K.S.R. COLLEGE OF ENGINEERING (Autonomous) **R 2018**

SEMESTER – I

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BA18112	**MANAGERIAL ECONOMICS**	3	0	0	3

Objective(s):

1. *This course assists the students in learning economic concepts and policies on managerial decision making.*
2. *Interpret the demand and supply analysis*
3. *Analyze the production and cost function*
4. *Explain the applications of Macro Economics*
5. *Demonstrate the Economic environment*

UNIT - I INTRODUCTION [09 Hrs]

Managerial Economics: Meaning, Nature, Scope, Types and Uses – Relation to other subjects – Business Decision Making: type and process – Role of managerial economist – Role of market and government – Case study.

UNIT - II DEMAND AND SUPPLY ANALYSIS [09 Hrs]

Demand Analysis: Meaning, Determinants and Types – Law of Demand – Elasticity of demand: meaning and types – Demand Forecasting: definition and methods – Law of Diminishing Marginal Utility. Supply Analysis: meaning and factors – Law of Supply – Types of Elasticity of Supply.

UNIT - III PRODUCTION AND COST FUNCTION **[09 Hrs]**

Production Function: Meaning – Law of variable proportions – ISO-quants – Returns to Scale – Cobb – Douglas production function. Cost Function: Types and cost determinants – Cost output relationship in short run and long run – Market structure: Perfect competition and Monopoly, Monopolistic competition, Duopoly and Oligopoly – Pricing practices and Strategies- Break Even Analysis.

UNIT - IV MACRO ECONOMICS [09 Hrs]

Macro Economics:Mmeaning and circular flow of macro economic activity – National Income: meaning and measuring NI – Business Cycle: phases and minimizing effects – Methods of Economic Forecasting for Business.

UNIT - V ECONOMIC ENVIRONMENT [09 Hrs]

Macro Economic Aggregates and Concepts: GNP, GDP – Price Indices: Definition and Types – Inflation: Meaning, Types and Reason, Phillips curve – Fiscal policies: Objectives and Tools – Monetary Policies: Objectives, Instruments and Limitations – Introduction to Balance of Payment and Unemployment. Recent Economic Transition in India

Total (L: 45 T: 0) = 45 Periods

Course Out comes: On completion of this course, the student will be able to:

1. *Make optimal decision making by integrating the concepts of economics with business.*
2. *Take decision making with the help of demand and supply analysis*
3. *Understand the production and cost function*
4. *Understand the macroeconomic and they can forecast their business*
5. *Adopt with economic transition*

Reference Books :

1. R.L.Varshney and K.L Maheswari, Managerial Economics, 21st Enlarged Edition, Sultan Chand & Sons, New Delhi, 2014.
2. D.N. Dwivedi, "Managerial Economics",7th Edition(Reprint), Vikas Publishing House Pvt Ltd, New Delhi, 2015.
3. Nordhaus & Samuelson , Economics, 19th Edition, Tata McGraw Hill, New Delhi, 2013
4. Richard Lipsey and Alec Charystal, Economics, 12th edition, Oxford, University Press, NewDelhi, 2015
5. G.S.Gupta – Managerial Economics, 2nd Edition, Tata Mcgraw Hill, New Delhi, 2014.

Chairman (BoS)

Head Of The Department
Department Of MBA
K.S.R. College Of Engineering
Tiruchengode - 637 ...

K.S.R. COLLEGE OF ENGINEERING (AUTONOMOUS), TIRUCHENGODE – 637 215
DEPARTMENT OF BUSINESS ADMINISTRATION (MBA)

NAME : Dr. S. P. SREEKALA
CLASS : I MBA
SUBJECT : BA18112 - MANAGERIAL ECONOMICS

UNIT – I - INTRODUCTION

2 MARKS

1. Define Managerial Economics

By combining the basic definition of the two terms "Manager" and "Economics" you get the definition of "managerial economics". "Managerial Economics" is the study of directing resources in a way that it most efficiently achieves the managerial goals.

Managerial Economics is also the application of the tools of economics analysis in decision making in actual business situations.

2. What is meant by Micro economic analysis?

Micro economic analysis deals with the problems of an individual firm, industry or consumer etc. It helps in dealing with issues which go on within the firm such as putting the resources available with the firm to its best use, allocating resources within various activities of the firm to its best use, allocating resources within various activities of the firm and also deals with being technically and economically efficient.

3. What is meant by Prescriptive approach?

Prescriptive or normative approach tells "How things ought to be done".

4. What is meant by descriptive approach?

Descriptive approach tells "how things are done".

