

06-03-2023

MEFA INTRODUCTION.

* M.E.F.A :-

→ From two subjects M.E & F.A.

Economics:-

→ Controlling Human activities with money.

→ The study of Human activities and how to get money is called Economics.

→ It is two types.

(1) Micro

(2) Macro

(1) Micro :- [Formal Level]

→ Demands, Supply, Production, costs, Capital, price, profit.

(2) Macro :- [National Level]

→ G.D.P, N.I, C.R.R, S.L.R, Per Capita H.I.

Management:-

→ Managing Human activities or Managing the Economics.

* Managerial Economics:-

→ The study of Human activities that "how to get money from different sources and how to use that money in an effective manner is called Managerial Economics".

→ It builds a gap between Traditional Economics and Real life Economics.

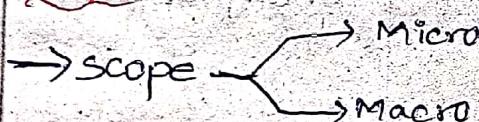
→ It was discovered by Joel Dean in 1951, in U.S.A.

* Nature of M.B.A UNIT-1

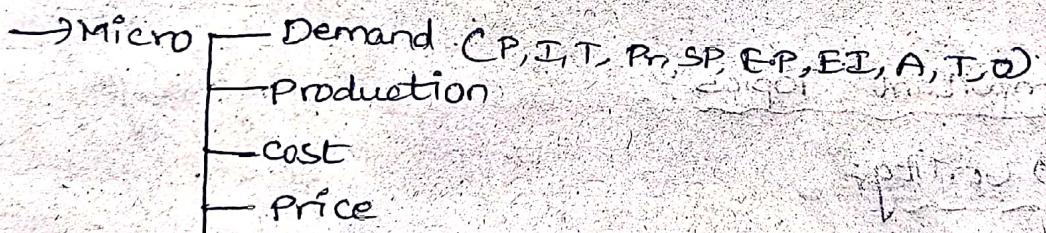
- ① very close to micro economics.
- ② Backdrop of macro economics.
- ③ Multidisciplinary course of action.
- ④ Normative statement.
- ⑤ Best alternative.
- ⑥ Art as well as science.
- ⑦ Prospective.
- ⑧ Management.
- ⑨ Assumptions and Limitations.

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Scope



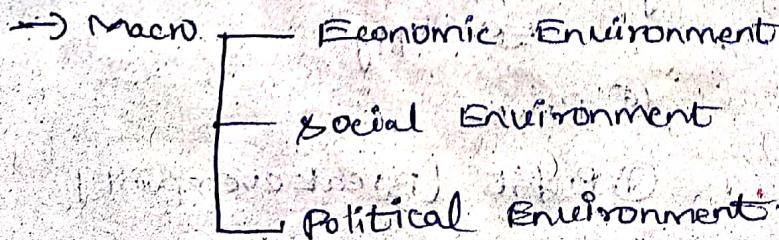
① Micro: Demand, cost,



Investment / CBD - Capital Budgeting Decisions

Profit / Break even.

② Macro:



* consumer behaviour in terms of utility analysis

Utility / Benefit

- introduced by Bentham as social thought, 1789.
- Jevons as economic^{thought} in 1871.

utility → cardinal
ordinal

① cardinal:

- Alfred Marshall, AC Pigou.

② ordinal:

- JR Hicks, JRD Allen.

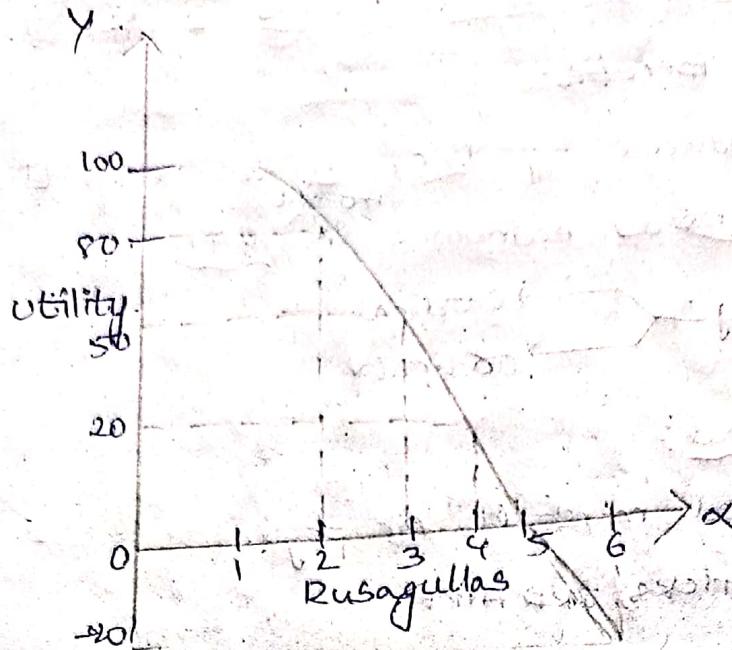
Assumptions of cardinal utility:

- ① consumer is rational.
- ② utility can be measurable.
- ③ utility is additive.
- ④ Marginal utility & diminishing.
- ⑤ M.U of money is constant.
- ⑥ There is no time gap.

