**Jan/feb 2022**

**ASSIGNMENT**

**DMBA105 – MANAGERIAL ECONOMICS**

**1. Define the term ‘managerial economics. Explain the scope of managerial economics.**

**Ans: Spencer and Siegelman,** in the following words: “Managerial economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by the management”.

“Managerial economics is concerned with the application of economic concepts and economic analysis to the problems of formulating rational managerial decisions.”

**Managerial economics is defined as the branch of economics which deals with the application of various concepts,**

**2. Discuss the criticisms of profit maximization model in detail.**

**Ans:** Profit maximization objective is a little vague in terms of returns achieved by a firm in different time period. The time value of money is often ignored when measuring profit. It leads to uncertainty of returns. Two firms which use same technology and same factors of production may eventually earn different returns.

#### 1. Profit Maximisation under Perfect Competition Firm:

Under perfect competition, the firm is one among a large number of producers. It cannot influence the

**3. Explain the different types of cost with suitable example.**

**Ans**: [Cost accounting](https://www.investopedia.com/terms/c/cost-accounting.asp) is an accounting process that measures all of the costs associated with production, including both fixed and variable costs. The purpose of cost accounting is to assist management in decision-making processes that optimize operations based on efficient cost management. The costs included in cost accounting are as follows:

## Direct Costs

Direct costs are related to

**4. Outline the characteristics and causes of business cycle.**

**Ans: Characteristics of business cycle**

1. It is a wave-like movement, and it is not a random fluctuation.

2. It is synchronic in nature. It is all embracing; it covers the entire economy. Any change in one part of the economy affects the entire economy.

3. It occurs periodically and hence is recurrent in nature. It is repetitive in the sense that it has some recognised pattern.

4. It is to be noted that different trade cycles are similar but not identical in their nature.

5. The effects of different trade cycles are different on different activities.

6. It is self-

**5. Summarize the different objectives of pricing policies.**

**Ans.** **Five main objectives of pricing policies are:**

1. Achieving a Target Return on Investments
2. Price Stability
3. Achieving Market Share
4. Prevention of Competition and
5. Increased Profits.
6. **6. Define and discuss the importance of consumption function in detail.**

**Ans** The consumption function indicates the relationship between consumption and income. Consumption is an increasing function of income. Lord Keynes in his theory of income and employment has given a very significant place to this concept. According to him, the level of national output, income and employment directly depends on effective demand in an economy. Higher the level of effective demand, higher would be the level of income and employment and vice-versa. Effective demand consists of consumption expenditure and investment expenditure.

Consumption expenditure depends on the size of income and the consumers’ propensity to consume while; investment expenditure depends on the marginal efficiency of capital and the rate of interest. Keynes suggested a high propensity to consume to tackle the problem of unemployment in an economy as one of the remedial measures. To understand the concept clearly it is necessary to distinguish between consumption and consumption function. The term consumption refers to a particular amount of consumption out of a given amount of income. On the other hand, consumption function refers to different amounts of consumption at different levels of income. It explains a functional relationship between changes in the level of consumption as a result of changes in the levels of income. It indicates how consumption varies as income changes. If consumption is represented by C and income by Y then, the propensity to consume is C= f (Y). It implies that consumption is an increasing function of income. There is a direct relationship between the two.

**Importance of consumption function**

It has got great theoretical as well as practical importance. Almost all countries of the world aim at removing unemployment raise their national income and enjoy prosperity. For this purpose, a policy of planned economic development is essential. In the formulation of this policy, consumption function plays a very important role.

1. It invalidates Say’s