5. Scope of Managerial Economics.

The following aspects constitute the scope of managerial economics:

1. Objectives of a business firm
2. Demand analysis and forecasting
3. Cost analysis
4. Production management
5. Supply analysis
6. Pricing decisions, policies and practices
7. Profit management
8. Capital budgeting and investment decisions
9. Decision theory under uncertainty
10. Competition

6. Give the Objectives of a business firm

The objectives of a business firm may be varied. Apart from generating profits a firm has many other objectives like being a market leader, being a cost leader, achieving superior efficiency, achieving superior quality, achieving superior customer responsiveness etc.

7. Define Economics and define the divisions of Economics.

Economics has two division's namely micro economics and macro economics. Micro economics is the branch of economics where the unit of study is an individual or a firm while macro economics is branch of economics where the unit of study is aggregative in character and considers the entire economy.

8. Define Decision theory under uncertainty.

Most of the business decisions taken by the managers are done under uncertainty. Uncertainties pertaining to demand, cost, price, profit, capital etc prevail most of the time when decisions are made. This makes the whole decision making process difficult and complex. The tools used in economic analysis have been modified and refined so as to take into account the uncertainty and thus help decisions making in logical and scientific manner.

9. What are the characteristics in Managerial Economics?

1. Managerial economics deals with the decision making by managers, executives and engineers of economic nature. 2. Managerial economics is goal oriented. 3. Managerial Economics is both conceptual and metrical. 4. Managerial economics is pragmatic.

10. What do you mean by decision-making?

Decision –making is defined as the process of choosing a course of action from among alternatives to achieve a desired goal. It is one of the functions of management and also a core process of planning.

Mention any four roles of Managerial Economists.

A managerial economist helps the management by using his analytical skills and highly developed techniques in solving complex issues of successful decision-making and future advanced planning. The role of managerial economist can be summarized as follows:

1. He studies the economic patterns at macro-level and analysis it's significance to the specific firm he is working in.
2. He has to consistently examine the probabilities of transforming an ever-changing economic environment into profitable business avenues.
3. He assists the business planning process of a firm.
4. He also carries cost-benefit analysis.
5. He assists the management in the decisions pertaining to internal functioning of a firm such as changes in price, investment plans, type of goods /services to be produced, inputs to be used, techniques of production to be employed, expansion/ contraction of firm, allocation of capital, location of new plants, quantity of output to be produced, replacement of plant equipment, sales forecasting, inventory forecasting, etc.
6. In addition, a managerial economist has to analyze changes in macro- economic indicators such as national income, population, business cycles, and their possible effect on the firm's functioning.

11. Brief the role of government and market in economics.

It was assumed that the market mechanisms of developed economies were so unreliable in developing economies that governments had to assume central responsibility for economic activity. This was to be done through economic planning for the entire economy, which in turn would be implemented by active government participation in the economy and pervasive controls over all private-sector economic activity.

12 MARKS

1. Explain the features of Managerial economics.
2. Illustrate the role of managerial economists in detail.
3. Describe the scope of managerial economics.
4. Elaborate the business decision making process with example.
5. Explain the types of decision making.
6. Difference between micro and macro economics.
7. Explain the role of government and market.

UNIT – II
DEMAND AND SUPPLY ANALYSIS
2 MARKS

1. Define Demand.

Demand indicates the quantities of products (goods service) which the firm is willing and financially able to purchase at various prices, holding other factors constant.

2. Define Determinants of Demand.

An individual's demand for a commodity depends on his desire and capability to purchase it. Apart from the desire to purchase, there are many other factors which influence the purchase of a product (demand). These are known as demand determinants.

3. What are the two kinds of Consumers expectations?

Consumers have two kinds of expectations one pertains to their future income and the second is related to the future prices of the goods and its related goods.

4. Define the Law of Demand:

The relation of price to quantity demanded / sales is known as the law of demand. Law of demand states that the higher the price is the lower the demand is and vice versa, holding other factors as constant.

5. Define the price quantity relation.

This price quantity relation can be expressed as demand being a function of price
$D=f(p)$.

6. What Highlights of the law of demand:

1. The relationship between price and quantity demanded is inverse.
2. Price is the independent variable and demands the dependent variable.
3. Law of demand assumes that except for price and demand, other factors remain constant.

7. What is Demand Shift: (Change in demand?)

Factors shift the demand for a particular product either on the right side of the demand curve or to the left side of the demand curve based on the changes in price. These factors, other than the price of a good that influence demand are known as demand shifters. The shift in the demand either to the left or right is called the demand shift.