Laws in cardinal:

- ① Law of Diminishing marginal utility - H.H. Gossen (1954)
- ② Law of equal-marginal - Alfred Marshall

Rusagulla (units)	Marginal utility (units)	Total utility (units)
1	100	100
2	80	180
3	50	230
4	20	250
5	0	250
6	-20	230



Exemptions of L.D.M.U:

① Rare collection.

② Abnormal person

- └ Miser
- └ Mad man
- └ Drunkard

③ Money

④ Habits.

* Ordinal utility Analysis

Ordinal utility:-

→ Utility which cannot be measured is called ordinal utility.

→ supported by R.J.D Allen and J.R. Hicks.

Law:-

→ Indifference curve Analysis: it is based on ordinal utility. [Francis Huz, Hesvarith 1881], not developed upto 1934.

→ The consumer consumes more & more amount of goods & services in different combinations (Quantity) they will get equal satisfaction in each combination.

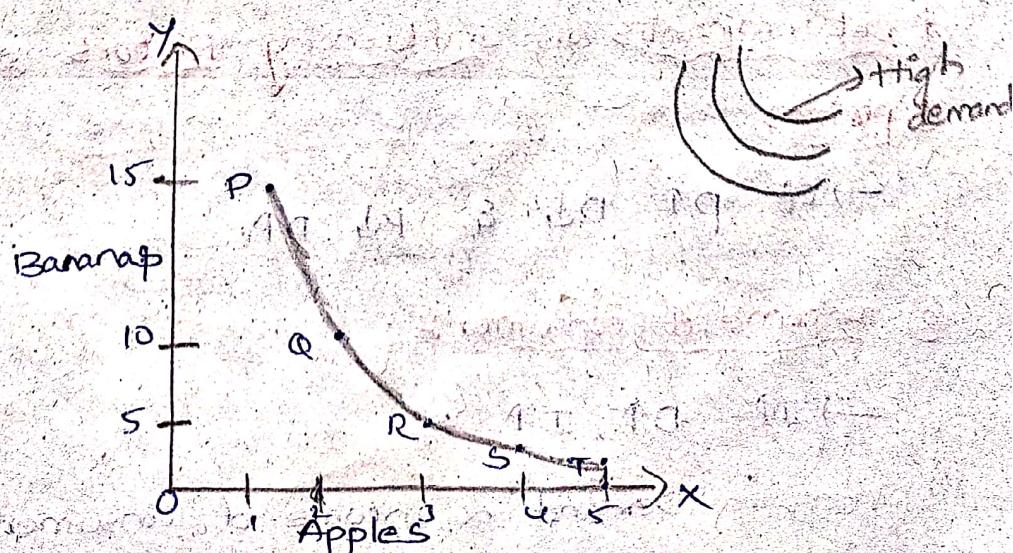
→ This satisfaction is represented in curve. thus it is called Indifference curve analysis.

Assumptions of Indifference curve [IC]

- ① consumer is Rational. [more satisfaction with low money].
- ② measured ordinally.
- ③ MRS is diminishing. $\uparrow x \downarrow y$
- ④ Transitivity and uniformity of choice.
[Freedom of consumers for selection of consumption]
- ⑤ Non-satiety: [can adopt different combination] upto saturation
- ⑥ consumer income is constant. \neq equal to
- ⑦ Indifference is always convex to the origin.
It never intersect with another curve.

If a man have ₹100.

Combination	Apple	Banana	
P	1	15	= ₹100
Q	2	10	= ₹100
R	3	6	= ₹100
S	4	3	= ₹100
T	5	1	= ₹100



* Demand Function: Demand Analysis.

$$\rightarrow Q_D = f [P, I, P_r, T, SP, EP, BI, A, O]$$

Q_D = Quantity of demand.

f = Function

P = Price of the product

I = Income of the consumer.

P_r = Price related goods $\begin{cases} \text{Substitutes} \\ \text{Complimentaries} \end{cases}$

T = Taste & Preference of consumer.

