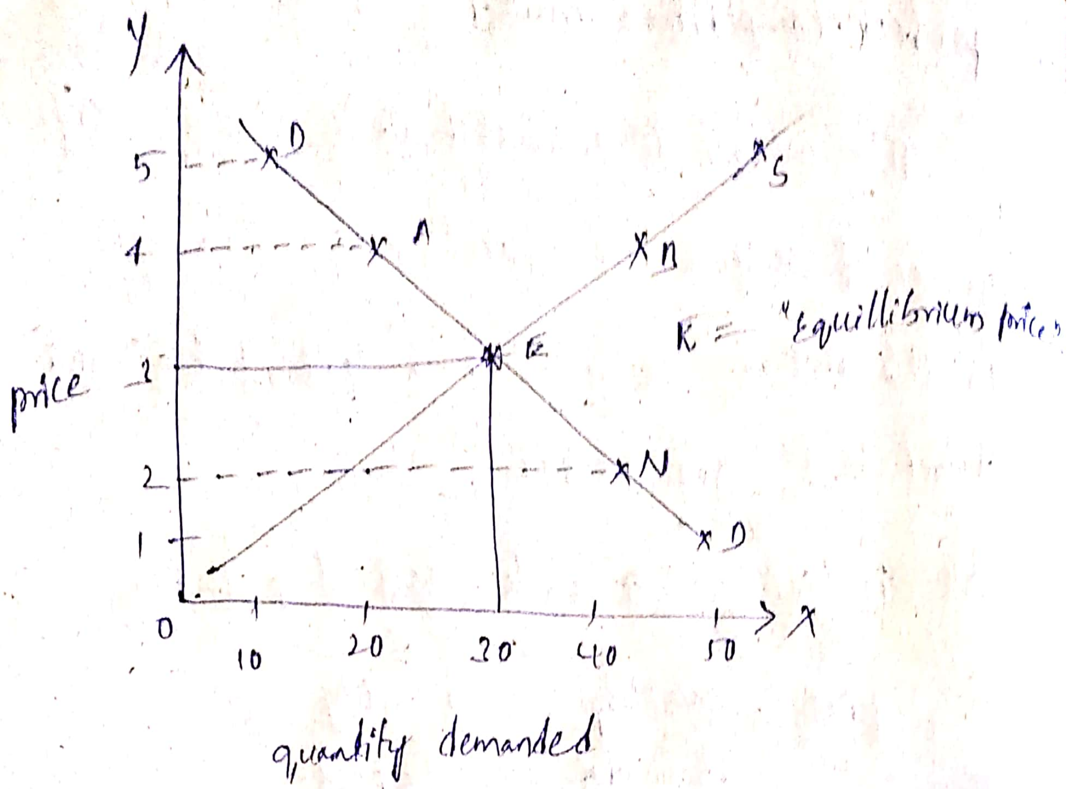
— All the sellers sell similar kind of products.

price	quantity demanded	quantity supplied.
1	50	10
2	40	20
3	30	30
4	20	40
5	10	50

(a) seller and buyer can't decide the price.

(b) In a perfect situation without any limitations price is decided by the market.

(c) The supply and demand in the market determine the price of commodity. The above table helps us to understand the changes in supply, demand & equilibrium price. The table shows the demand and supply schedule of a good.



— changes in price are always causing a change in supply and demand. As price ↑, there is a fall in the demand. As price ↓, there is increasing in the demand.

— Thus, there is a positive relation between price and supply.

— At one price Rs 3/-, it can be observed the demand and supply are equal. This is called "Equillibrium price". The supply and demand curves are shown in the diagram price is taken on y-axis.

— Quantity demanded/supplied taken on x-axis

- DD - Demand curve it slopes downwards from left to right.
- equilibrium price, where demand is equal to supply
- At price 4Rs/-, the demand decreases and supply increases that is at this price less is demanded by consumers but more is supplied by producers.
- The excess supply leads to competition among sellers (or) producers.
- At price 2Rs/-, the demand is more and the supply is less.
- That is more is demanded by buyers but less quantity is supplied by sellers.
- Thus, there is more competition between the buyer or consumers or customers.