8. What are the Exceptions to law of demand?

1. In share markets on would have noticed that the rise in price of the shares increases, the sales of the shares while decrease in the price of the shares results in decrease of sale of the shares.

2. Some goods which act as status symbol and have a snob appeal fall under this category. Here when the price of the product raises then the appeal of the product also rises and thus the demand. Some example is diamonds and antiques.

3. Finally, ignorance on the part of the consumer may cause the consumer to buy at a higher price, especially when the rise in price is taken to mean an improvement in quality and a reduction in price as deterioration in quality.

9. Define Individual demand

The quantity of a product demanded by an individual purchaser at a given price is known as individual demand.

10. Define Market demand:

The total quantity demanded by all the purchasers together is known as the market demand.

11. What are the types of Demand Function?

1. Consumption function
2. Product consumption function
3. Differences in regional incomes
4. Income expectation and demand

12. What are the Characteristics of demand function?

1. The long run relationship between consumption and income is some what stable, and expenditure on consumption is usually about 85 to 90% of the income.
2. The consumption function is highly unstable in short runs and the relationship between income and consumption cannot be predicted by any mathematical formula.
3. During the periods of economic prosperity, there is an absolute increase in the expenditure on consumption, but decrease as a percentage of income during periods of depression, the consumption declines absolutely but the expenditure on the consumption increases as a percentage of income.
4. In the periods of economic recovery, the rate of increase in consumption is higher than the rate of the decline in consumption in times of recession.

13. Define Product consumption function

This function can be defined as the relationship between the total income of the consumer and sales of particular products. It means that when there is a change in income there is a change in the demand for particular products.

14. Define Income expectations and Demand

Expectations are related to people’s estimates of the level and durability of the future economic conditions. The demand for many consumer durables (household appliances like TV, Washing machine, etc) is often sensitive to general expectations regarding income level.

15. What are the features of advertising demand relationship?

1. Even when there is no advertising effort done, there will be a certain amount of sales possible for a particular product by virtue of its presence in the market.
2. There is a direct relationship between advertising and sales. Thus when there is an increased spending on advertisements. It will bring in more sales.
3. Increase in advertisements will lead to more than proportionate increase in sales only to a point. After that any increase in advertisement will have only less than proportionate effect on sales.

16. Define Elasticity of Demand?

Elasticity of demand is defined as 'the percentage change in quantity demanded caused by one percent change in the demand determinant under consideration, while other determinants are held constant'.

17. Define demand determinants.

It is the degree of change in demand to the degree of change in any of the demand determinants.

18. What are the Various Elasticities of demand?

1. Price elasticity of demand 2. Income elasticity of demand 3. Cross elasticity of demand 4. Promotional elasticity

19. Define Price Elasticity of Demand

Price elasticity of demand can be defined as "the degree of responsiveness of quantity demanded to a change in price".

20. What are the Types of price elasticity?

1. Perfectly elastic demand 2. Absolutely inelastic demand or perfectly inelastic demand 3. Unit elasticity of demand 4. Relatively elastic demand 5. Relatively inelastic demand

21. Define absolutely inelastic demand or perfectly inelastic demand.

Absolutely inelastic demand is where a change in price howsoever large, causes no change in the quantity demanded of a product. Here, the shape of the demand curve is vertical.

22. Define relatively elastic demand (ep>1)

It is where a reduction in price leads to more than proportionate change in demand. Here the shape of the demand curves in flat.

23. What are the Factors determining price elasticity of Demand?

The elasticity of demand depends on the following factors namely

1. Nature of the product
2. Extent of usage
3. Availability of substitutes
4. Income level of people
5. Proportion of the income spent of the product
6. Urgency of demand and
7. Durability of a product.

24. What do you mean by demand forecasting?

Demand forecasting is the activity of estimating the quantity of a product or service that consumers will purchase. Demand forecasting involves techniques including both informal methods, such as educated guesses, and quantitative methods, such as the use of historical sales data or current data from test markets. Demand forecasting may be used in making pricing decisions, in assessing future capacity requirements, or in making decisions on whether to enter a new market.

25. Define Pricing Decisions

A firm's profitability and success greatly depend on the pricing decisions and the pricing policies of the firm. The patronization of the firm's products by the customers, the competition faced by the product along with the profits of the firm, largely depends on the price of the product. Pricing also depends on the environment in which the firm operates, competitions, customers etc.

26. What are the pricing methods?

a) Cost plus pricing method
b) Break even analysis method
c) Target rate of return method
d) Leadership pricing method
e) Going rate pricing method
f) Marginal cost pricing method

27. State the law of diminishing marginal utility.

It states that with successive increase in the units of consumption of a commodity, every additional unit of that commodity gives lesser satisfaction to the consumer. consumption beyond point of safety.