SP = Size of population

EP = Expectations of future prices

BI = Future income

A = Advertising

O = Other factors

* Law of Demand:

\rightarrow Alfred Marshall

\rightarrow Except price all are constants.

\rightarrow Only change of demand occurs through Price only.

\rightarrow If $D \uparrow$ Price \downarrow

* Determinants (or) Influencing Factors of Demand

(1) Price

\rightarrow If $P \uparrow$, $D \downarrow$ & $P \downarrow$, $D \uparrow$.

(2) Income of consumer

\rightarrow If $D \uparrow$, $I \uparrow$.

\therefore Demand \propto Income of consumer.

③ Price related goods

① Substitutes

→ If tea prices ↑, coffee demand ↑.

② Complementary

→ If petrol rate increases then demand ↓.

④ Taste & Preferences

→ Direct relation.

⑤ Population

Demand ∝ population

⑥ Future Price

→ Ep ∝ Demand [Directly proportional].

⑦ Future Income

→ EI ∝ Demand [Directly proportional]

⑧ Advertising

→ Advertising ↑, then demand ↑ & vice versa.

* Assumptions of Law of Demand

① consumer income is stable

② Price related goods is stable

③ There is no changes in taste of consumer.

④ no change of population is stable.

⑤ Future price is stable.

⑥ Future Income is stable.

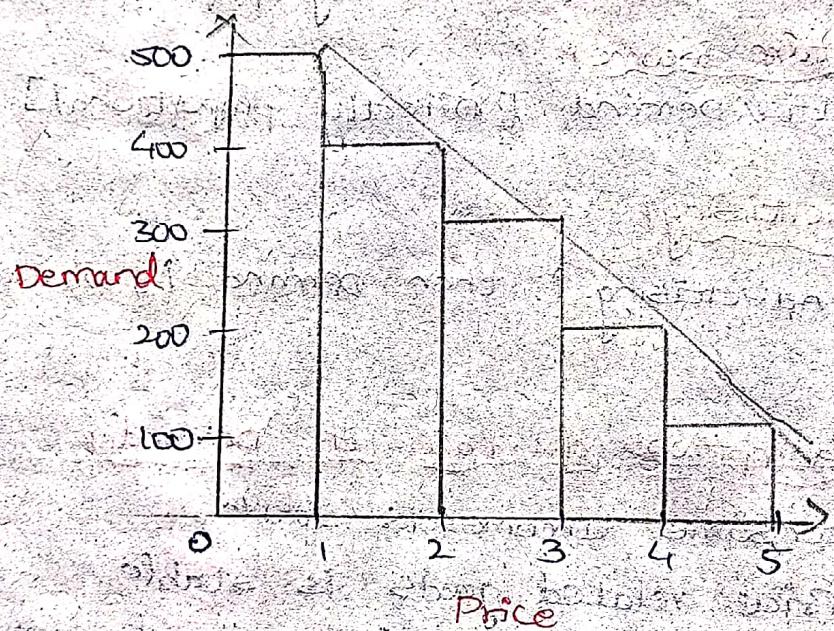
⑦ If there is no Advertising effect.

⑧ There is no others effect.

Ex

Apple Price (Rs)	Apple Demand (units)
1	500
2	400
3	300
4	200
5	100

→ The Relation b/w Demand & price is
negative rel [Inversely proportional]



* Exemptions / limitations of law of demand

- ① Giffen paradox.
- ② Veblen goods.
- ③ Speculation / future prices.
- ④ War period.
- ⑤ Business cycle.
- ⑥ Necessities.

① Giffen paradox:

- By Robert Giffen, in England.
- Poor people ^{spend income on} Inferior goods [Bread items].
- when Bread prices increase

② Veblen goods:

- Developed by Veblen.
- Veblen goods are prestige's good [Gold, silver, etc.]
- If prices increases then people [poor people] can't buy them.

③ Speculation / Future price:

- It is direct relation from present.

④ Khar period:

- Fear of consumer.
- consumer buys more & more quantity and stores for future.
- When prices increases, the quantity of demand also increases.

⑤ Business cycle:

- In depression case, prices are fall down.

⑥ Necessities:

- Ex) Medicines, Broken rice, sugar, onions etc.
- When prices increase, consumer cannot stop to buy these necessities.

* Note:

- The demand curve flows from upwards direction from left to right in these limitations.

* Why is demand curve slope downward following from left hand side to right hand side?

A) → causes for demand curve slope downward following from left hand side to right hand side.

① Marginal utility is "diminishing".

