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ASSIGNMENT - I

1) Write Nature and Scope of Managerial Economics?

NATURE OF MANAGERIAL ECONOMICS

Managers study managerial economics because it gives them in sight to reign the functioning of the organization.

i) Managerial economics as Art and Science

Management theory requires a lot of critical and logical thinking and analytical skills to make decisions or solve problems. Many economists also find it a source of research, saying it includes applying different economic concepts, techniques and methods to solve business problems. The policies of science are universal like that the managerial economics laws and principles are applicable to the universe.

ii) Microeconomics

Managers typically deals with the problems relavant to a single entity rather than the economy as a whole, it is therefore considered an integral part of microeconomics.

iii) Uses of Macro Economics

A Corporation works in an external world, i.e, it serves the consumers, which is an important part of the economy. For this purpose, managers must elevaluate the various macroeconomics factors. Such as market dynamics, economic changes, government policies etc., and their effect on the company.

iv) Multidisciplinary

Managerial economics uses many tools and principles that belong to different disciplines, such as accounting, finance, statistics, mathematics, production, operational research, human resources, marketing etc.,

v) Prescriptive or Normative Discipline

By introducing corrective steps managerial economics aims at achieving the objective and solves specific issues or problems.

vi) Management oriented

This serve as an instrument in managers hands to deal affectively with business-related problems and uncertainties. This also allows for setting priorities, formulating. policies and making successful decisions.

vii) Pragmatic

The solution to day-to-day buiseness challenges is realistic and rational.

Different individuals take different views of the principles of managerial economics. Some manages concentrate more on customer service and prioritize efficient production

viii) Managerial economics for administration of organisation

Managerial economics help the management in decision making. These decisions are based on the economic rational and are valid in the existing economic environment.

SCOPE OF MANAGERIAL ECONOMICS

1) Demand Analysis and for casting
2) Cost and Production Analysis
3) Inventory management
4) Advertising
5) Pricing Decision, Polocies and Practices
6) Profit Management
7) Capital Management

1) Demand Analysis and Forecasting

A firm is an economic organisation which transforms inputs into output that is to be sold in a market. A major part of managerial decision making depends on accurate estimates of demand. When demand is estimated, the manager does not stop at the stage of assessing the current demand but estimates future demand as well. This is what is meant by demand forcasting.

Demand analysis helps in identifying the various factors influencing the demand for a firm's product and thus provides guidelines to manipulate demand.

2) Cost and Production Analysis

Cost analysis is yet function of managerial economics. In decision making, cost estimates are very essential. The factors causing variation in costs must bel recognised for if management to arrive at cost estimates which are significant for planning purposes. The determinants of estimating costs, the relationship b/w cost and output, the forecaste of cost and profit are very vital to a firm.

Production analysis frequently proceeds in physical terms. Inputs play a vital role in the economics of production. The factors of production otherwise called inputs, may be combined in a particular way to yield the maximum output.

3) Inventory Management

An inventory refers to a stock of raw materials which a firm keeps. Now the problem is how much of the inventory is the ideal stock. If it is right high, capital is unproductively tied up. If the level of inventory is low, production will be affected.

4) Advertising

To produce a commodity is one thing and to market it is another. Yet the message about the product should reach the consumer before he thinks of bying it. Expenditure on adverting and related types of promotional activities is called selling costs by economics.

There are different methods for setting advertising budget. Percentage of sales approach, competitive parity approach, objective and task approach and return on investment approach.

5) Pricing decision, polocies and practices

Pricing is very important area of managerial economics. The control functions of an enterprice are not productions but pricing as well. Business decisions are generally or greately influenced by pervading market structure and the structure of markets that has been evolved by the nature of competition existing in the pricing is actually guided by consideration of cost plan pricing and the polocies of public enterprises. The price system guides the manager to take valid and profitable decision.

6) Profit Management

A business firm is an organisation designed to make profits are acid test of the individual firm's performance. In appraising a company, we must first understand how profits arises. The profit maximization is very useful in selecting the alternatives in making a decision at the firm level.

Managerial economics tries to find out the cause and effect relationship by factual study and logical reasoning.

7) Capital Management

Planing and control of capital expenditure is the basic executive function. The managerial problem of planning and control of capital is examined from an economics stand point. The capital budgeting process takes different forms in different forms industries.