28. What are the assumptions of law of demand?

a) Price of related goods remains constant.
b) Income of the consumer does not change
c) Taste and preferences of the people remain unchanged.

29. What are the factors which affect the price elasticity of demand for a commodity?

a) Nature of the commodity b) Availability of substitutes
c) Share in the total expenditure d) Different uses of a commodity

30. State the assumption of the law of supply.

a) Price of related goods remains unchanged.
b)Technology of production should not changed
c) Cost of factors of production should remain the same
d) Goals of the firm should not change

31. Give any three factors affecting elasticity of supply

a) Nature of commodity
b) Cost of production
c) Time element

32. Define market demand.

Market demand is the total quantity demanded by all the purchasers together.

33. State the law of supply

The law of supply states that the quantity of a commodity supplied varies directly with the price, other determinants of supply remaining constant.

34. What is factor market?

In economics a factor market refers to markets where services of the factors of production (not the actual factors of production) are bought and sold such as the labor markets, the capital market, the market for raw materials, and the market for management or entrepreneurial resources.

35. Define product market.

Product market is where goods and services produced by businesses are sold to households. The households use the income they receive from the sale of resources to purchase the products. The money they spend is returned to the businesses as revenue. Product market regulation is an economic term that describes restrictions in the market.

36. Define the law of diminishing marginal utility.

Law of diminishing marginal utility states that with successive increases in the units of consumption of a commodity, every additional unit of that commodity gives lesser satisfaction to the consumer. Consumption beyond point of satiety i.e.., maximum satisfaction only yields negative marginal utility.

12 MARKS

1. Explain approaches to consumer behavior.
2. Explain different types of demand.
3. Elaborate the law of diminishing marginal utility.
4. Explain the reason for the downward sloping demand curve.
5. What is demand? Explain law of demand.
6. What is elasticity of demand? Explain the types of Price elasticity of demand.
7. Explain the factors that determine demand and supply?
8. Describe the demand forecasting techniques.
9. Elucidate the factors determining market demand.
10. Describe the interaction of factor and product market.
11. Elaborate the types of elasticity of demand and supply.

UNIT - III - PRODUCTION AND COST FUNCTION

2 MARKS

1. Define Production Management

When a manager organizes and plans the firm's production functions i.e. when he tries to convert the raw materials to finished product, he faces a number of economic problems. The study of 'production function' describes the input output relationship.

2. Define Cost Analysis

One way to earn higher profits is by controlling the cost involved in producing the product. Study of cost is necessary for making efficient and effective managerial decisions. If a detailed cost analysis and estimation is done, the firm can move upon effective profit management and sound pricing practices.

3. Mention the types of costs.

1) Actual costs and opportunity costs
2) Incremental costs and sunk costs
3) Explicit costs and implicit costs
4) Past costs and future costs
5) Accounting costs and economic costs
6) Direct cost and indirect cost

4. What are actual costs and opportunity costs?

Actual costs which a firm incurs for producing or acquiring a product or a service. As example for this is the cost on raw materials, labor, rent, interest.

5. What are incremental costs and sunk costs?

Incremental cost is the additional cost due to change in the level of nature or business activity. Sunk costs are the costs that are not altered by a change in quantity produced and cannot be recovered.

6. What are explicit costs and implicit costs?

Explicit or paid out costs are those expenses which are actually paid by the firm. Implicit costs are the theoretical costs in the sense that they go unrecognized by the accounting system.

7. What are past costs and future costs?

Past costs are the actual costs incurred in the past are generally contained in the financial accounts. Future costs are costs that are expected to occur in some future period or periods.

8. What are accounting costs and economic costs?

Accounting costs are the actual outlay costs. Economic cost relate to the future,

9. What is direct and indirect cost?

Direct cost are traceable cost or assignable cost are the ones that have direct relationship with a unit of operation like a product, a process or a product, or a department of the firm. On the other hand, indirect costs or non traceable costs or common or non assignable costs are the costs whose course cannot be easily and definitely traced to the plant.

10. What are private costs and social costs?

Private costs are those which are actually incurred or provided for the business activity by an individual or the business firm. Social costs on the other hand are the total costs to the society on account of production of a good.

11. What are controllable and non controllable costs?

Controllable costs are those which are capable of being controlled or regulated by the managers ant = d it can be used to assess the managerial efficiency in controlling the cost in his department. Non controllable costs are those which cannot be subjected to administrative controls and supervision.

