Institute of
Management Technology
Centre for Distance Learning, Ghaziabad
Recognised by University Grants Commission

IMT- 20

MANAGERIAL ECONOMICS

Notes:

a. Write answers in your own words as far as possible and refrain from copying from the text books/handouts.
b. Answers of Ist Set (Part-A), IInd Set (Part-B), IIIrd Set (Part – C) and Set-IVth (Case Study) must be sent together.
c. Submit the assignments in IMT CDL H.O.along with the assignments Question Papers for evaluation .
d. Only hand written assignments shall be accepted.

A. First Set of Assignments	5 Questions, each question carries 1.5 marks.
B. Second Set of Assignments	5 Questions, each question carries 1.5 marks.
C. Third Set of Assignments	5 Questions, each question carries 1.5 marks. Confine your answers to 150 to 200 Words.
D. Forth Set of Assignments	Two Case Studies : 7.5 Marks. Each case study carries 3.75 marks.

SECTION - A

1. Distinguish between marginal and incremental principle with the help of an example.
2. Describe the relationship between price elasticity of demand, total revenue and marginal revenue? How does price elasticity help in taking pricing decisions by a firm?
3. Compare the concept of cardinal and ordinal utility.
4. With the help of diagrams explain the relationship between Long Run Average Cost and output.
5. Why is normal indifference curve convex to origin?

SECTION - B

1. Explain the relationship between Average Product and Marginal Product of labour.
2. With the help of examples explain the differences and similarities between monopolistic competition and monopoly?
3. What is scarcity? Explain why scarcity exists at both the micro as well as macro level?
4. Why are cartels formed? Describe the conditions for existence of successful cartels.
5. Briefly explain why does output expand at a diminishing rate in the second stage of law of diminishing marginal returns?

SECTION - C

1. How is National Income calculated with the help of Expenditure Approach ?
2. What measures are adopted by the government to counteract recession ?
3. Differentiate between demand-pull and cost push inflation.
4. With diagram explain why is short run average cost curve U-shaped?
5. “A perfectly competitive firm cannot practice price discrimination.” Explain why.

CASE STUDY - 1

No slowdown in silver demand

Silver is easier to figure if you see it as a market with two intertwining strands. Its demand, supply and prices each have two independent dynamics at work. The dichotomy and influence of these strands on each other makes this market no place for old men.

Consider supply. The world gets silver from silver mines, and what governments and people sell. In 2008, supply crossed 28,500 tones. Silver mines accelerate production when prices are attractive. People and governments too sell their family silver when prices are attractive. When prices plummeted after the financial crisis last year, scrap sales plummeted too. But the world also gets a huge quantity of silver as a by-product of lead, zinc, copper and gold mines. As these mines are focused on the price of their primary metal, they continue to produce silver irrespective of its price signals. Put together, you can never bet silver supply will directly respond to price.

There is a similar dichotomy at work in demand as well. On the one hand, silver is bought as a precious metal to hedge against inflation, currency fluctuations and general economic malaise. So whenever there is fear and panic in the market, people gravitate towards silver. On the other hand, silver is simply another raw material used by factories in making everything from camera films to jewellery, electronics, batteries, hi-tech clothing and radio frequency tags.

Actually half the silver sold is consumed like this. When factories slow down, as they did in the last one year, silver's demand drops too. So demand for silver is a see-saw between its avatar as a precious metal and its day job as an industrial metal. The global recession which wrote off silver's industrial consumption also re-ignited its bullion demand.

How money flows into silver is an equally motley mix. Investors — these could be households, wealthy individuals, exchange traded funds and institutions — believe silver is a store of value and buy it in the form of paper, coins and bars. Ignoring silver's physical demand-supply fundamentals, they trade in silver the way they would gold and closely track the price relationship between the two.

A few far-sighted investors are not bothered about the gold-silver connection. Instead, they are putting their faith in silver's physical demand-supply fundamentals. Though demand for silver to make photography films has sharply dropped in the age of digital cameras, these investors believe supply would not keep pace with total industrial demand in the coming years. While a lot of above-ground silver would continue to re-enter the production cycle each year, investors are hopeful the world will find new commercial uses to suck it out too.

The punters, however, believe silver is simply a shorter route to profit than gold. They speculate on short term price movements on commodity exchanges and use both long and short instruments to gain exposure to silver price. Punters know that in terms of value, the physical gold market is much bigger than silver. Being smaller makes the silver market less liquid and more susceptible to volatility. In short, it is perfect for getting over-the-top money if you have the courage to bet on it. The combined motives and trading strategies of investors and speculators keep the silver market full of frenetic activity.

Where does that leave you? With two choices obviously! You could put your faith in silver as a precious metal and hope its value will rise in line with gold. Or you could see it as just another metal that sometimes even moves in tandem with copper and is currently plagued by lack lustre physical consumption. One thing is certain. Both ways will bring you plenty of edge-of-the-seat excitement.

Questions

1.On the basis of the facts given in the case describe the factors that influence demand for silver in India.

2. On the basis of the facts given in the case describe the factors that influence supply of silver in India.

3. “Prices of silver are influenced by the dynamics of demand and supply.” Do you agree? Give reasons.

CASE STUDY - 2

Engel’s Law and the Plight of the Farmer

In the nineteenth century, a German statistician, Ernst Engel, etched his name in economic history by proposing what has become known as *Engel’s Law.* Engel studied the consumption patterns of a large number of households and concluded that the percentage of income spent on food decreases as incomes increase. That is, he determined that food is a necessity. His finding has repeatedly been confirmed by later researchers. Examples of estimated income elasticities are shown in the following table. Note that only beef has an estimated elasticity greater than unity.

Estimates of the Income Elasticity for Selected Food Products

Food	Estimated Income Elasticity
Chicken	0.28
Beef	1.05
Tomatoes	0.24
Potatoes	0.15

One of the implications of Engel’s Law is that farmers may not prosper as much as those in other occupations during periods of economic prosperity. The reason is that if food expenditures do not keep pace with increases with gross domestic product, farm incomes may not increase as rapidly as incomes in general. However, this tendency has been partially offset by the rapid increase in farm productivity in recent years. In 1940, each U.S. farmer grew enough food to feed about 11 other people. Today, the typical farm worker produces enough to feed 80 people.

Questions

1. Define income elasticity of demand. What are the methods of calculating income elasticity. Analyse the income elasticities for food products shown in the table.
2. Explain the statement, “if food expenditures do not keep pace with increases with gross domestic product, farm incomes may not increase as rapidly as incomes in general.”
3. State the usefulness of income elasticity in managerial decision making.