It involves in equi-marginal principle. The objection is to assure the most profitable use of funds, which means that funds must not be applied when the managerial returns are less than in other uses. The main topics deals with are: cost of capital, rate of return and selection of projects.

2) Write about demand forecasting techniques

Meaning of Demand forecasting

Dealing with business, a manager is concerned with problems faced in immediate present, but cannot ignore the future. The decision that a manager takes in the present implies a course of action and reaction in the future. If the manager is concerned with future event, its order, intensity, he is concerned with future prediction. If he is concerned with future course of variables, for example: demand, price, profits he can project the future.

Need for Demand Forecasting

Sales constitute the primary source of revenue for the business firm. Thus sales forecasts are needed for production planning, inventory planning, profit planning etc. Production requires support of men, material, machines, money which will have to be arranged. Thus man power planning, replacement ; new investment planning, working capital management and financial planning etc depend on sales forecasts thus demand forecasting is crucial for corporate planning.

Types of forecasts

→ Economic and Non-economic
→ Micro and Macro forecasts
→ Active and Passive forecasts
→ Short run and long run forecasts
→ Conditional and Non-conditional forecasting
→

Techniques of demand forecasting :

Broadly speaking there are two approaches to demand forecasting, they are (1). Collect info about the likely purchase behaviour of consumer through conducting opinion polls or interviews (2). Use past experience as a guide through a set of statistical techniques. Now we shall try to understand these techniques.

Survey method :-

Consumer Survey :- Under this method, business firm can collect information from census of population or from sample population. Through personal interview it can collect consumers preferences regarding their product. Census method, in general yield reliable results compare to sample method. Depending up on the need and resources at the disposal of firm it has to choose between sample and census method.

Experts Opinion method :- It consists of an attempt to arrive at a consensus in an uncertain area by questioning a group of experts repeatedlly until the response appears to converge along a single line or issues causing disagreement are clearly defined. The participants are provided with responses to previous questions from others in the group by a coordinator. This is also known as Delhi method.

Collective Opinion method :- This method also called sales force polling. Under this method salesmen are expected to estimate future sales in their respective areas.

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The rationale of this method is that, salesman being closest to the consumers reaction to the products of the firm and their sales trends. The estimater of individual salesman are consolidated to findout the total future sales. Then, these estimates are reviewed to eliminate the bias of optimism on the part of some salesmen and permission on the part of others. These are further examined in the light of proposed changes in price, advertisement expenditure, income etc.

Time series and trend projection:-

A firm which has been in production process for some time. Generally accumulates data related to prince and corresponding sales such data when arranged in a chronological order yields the time series. The time series relating to sales represent the part time series. The time series relating to sales represent the pattern of effective demand for a particular product. Such data can be presented either in tabular form or graphical for further analysis. The most popular method of analysis of time series is to project the trend of the time series. A trend line can be fitted through a series by means of statistical techniques such as method of least squares. The trend line then projected into the further by extrapolation.

3) Write differences between law of demand and law of supply key difference between demand and supply.

1) Demand is the willingness and paying capacity of a buyer at a specific price. On the other hand, supply is the quantity offerend by the producers to its customers at a specific price.

2) While the demand curve is downward to the right, the supply curve is upward to the right. And so the demand curve is a negative slope whereas the supply curve is a positive slope.

3) Demand has an indirect relationship with the price i.e as the price increases, quantity demanded decreases and vice-versa. Conversely, the supply has a direct relationship with price in the sense that when the price increases, quantity supplied increases and vice-versa.

4) While demand is an indicator of customers or buyers, supply represents the firm or products of the product

5) Demand for a product is influenced by five factors - Taste and preference, Number of consumers, price of related goods, Income, Consumers, Expectation. In contrast, supply for the product is independent on price of the Resources and other inputs, No.of producers, Technology, Taxes and subsidies, consumer Expectation.

6) When the demand increases that but supply remains constract it leads to shortage but when the demand decrease and the supply is constant leads to surplus. As against, when the

supply is increases to but demand remains constant, it leads to supply results but when the supply decrease, and demand is constant it result in shortage.

Definition of Demand :-

Demand is the customer's desire for a particular product, at a given price, which he/she is ready to buy in one market at different prices during a given period of time. So, there are two aspects of demand.

1) Willingness to buy : It is the customer's desire for the good.

2) Ability to buy : It is the customer's purchasing power to pay the price for the goods.