12. What are replacement costs and original costs?

Original costs or the historical costs are the costs paid for assets such as land, building, cost of plant, equipment and materials. Replacement costs are the costs that the firm incurs if it wants to replace or acquire the same assets now.

13.What is shut down cost and abandonment cost?

Shutdown costs are costs in which the firm incurs if it temporarily stop its operation. Abandonment costs are the costs of retiring altogether a fixed asset from use.

14. What are incremental cost and marginal cost?

Incremental cost is important when dealing with decisions where discrete alternatives are to be compared. Marginal cost deals with unity unit output.

15. What are the determinants of cost?

1) Level of output 2) price of inputs. 3) Size of plant 4) output stability 5) Production lot size 6)level of capability utilization 7) Technology 8) learning effect

16. What are the two aspects in cost output relationships?

1) cost output relationship in short run.

2)cost output relationship in long run.

17. What are the terms involved in cost output relationship?

1) Average fixed cost.

2) Average variable cost.

3) Average total cost.

18. What is cost?

Cost is the money spent on producing and selling a product to the customers. The cost of a product starts from the raw materials through production costs till selling costs include the cost in maintaining outlets.

19. What is the significance of cost in managerial decision making?

Study of costs is essential for making a choice from among the competing production plans. Production decisions are not possible without their respective cost considerations.

20. What are the two factors in pricing strategies?

1) External factors
2) Internal factors

21. What are the external factors in pricing strategies?

i. The competition in the market ii. The elasticity of supply and demand
iii. Trends of the market iv. Purchasing power of buyers.
v. Government policies towards prices.

22. What are the determinants of price?

1) Objectives of business
2) Competition
3) Product and promotional strategies
4) Nature of price sensitivity
5) Influence of middle men
6) Reutilization of pricing
7) Government regulation

23. Say some of the objectives of the pricing policy.

i. Profit maximization. ii. Long term welfare of the firm. iii. Facing competition iv. Flexibility to economic changes. v. satisfying rate of returns.
iv. programmed pricing.

24. What is customary pricing method?

In case of some products their prices get more or less. This does not happen due to deliberate action on the seller's part but it happens as the results of the product prevailing in the market for a long period of time.

25. What is the cycling pricing method?

The pricing method which is done to capitalize on the cycles of the season in nature and the cycle in the economy are known as cyclical pricing.

26. What is imitative pricing method?

It is very similar to the loss leader pricing method. This pricing policy is often used in retail business.

27. What is turnover pricing method?

Turnover is the word which denotes the sales of the product. The higher the turnover means higher the sales.

28. What is dual pricing method?

Usually the firms which produce essential commodities have part of their product under administrating pricing and part of the product is solid in the free market.

29. What is price?

Price is the source of revenue for the firm and it decides the health of the firm. The customer acceptance or rejection of a product is most of the time predominantly influenced by price.

30. What is Break even Analysis?

The method of determining the cost-volume-profit relationship is known as Break even Analysis.

31. What is breakeven point?

Breakeven point is defined as that level of sales at which total revenue is equal to total costs and the net income is equal to zero.

32. State the meaning for the term Isoquants.

An isoquant (derived from quantity and the Greek word iso, meaning equal) is a contour line drawn through the set of points at which the same quantity of output is produced while changing the quantities of two or more inputs. While an indifference curve mapping helps to solve the utility-maximizing problem of consumers, the isoquant mapping deals with the cost-minimization problem of producers. Isoquants are typically drawn on capital-labor graphs, showing the technological tradeoff between capital and labor in the production function, and the decreasing marginal returns of both inputs.

33. Define return to scale.

Returns to scale and economies of scale are related terms that describe what happens as the scale of production increases in the long run, when all input levels including physical capital usage are variable (chosen by the firm). They are different terms and should not be used interchangeably. The term returns to scale arises in the context of a firm's production function. It explains the behaviour of rate of increase in the output/production to the subsequent increase in the inputs i.e. the factors of production in the long run.

34. List out the types of returns to scale.

Constant returns to scale, Increasing returns to scale and decreasing return to scale.

35. What is economies of scale?

Economies of scale are the cost advantages that enterprises obtain due to size, output, or scale of operation, with cost per unit of output generally decreasing with increasing scale as fixed costs are spread out over more units of output.Often operational efficiency is also greater with increasing scale, leading to lower variable cost as well.Economies of scale apply to a variety of organizational and business situations and at various levels, such as a business or manufacturing unit, plant or an entire enterprise. For example, a large manufacturing facility would be expected to have a lower cost per unit of output than a smaller facility, all other factors being equal, while a company with many facilities should have a cost advantage over a competitor with fewer.