② Old and New Buyers

③ Income effect

④ Substitution effect

⑤ Income Good

⑥ Multiple use of products

① Marginal utility is diminishing:

→ A consumer consumes more & more quantity continuously in particular time.

→ Then his satisfaction level decreases.

→ When price increases, demand decreases.

→ Then M.U is diminishing.

② Old & New Buyers:

when

→ consumer's income is constant, when prices increases then demand decreases.

→ when prices decreases, new buyers also consumes the product.

③ Income effect:

→ When prices fall down, a consumer gets the surplus amount. [Surplus = estimated - actual] quantity of demand ↑. Excess

→ Ex 1 ₹100, 10x10 Price

₹100, 20x5

₹100, 5x20

④ Substitution effect:
→ Ex:-
When Tea prices increases & coffee constant.
Then demand of coffee increases & Demand of tea decreases.

⑤ Income group:

→ Income group → Normal Income
→ Income group → Rich

→ Normal people buys low price products only,
& rich people buys Prestige goods.

⑥ Multiple use of products:

Ex:- When milk price increases automatically
prices of Tea, coffee, sweets, curd and
ghee also increases.

→ So, if price's increases, the quality of demand
decreases.

* Types of demand:

→ It is classified based on Nature of product
and Availability of product.

① Individual vs Market

② Autonomous vs Derived

③ company vs Industry

④ Short term vs Long term

⑤ Perishable vs Durable

① Individual vs Market:

→ A individual product having a demand in
particular time/period is called individual demand.

→ A product demand is demanded by different persons in particular period of time is called Market Demand.

(2) Autonomous vs Derived
→ A product demand depends directly by itself is called Autonomous Demand.
Ex: multispeciality Hospitals [Cardiologist].

→ A product demand depends on Autonomous Demand is called derived demand.
Ex: Hotels near Hospitals.

(3) Company vs Industry
The Demand of
→ A particular product of particular company in a particular period of time is Company Demand.
→ The demand of group of company's product is called Industry Demand.

(4) Short term vs Long term
→ A demand for short term is called short term demand.
Ex: Umbrellas in Rainy, sweaters in Winter.
→ A demand for long term is called long-term demand.
Ex: Industrial goods [Buses, Communication].

(5) Pershible vs Durable
→ A demand for short life span of products is called Pershible Demand.
Ex: Milk, Eggs, Meat.
→ A demand for long life span of products is called durable demand.
Ex: Gold, Furniture.

* Types of Elasticity of Demand:

- Elasticity refers to the responsibility of demand.
- There are four types:
 - ① Price
 - ② Income
 - ③ Cross
 - ④ Advertising

① Price:

→ A demand of change in percentage of changes in demand is called price elasticity of demand [Ep].

$$E_p = \frac{\% \text{ changes in Demand}}{\% \text{ changes in prices}}$$

(or)

$$E_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} \quad \text{(or)} \quad \frac{\left(Q_1 - Q_0 \right)}{\left(Q_1 + Q_0 \right)} \times \frac{\left(P_1 - P_0 \right)}{\left(P_1 + P_0 \right)}$$

② Income:

→ % of changes in income of consumer.

$$E_I \quad \text{(or)} \quad E_y = \frac{\% \text{ changes in Demand}}{\% \text{ changes in Income}} \quad \text{(or)} \quad \frac{\Delta Q}{\Delta I} \times \frac{I}{Q}$$

③ Cross:

→ % of changes in demand of substitutional goods.

$$E_C = \frac{\% \text{ changes in Demand of coffee}}{\% \text{ changes in price of Tea.}}$$

④ Advertising:

$$E_{Ad} = \frac{\% \text{ changes in demand}}{\% \text{ changes in advertising}} \quad (\text{or}) \quad \frac{\Delta Q}{Q} \times \frac{n}{\Delta P}$$

* Types of Price Elasticity of Demand:

- ① Perfect
- ② Imperfect
- ③ Unit
- ④ Relatively
- ⑤ Relatively Inelasticity

① Perfect:

→ small changes in prices but unlimited changes in quantity of demand. $E_p = \infty$

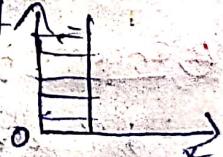
Ex:- Gold - Prestigious goods



② Imperfect:

→ unlimited changes in price but not changes in quantity of demand. $E_d = 0$

Ex:- Necessary goods [Salt]



③ Unit:

→ Equal changes. $E_d = 1$

④ Relatively:

→ when % changes in prices more than % changes in quantity of demand. $E_d > 1$

⑤ Relatively Inelasticity:

→ when % changes in prices less than % changes in quantity of demand. $E_d < 1$