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

MANAGERIAL ECONOMICS (5580)

CHECK LIST

SEMESTER: SPRING, 2012

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

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: Spring, 2012
Level: Executive MBA/MPA Total Marks: 100

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 situations.
(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

Q. 1 (a) “Managerial economics bridges the gap between economic theory and Business practices”, discuss. Explain the scope of managerial economics and relate it with different discipline.

(b) State the assumption underlying the economist’ theory of the firm. Develop the critique of the theory and suggest the need for alternative models. (20)

Q. 2 (a) Discuss the problem of moral hazard. Explain why moral hazard might be a problem in Insurance markets, and how private auto Insurance companies minimize moral hazard?

(b) Analyze monitoring systems and incentive schemes to resolve moral hazard. (20)

Q. 3 (a) Describe the arc approach and the point approach when deriving the own-price elasticity of demand and discuss the properties of own price elasticity.

(b) Introduce the relationship between own-price elasticity and total revenue when there is a price change for an elastic and inelastic item. (20)

Q. 4 (a) Describe the demand curve and distinguish and individual and market demand curve.

(b) Illustrate how the demand curve can be used to: (a) show the quantity demanded at a particular price (b) 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. Economic Efficiency
   1. E- Government challenges
   2. Applications of indifference curve
   3. Market Performance
   4. Measures of Productivity
   5. Price distribution issues for commodity products
   6. Empirical product function and risk and uncertainty
   7. Regression analysis and econometric models
   8. Optimization in industrial development sector
   9. Short run and long run supply decision
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