The demand of the customers depend on their needs and wants further, to constitute on effective demand, there must be

* A desire
* Means to purchase and
* Willingness to use those means for the purpose.

For example : A beggar man also has a desire for food and clothes, but he does not have the money to buy them. So, it does not amount to an effective demand.

Law of Demand

When there is a rise in the price of the product, the customers demand less quantity, whereas when the price fall, the demand less for the product will rise. The demand curve is an indicator of the inverse relationship between price and quantity demand.

Definition of Supply

Supply implies the quantity [how much] of a product or service which are offered by the manufacturer for scale at various price to the customers, during a given period of time. So, there are two determinants of supply.

Willingness : The quantity of the product which the producers want or are prepared to sell at various prices.

Ability to Supply :

How much of a product is available with the producers to sell at a time.

It should be noted that supply is anything that the firm has offered for sale in the market.

Law of Supply :-

Where there is an increase in the price of the commodity, the quantity of the product produced and available for sale will also increases and when the prices drop, the supply also decreases. This is due to the fact that the higher the price, the higher will be the profit margin.

Supply curve represents a direct relationship between price and quantity supplied.

4) Write the differences between Giffen Goods and Veblen Goods.

What is a Veblen Good?

A veblen good is a good for which demand increases as the price increases due to its exclusive nature and appeal as a status symbol. This runs counter to the prevailing circumstance of demand falling as prices rise. Thus, a veblen good has an upward sloping demand curve rather than the typical downward-sloping curve.

A veblen good is generally a high-quality, coveted product, This stands in contrast to a Giffin good, which also has an upward-sloping curve but is a non-luxury product with no easily available substitutes.

Key takeaways

* A veblen good is a good for which demand increases as the price increases
* A veblen goods are typically high-quality goods that are well made, exclusive and a status symbol.
* Veblen goods are generally sought after by affluent consumers who place a premium on the utility of the good.
* The demand curve for a veblen good is upward sloping, countrary to a normal demand curve, which is downward sloping.

Understanding a Veblen Good

The increase in demand for a veblen good reflects consumer tastes and preferences, with the higher demand directly attributable to the price increase. The term is named after American economist Thorstein Veblem, who is best known for introducing the term. " Conspicuous Consumption ".

Veblen goods are fairly commonplace, unlike Giffen goods, which are exclusive and quite difficult to identify. Very expensive products that are marketed as being "exclusive" or convey the appearance of success, such a designer jewelry, pricely watches, yatchs, and luxury cars can be classified as veblen goods.

Giffen Goods

According to the Giffen good definition, it denotes the non-luxury and inferior products with very little or no substitutes. Some examples of it are wheat, potatoes and Rice. Giffen goods are also called as Gray goods

A Giffen good is a low income, non luxury product that defines standard economic and consumer demand theory. Demand for Giffen goods rises when the price falls. In econometries, this result is an upward-sloping demand curve, contrary to the fundamental law of demand which create a downward sloping demand curve.

Understanding Giffen Goods

Giffen goods are a rarity in economics because supply and demand for these goods are opposite of standard connections. Giffen goods can be the result of multiple market variables including supply, demand, price, income & substitution. All of these variables are central to the basic theories of supply and demand economics. Examples of Giffen goods are a study in the effects of these variables on low-income, non-luxury goods which result in an upward sloping demand curve.

Key Takeaways

* A Giffen good is a low-income, non luxury product for which demand increases as the price increases and vice versa
* A Giffen good has an upward-sloping demand curve which is contrary to the fundamental laws of demand which are based on a downward sloping demand curve.
* Demand for Giffen Goods is heavily influenced by a lack of close subtitles and income pressures
* Veblen goods are similar to Giffen goods but with a focus on luxury items.

Veblen Goods vs Giffen Goods

Both Veblen and Giffen goods have an upward-sloping demand curve. This means that demand for them increases when their price increases. Their main difference is in the type of good.

* Veblen goods are luxury items that cannot status in society, such as cars, yachts, fine wines, celebrity endorsed perfumes and designer jewelary.

* Giffen goods are essential goods, such as rice, potatoes and wheats. Demand stays high when prices increase because there is no ready substiturte for them.

* Giffen goods and veblen goods have one thing in common - people buy them even if the prices are high. As the prices increase, people buy them move, Hence, the price is directly proportional to the demand in both cases. Thus, they both have an upward-slopinggraph.