36. What is monopoly?

A monopoly exists when a specific person or enterprise is the only supplier of a particular commodity (this contrasts with a monopsony which relates to a single entity's control of a market to purchase a good or service, and with oligopoly which consists of a few entities dominating an industry).

37. Define Monopolistic competition.

Monopolistic competition is a type of imperfect competition such that many producers sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes. In monopolistic competition, a firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms.

38. State the meaning for Duopoly and oligopoly.

A true duopoly is a specific type of oligopoly where only two producers exist in one market. In reality, this definition is generally used where only two firms have dominant control over a market. In the field of industrial organization, it is the most commonly studied form of oligopoly due to its simplicity.

An oligopoly is a market form in which a market or industry is dominated by a small number of sellers (oligopolists). Oligopolies can result from various forms of collusion which reduce competition and lead to higher prices for consumers.

39. List out the features of perfect competition.

Large number of buyers and sellers   Homogenous product   Free entry and exit

Perfect knowledge   Perfect mobility of factors of production.

12 MARKS

1. Explain the relationship between production and cost function.
2. Describe economies of scale in detail.
3. Describe the types of cost.
4. Illustrate the Cobb-Douglas production function.
5. Explain the law of variable proportion.
6. Explain the short-run cost function.
7. Describe the long-run cost function.
8. Explain the various types of pricing strategies adopted by the business.
9. Explain returns to scale and its types. What are the uses of returns to scale?
10. Enumerate and explain the different types of market structure.
11. Discuss the firm's equilibrium for perfect competition.
12. Explain the features of perfect and imperfect competition.
13. What is meant by Oligopoly and Duopoly. Discuss the features of Oligopoly.
14. Illustrate monopoly and monopolistic competition.

UNIT-IV - PERFORMANCE OF AN ECONOMY-MACRO ECONOMICS

2 MARKS

1. What are the Macro economic Conditions?

(a) The economy in which firms operate is predominantly a free enterprise economy.

(b) The present day economy is undergoing rapid technological and economic changes and,

(c) The government intervening in the economic affairs has increased in the recent times and is likely to go up further.

2. Define Macro Economics.

"Macro economics deals with the behaviour of aggregates like gross national product and the level of employment"– Edwin Mansfield.

3. List out the types of macroeconomics.

- Macro static

  Equilibrium point of macro economic variables.

  $Y=C+I+G \rightarrow$

Income =consumption+investment+Government expenditure.

- Macro comparative static

  Comparing two macro static points.

- Macro dynamic

  The process of change or path of change between initial equilibrium to new equilibrium.

4. Mention the players in two, three and four sector economy.

In two sector economy- Households and firms

Three sector economy- Households, firms and the Government.

Four sector economy-Households, firms, the Government and Other countries.

5. What do you mean by aggregate demand?

In macroeconomics, aggregate demand (AD) is the total demand for final goods and services in the economy at a given time and price level. It specifies the amounts of goods and services that will be purchased at all possible price levels. This is the demand for the gross domestic product of a country. It is often called effective demand, though at other times this term is distinguished.

6. What is aggregate supply?

In economics, aggregate supply is the total supply of goods and services that firms in a national economy plan on selling during a specific time period. It is the total amount of goods and services that firms are willing to sell at a given price level in an economy

7. Define multiplier.

In economics, a multiplier is a factor of proportionality that measures how much an endogenous variable changes in response to a change in some exogenous variable. Keynesian economists calculate multipliers that measure the effect on aggregate demand only. (To be precise, the usual *Keynesian multiplier* formulas measure how much the IS curve shifts left or right in response to an exogenous change in spending.). The aggregate demand curve illustrates the relationship between two factors - the quantity of output that is demanded and the aggregated price level.

8. **State any four assumptions of multiplier.**

- Change in autonomous investment.
- MPC is constant.
- Consumption is function of current income.
- No time lag in the multiplier process→ in investment leads to multiple in income.
- Net increase in investment.

9. What do you mean by MPC?

The marginal propensity to consume (MPC) is a metric that quantifies induced consumption, the concept that the increase in personal consumer spending (consumption) occurs with an increase in disposable income (income after taxes and transfers). The proportion of disposable income which individuals spend on consumption is known as propensity to consume.

10. Define investment multiplier.

Multiplier according to Keynes, "Establishes a precise relationship, given the propensity to consume, between aggregate employment and income and the rate of investment. It tells that, when there is increment of investment, income will increase by an amount which is K times the increment of investment".

