

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Commonwealth MBA/MPA Programme)**

MANAGERIAL ECONOMICS (5580)

CHECK LIST

SEMESTER: AUTUMN, 2013

This packet comprises the following material:-

1. Text Book
2. Course Outlines
3. Assignment No. 1, 2
4. Assignment Forms (two sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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Wishing you all the best

Saira Ahmed Awan
(Course Coordinator)

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
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WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Course: Managerial Economics (5580)

Semester: Autumn, 2013

Level: Executive MBA/MPA

Instructions:

- (a) All written assignment must be well organized, presented in an easy-to-read format and neat. Moreover, pay particularly close attention to grammar, spelling, punctuation and understandability. Communication is extremely important in this course.
- (b) Documentation is likewise very important. Un-supported statements or opinions are worth less to the reader, who desires to verify your finding. Complete and specific documentation is mandatory. Also, your references should be to primary sources, except in rare unusual situation.
- (c) Quoting should be kept to an absolute minimum.

Guidelines for Doing Assignments

We expect you to answer each question as per instructions in the assignment. You will find it useful to keep the following points in mind:

- 1) **Planning:** Read the assignments carefully, go through the Units on which they are based. Make some points regarding each question and then rearrange them in a logical order.
- 2) **Organization:** Be a little selective and analytical before drawing up a rough outline of your answer. Give adequate attention to question's introduction and conclusion.
Make sure that:
 - a) The answer is logical and coherent,
 - b) It has clear connections between sentences and paragraphs,
 - c) The presentation is correct in your own expression and style.
- 3) **Presentation:** Once you are satisfied with your answer, you can write down the final version for submission. It is mandatory to write all assignments neatly in your own handwriting. If you desire so, you may underline the points you wish to emphasize. Make sure that the answer is within the stipulated word limit.

ASSIGNMENT No. 1

(Blocks: 1–5)

Total Marks: 100

- Q. 1 (a) How does the theory of the firm provide an integrated framework for the analysis of Managerial decision-making across the functional area of business.
- (b) The owner of a firm expects to make a profit of \$100 for each of the next two years and to be able to sell the firm at the end of the second year for \$800. The owner of the firm believes that the appropriate discount rate for the firm is 15%. Calculate the value of the firm. **(20)**
- Q. 2 (a) What do you understand by diversification of risk? Illustrate your answer with some examples. Why is the certainty-equivalent approach to risk adjustment considered to be superior to the risk-adjusted approach?
- (b) Explain the concept of law of diminishing marginal utility with a suitable example. Why is it relevant for managers in taking decision relating to expansion or diversification? **(20)**
- Q. 3 (a) What is the shape of the marginal revenue curve if the total revenue curve has a concave shape?
- (b) What is the value of the marginal revenue when total revenue increases? When total revenue is maximum? When total revenue decreases?
- (c) What is the shape of the marginal revenue curve if the total revenue is a positively slopes straight line? **(20)**
- Q. 4 (a) Describe the demand curve and distinguish an individual and market demand curve.
- (b) Illustrate how the demand curve can be used to:
- (i) show the quantity demanded at a particular price
- (ii) the price the buyer(s) are willing to pay for a particular quantity? **(20)**
- Q. 5 (a) Distinguish between short-run production function and long-run production function. Explain the theoretical principles of production to explain the relative substitution of one input for another occurring as a result of the increased price of labour.
- (b) The law of diminishing returns is sometimes known as the law of variable proportion. How? Explain the law with example and figure. Is it applicable in the long run also? **(20)**

ASSIGNMENT No. 2

Total Marks: 100

Instructions:

1. This assignment is a research-oriented activity. You are required to develop a term paper and submit to the tutor for evaluation prior to the final examination. The last date of this assignment will be notified separately by our directorate of regional services and the same will be communicated to you directly as well as through approved study centers assigned to you.

