CMR INSTITUTE OF TECHNOLOGY

USN										

Internal Assessment Test

Subject:	Economics for managers					Code:	16MBA12		
Date:		Duration:	1hr &20min	Max Marks.:	40	Semester:	I	Branch:	MBA
Note: Part A: Answer any 03 full questions, 30 Marks, 2 question consecutive. Part B: Compulsory 10 Marks..									

Section A.

1 a) McNair and Meriam: "Managerial economics consists of the use of economic modes of thought to analyse business situations".

1 b)) law of diminishing marginal utility states that as the consumer consumes more and more of a commodity in successive units ,the utility declines with every unit of commodity.

Exceptions to the law: money, hobby items, conspicuous items.

- 2) **According to Baumol**, "maximization of sales revenue is an alternative to profit maximization objective. The reason behind this objective is to clearly distinct ownership and management in large business firms.

  Cyert and March added that, apart from dealing with uncertainty, managers need to satisfy a variety of groups of people such as managerial staff, labor, shareholders, customers, financiers, input suppliers, accountants, lawyers, etc. All these groups have conflicting interests in the business firms. The manager's responsibility is to satisfy all of them. According to the Cyert-March, "firm's behavior is satisfying behavior which implies satisfying various interest groups by sacrificing firm's interest or objectives.

3 a) Requisites of effective Demand:

Desire to purchase commodity,

Willingness to purchase.

Ability to purchase commodity.

Time, place and price.

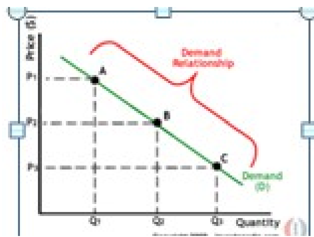
3 b) **Operational issues** include: Demand, production,cost ,pricing and capital budgeting.

Environmental issues: macro economic factors, polices of government, competitors policies, international trade.

4. Economic Theory is a system of inter-relationships. Among the social sciences, economics is the most advanced in terms of theoretical orientations. There are well defined theoretical structures in economics. One of the most widely discussed structures is the postulational or axiomatic method of theory formulation.It insists that there is a logical core of theory consisting of postulates and their predictions which forms the basis of economic reasoning and analysis. This logical core of theory cannot easily be detached from the empirical part of the theory. Economics has a logically consistent system of reasoning.

5 a) Opportunity cost principle.By the opportunity cost of a decision is meant the sacrifice of alternatives required by that decision.For e.g.a) The opportunity cost of the funds employed in one's own business is the interest that could be earned on those funds if they have been employed in other ventures.b) The opportunity cost of using a machine to produce one product is the earnings forgone which would have been possible from other products.c) The opportunity cost of holding Rs. 1000as cash in hand for one year is the 10% rate of interest, which would have been earned had the money been kept as fixed deposit in bank. If a decision involves no sacrifices, its opportunity cost is nil. For decision making opportunity costs are the only relevant costs.

5 b) The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people will naturally avoid buying a product that will force them to forgo the consumption of something else they value more.



Part B.

Price elasticity of demand is the percentage change in quantity demanded given a percent change in the price. It is a measure of how much the quantity demanded of a good responds to a change in the price of that good.

- The concept of income elasticity of demand (E_y) expresses the responsiveness of a consumer's demand (or expenditure or consumption) for any good to the change in his income. It may be defined as the ratio of percentage change in the quantity demanded commodity to the percentage change in income. ThusE_y = Percentage change in quantity demanded / Percentage change in income

The cross elasticity of demand is the relation between percentage change in the quantity demanded of a good to the percentage change in the price of a related good. The cross elasticity of demand between good X and Y