11. Bring out the meaning of demand side management.

Demand-Side management(DSM) has been traditionally seen as a means of reducing peak electricity demand so that utilities can delay building further capacity.

Demand-side management is used to describe the actions of a utility, beyond the customer's meter, with the objective of altering the end-use of electricity - whether it be to increase demand, decrease it, shift it between high and low peak periods, or manage it when there are intermittent load demands - in the overall interests of reducing utility costs. In other words DSM is the implementation of those measures that help the customers to use electricity more efficiency and it doing so reduce the customers to use the utility costs.

DSM, In a wider definition, also includes options such as renewable energy systems, combined heat and power systems, independent power purchase, etc, that utility to meet the customer's demand at the lowest possible cost.

12. Briefly explain the supply side management.

Supply-side management (SSM) refers to actions taken to ensure the generation, transmission and distribution of energy are conducted efficiently. The term is used mainly with reference to electricity but it can also be applied to actions con-
cerning the supply of other energy resources such as fossil fuels and renewables. Managing how your organization purchases its energy resources is Supply Side Management. For an energy management strategy to be completely effective in an era of highly volatile energy prices, procurement strategies need to be examined closely.

13. List out the steps involved in supply side management.

Step One: Define your energy purchasing objectives

Step Two: Create your plan

Step Three: Monitor the energy market

Step Four: Execute your plan

12 MARKS

1. Examine the role of fiscal policy for the development of a nation.
2. What is aggregate supply? What are the determinants of aggregate supply? How do they influence it?
3. What is multiplier? How does investment influence national income? Discuss.
4. What are the supply side policies? How do they help in bringing up “Higher National Income”? Discuss.
5. “Demand for labour reflects marginal productivity”- Examine.
6. “Decline in aggregate demand leads to an economic downturn” – Explain.
7. How are aggregate price and output determined by the interaction of aggregate supply and demand? Explain with suitable illustration.
8. Explain demand side and supply side management with example.

UNIT V - ECONOMIC INDICATORS

2 MARKS

1. Define National Income

List out the methods of measuring National Income.

Production Method

Income Method

Expenditure Method

Mention the methods of measuring national income.

Production method b) Income method c) Expenditure method

2. What Does Fiscal Policy Mean?

Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Define fiscal policy.

According to ArtherSimithies fiscal policy is a policy under which government uses its expenditure and revenue programme to produce desirable effects and avoid undesirable effects on the national income, production and employment.

Mention any four techniques of fiscal policy.
Taxation Policy
Public expenditure policy
Deficit financing policy
Public Debt Policy

3. **What are the objectives of fiscal policy?**
Achieve desirable price level
To achieve desirable consumption level
To achieve desirable employment level

4. **List out the Instruments of Fiscal Policy.**
Public expenditure
Taxes
Public debts.

5. **State the stages in Business Cycle.**
RECESSION
RECOVERY
GROWTH
DECLINE

6. **What do you mean by business cycle?**
Business Cycles are the irregular fluctuations in aggregate economic activity observed in all developed market economies. Aggregate economic activity is measured by real gross domestic product (GDP), the sum weighted by market prices, of all goods and services produced in an economy. Comparisons of real GDP across years are adjusted for changes in the average price level (inflation). A business cycle contraction or recession is commonly defined as at least two successive three-month periods (quarters) in which real GDP falls.

7. **Brief the meaning of monetary policy.**
Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment. Monetary economics provides insight into how to craft optimal monetary policy.

8. **What is GDP?**
GDP – or Gross Domestic Product – is a measure of the overall economic output within a country's borders over a particular time, typically a year.
GDP is calculated by adding together the total value of annual output of all that country's goods and services.
GDP can also be measured by income by considering the factors producing the output – the capital and labour – or by expenditure by government, individuals, and business on that output.
Real GDP is the gross domestic product adjusted for inflation
Nominal GDP is the gross domestic product without taking into account inflation.

9. **Define GDP.**
GDP (the measure of an economy adopted by the United States in 1991; the total market values of goods and services produced by workers and capital within a nation's borders during a given period (usually 1 year))

Brief the meaning of GNP.

Gross national product (GNP) is the market value of all the products and services produced in one year by labor and property supplied by the citizens of a country. Unlike Gross Domestic Product (GDP), which defines production based on the geographical location of production, GNP allocates production based on ownership.