2. You will have to participate in the activity fully, actively, and practically to be able to pass the final examination of the course.
3. For the preparation of this assignment, you should first thoroughly review the conceptual framework of the topic and develop a scholarly material of the same giving references, quotations, and extracts of various scholars and experts. Then visit any business/commercial organization and study the relevant practical aspects there. Combining the theoretical and practical aspects, develop a comprehensive paper consisting of at least 20 to 25 typed pages to be submitted to your tutor.
 - a) Introduction to the topic
 - b) Important sub-topics
 - c) Practical study of the organization with respect to the topic
 - d) Review of theoretical and practical situations, merits, de-merits deficiencies or strengths of the organization with respect to the topic under study.
 - e) Conclusion and recommendation
 - f) Annex, if any
4. Prepare a copy of this assignment and submit to your tutor for your evaluation.
5. You should add any illustrative material/data/tables/analysis for effective submission.
6. A number of topics given below are the general aspects of the course and you are required to select one of the topics according to the last digit of your roll number. For example, if the roll number is N-9337241, you will select topic number 1, and if the roll number is O-3427185 then you will select topic number 5 (the last digit).
 0. Applications of indifference curve
 1. Measuring Risk with Probability Distributions
 2. Business Applications of Income Elasticity
 3. Economies and Diseconomies of Scale
 4. Market Structure
 5. Price Changes and Consumer Behaviour
 6. Empirical Product Function and Risk and Uncertainty
 7. Market Performance
 8. Measures of Productivity
 9. Optimization in Industrial Development Sector

MANAGERIAL ECONOMICS (5580)

Course Outlines

BLOCK–1: INTRODUCTION TO MANAGERIAL ECONOMICS

- The Nature of Managerial Economics
- Economic Theory and Managerial Economics
- Positive versus Normative Economics
- The Use of Models in Managerial Economics
- The Theory of the Firm
- The Objective and Value of the Firm
- Certainty, Risk, and Uncertainty
- Limitations of the Profit-Maximization Model
- Sales (Revenue) Maximization Model
- The Agency Model
- Marginal Analysis

BLOCK–2: DECISION MAKING UNDER RISK AND UNCERTAINTY

- Risk and Uncertainty
- Measuring Risk with Probability Distributions
- Measures of Risk (Standard Deviation
- Utility, Risk Aversion, and Risk Premium
- Risk and Diminishing Marginal Utility
- Risk Premium
- Risk Adjustment in Decision Making
- Asymmetric Information

BLOCK–3: QUANTITATIVE DEMAND ANALYSIS

- Elasticity of Demand
- The (Own) Price Elasticity of Demand
- Point versus Arc Elasticity
- Arc Price Elasticity
- Elasticity, Marginal Revenue, and Total Revenue
- Factors That Determine Price Elasticity
- Elasticity of a Product versus Elasticity of a Brand
- Other Types of Elasticity
- Income Elasticity
- Business Implications of Income Elasticity
- Cross-Price Elasticity
- Advertising Elasticity
- Obtaining Elasticity from the Demand Function
- Elasticity for Nonlinear Demand Functions

BLOCK–4: THE THEORY OF CONSUMER BEHAVIOUR

- Indifference Curves a very detailed concept in Microeconomics in the description of consumer behavior with respect to different changes.
- Application of Indifference Curves
- Relationship between Indifference Curve Analysis and Demand Curves
- The Attribute Approach to Consumer Choice

BLOCK–5: PRODUCTION ANALYSIS

- Production Analysis
- The Production Function
- The Short-Run versus Long-Run
- Production in the Short Run
- Measures of Productivity
- The Law of Diminishing Returns
- Total Product, Average Product, and Marginal Product
- The Optimal Level of Employment of a Variable Input
- The Production Function of Multiple Variable Inputs (Isoquants and Isocosts)
- Cost Minimization (Economic Efficiency)
- Technological Changes

BLOCK–6: COST THEORY

- Short Run Costs
- Long Run Costs
- The Nature of Costs
- Normal and Pure Profits
- Incremental Cost Analysis
- Relevant Costs and Irrelevant Costs

BLOCK–7: NATURE OF INDUSTRY

- Different Perspectives on Competition
- Chamberlin’s Resource-Based View
- Schumpeter’s Technology Based View
- The Industrial Organization Model
- Market Structure
- Market Performance
- Economic Profits or Rates of Return on Investment
- The Lerner Index

BLOCK–8: MARKET STRUCTURE

- Perfect Competition
- Monopoly
- Monopolistic Competition
- Oligopoly

BLOCK–9: PRICING PRACTICES

- Cost-Plus Pricing
- Extracting Consumer Surplus
- Price Discrimination
- Two-Part Tariffs
- Pricing Product Bundles

BLOCK–10: AN OVERVIEW OF STRATEGIC BUSINESS CONCEPTS FOR MANAGERS

- Strategy Definitions
- Strategy at Different Levels of a Business
- How Strategy is Managed – Strategic Management
- Strategic Analysis
- SWOT Analysis
- Ansoff Product/Market Matrix
- Strategic Choice and Implementation
- Game Theory – A Basic Definition, Prisoner’s Dilemma, and Key Concepts
- The Game Matrix, Equilibrium, Dominant Strategies, and Nash Equilibrium

