

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

MANAGERIAL ECONOMICS (5580)

CHECK LIST

SEMESTER: SPRING, 2014

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)
Level: Executive MBA/MPA

Semester: Spring, 2014

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

Total Marks: 100

- Q. 1 (a) Managerial economics is “the integration of economic theory with business practice for the purpose of facilitating decision- making and forward planning by management”. Discuss.
(b) Compare and contrast the behavioral theory with the economic theory of the firm. **(20)**
- Q. 2 (a) Explain various techniques for incorporating risk in decision making process with help of a practical example.
(b) Suppose you have a utility function that is concave (faced down). Also suppose that you bet \$100 on the flip of a coin at even odds. The probability of winning is 0.5 and the probability of losing is also 0.5. If you win, you will get \$100 and if you lose you will lose \$100. Should you take the bet? **(20)**
- Q. 3 (a) Why is demand analysis significant for management? Identify various concepts of demand relevant for various functional areas of management.
(b) Demand for a product depends upon price and a number of other variables that are assumed to be held constant while drawing the demand curve. Plot a demand curve with price on the Y-axis and quantity on the X-axis. Identify the ‘other’ variables that are assumed to be constant and explain the effect on demand of a change in each of the ‘other’ variables. Use examples, wherever possible. **(20)**
- Q. 4 (a) How does a consumer reaches his optimal choice in ordinal demand approach? What are the income and substitution effects of change in price of normal goods?
(b) Describe the application of the Attribute approach in the marketing field and apply this approach to marketing situation. **(20)**
- Q. 5 (a) What are the different types of statistical analyses used in the estimation of production function? Discuss the limitations of different types of statistical analysis. Explain briefly with the help of examples.
(b) Briefly explain how the Cobb - Douglas production function can be used to determine returns to scale? **(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. Economic Theory and Managerial Economics
 1. Measuring Risk with Probability Distributions
 2. Business Applications of Income Elasticity
 3. Price Changes and Consumer Behaviour
 4. Economies and Diseconomies of Scale
 5. Market Structure
 6. Monopolistic Competition
 7. Price Discrimination
 8. Perfect Competition
 9. Game Theory
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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