10. What is mean by CPI?

A consumer price index (CPI) measures changes through time in the price level of consumer goods and services purchased by households. The CPI is defined by the United States Bureau of Labor Statistics as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services." The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

11. Bring out the meaning of WPI.

The Wholesale Price Index (WPI) is the price of a representative basket of wholesale goods. Some countries (like India and The Philippines) use WPI changes as a central measure of inflation. However, India and the United States now report a producer price index instead. The Wholesale Price Index or WPI is the price of a representative basket of wholesale goods. Some countries use the changes in this index to measure inflation in their economies, in particular India – The Indian WPI figure is released weekly on every Thursday and influences stock and fixed price markets.

12. List out the instruments used by central bank to implement the monetary policy.

Open market operations
Bank rate policy
Reserve requirements changes
Selective credit controls
Deficit financing

13. Define inflation.

In economics, inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. It can be defined as too much money chasing too few goods. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the consumer price index) over time.

14. List out the characteristics of inflation.

i) Increase in price ii)Excess money supply
iii) Vicious circle created by the velocity of money.

15. Mention any four types of inflation.

i) Creeping inflation ii) Walking inflation iii) Running inflation
iv) Galloping or hyper inflation or run away inflation v) Demand pull inflation
vi) Cost push inflation

16. What are the Anti-inflationary measures?

i) Monetary measures ii) Fiscal measures iii) Physical and direct measures

17. Mention the reasons for inflation?

Some inflation come from supply side others from demand side.

Inflation can persist at the same rate for a while history shows that shocks to the economy tend to push inflation up or down.

The economy is constantly subject to changes in aggregate demand, sharp.

12 MARKS

1. Explain in detail the circular money with saving and investment.
2. Analyze the role of monetary policy in controlling supply of money.
3. Illustrate the effects of inflation on output and distribution of income.
4. Describe the various methods of measuring national income. How is a method chosen for measuring national income?
5. Discuss the various measures of money supply adopted by RBI? How are these official measures of money supply different from traditional money supply?
6. Describe the instruments of monetary policy. How do they work and what are their limitations.
7. Explain the two and three sector model of circular flow of income
8. Describe the four sector model of circular flow of income.
9. How is monetary policy used in India? Explain.
10. Briefly describe the role of fiscal in the economic growth.
11. Describe the measures to control inflation.
12. Explain the types of inflation.
13. Enumerate and explain the impact of monetary policy on business.
14. Explain the role of monetary policy.
15. Elaborate the business cycle stages.

Case Studies

1. The economy of China, witnessed marvelous growth since mid 1990s in its exports. Helped by growth in exports, China maintained huge positive trade balance with most of its major trade partners and vast forex reserves. China was accused, by its trade partners, of keeping its currency undervalued to maintain cost competitiveness for its products in global markets and thus increasing its exports.

   By mid-2010, pressure mounted from all quarters on China to revalue its currency so that the real value of the yuan vis-à-vis other currencies would be depicted. Though China remained silent on the issue, economic observers opined that it would have to yield to the pressure sooner or later. They also said that revaluing the currency might not yield results in the short term.

Questions:

i. The effects of value of a currency on the respective country's export performance.

ii. The effect of exchange rate on the balance of payment of a country.

2. The case discusses the growth and operations of Indian Railways, the largest railway network under a single management and the largest employer in the world. The roots of IR are traced back to the 1800s, when India was under the British rule.

   The case includes a detailed account of the development of IR since the mid-1800s till the early-2000s. Most of the important developments in the history of IR are outlined. Although railway networks were initially developed by private companies, after 1920 they were all taken over by the central government, which created a department of railways. Even after Indian independence in 1947, railways continued as a central government department.

   The practice of presenting a railway budget separate from the annual general budget is also traced back to British times. The second part of the case outlines some of the problems faced by IR in the late-1900s and the difficulties the department faced in overcoming them. Several experts suggested ways in which IR may be restructured. These suggestions are also discussed in detail. The case concludes with a description of the steps taken by IR to overcome some of its problems.

Issues:

i. Study the operations of a very large organization in India that played a social, political and
economic role in the country

ii. The disparity between the organization's social and economic objectives and the difficulties it faced in overcoming them.

Assignment Topics

1. What is pricing policy? What are the internal and external factors of the policy?
2. Mention the bases of price discrimination.
3. What do you mean by the fiscal policy? What are the instruments of fiscal policy? Briefly comment on India's fiscal policy?
4. Comment on the consequences of environmental degradation on the economy of a community?
5. Distinguish between micro and macro economics.
6. Explain the other related disciplines associated with economics.
7. Describe the three fundamental economic problems with examples.
8. Monopolistic competition is a blend of perfect competition and monopoly. Discuss.
9. Discuss the Evolution of Micro Economics.
10. Describe about the Indian's Fiscal Policy