**First Internal Assessment Examination, February 2019**

**B.Com Second Semester (Computer Applications & Taxation)**

**PRINCIPLES OF BUSINESS DECISIONS**

**Answer Scheme**

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**Section A**

1. What is managerial economics?

Managerial Economics can be defined as amalgamation of economic theory with business practices so as to ease decision-making and future planning by management. Managerial Economics assists the managers of a firm in a rational solution of obstacles faced in the firm's activities

1. What are Mechanical decisions?

Mechanical decisions are those taken when the problem is simple and the output is certain and clear.

1. State the law of demand.

The law of demand states that, "conditional on all else being equal, as the price of a good increases, quantity demanded decreases; conversely, as the price of a good decreases, quantity demanded increases

1. What is limiting factor?

Limiting factor is any factor that restricts a company or an organisation’s activities. In simple words, a limiting factor is the factor which is limited or not freely available to the company. Limiting factors in an organisation can be labour time, raw material, machine hours or space.

1. What is utility?

Utility is the want-satisfying "power" of any commodity or the capacity of a commodity to give satisfaction. Utility may measure how much one enjoys a movie, or the sense of security one gets from buying a deadbolt.

1. What is Decision?

Decision is a choice made between alternative courses of action in a situation of uncertainity.It is a conclusion or resolution reached after considering several possibilities. **(5 X 2 = 10 marks)**

**Section B**

*Answer any 5 questions. Each question carries 5 marks.*

1. What are the elements of decision making?
2. Concept of best decision
3. Organizational environment of the company
4. Psychological elements
5. Timing of decisions
6. Communication of decisions
7. Participation of employees
8. Key factor
9. What are the limitations to the law of demand?
10. Inferior goods or Giffen goods
11. Status goods or prestige goods
12. Anticipation regarding changes in price
13. Depression
14. Change in fashion
15. Brand loyalty
16. Emergencies
17. Explain the important economic concepts and theories applied in decision making?

* Incremental reasoning- Incremental cost is the change in total cost resulting from a particular decision. Incremental revenue is the change in total revenue resulting from a particular decision.
* Concept of time perspective- The real important problem in decisionmaking is to maintain the right balances between the long run and short-run considerations,
* Discounting Principles- The concept of time value of money considers that money earned in an earlier period is more valuable than the same amount of money earned in a later period.
* Opportunity Cost Concept- It is the benefit foregone or sacrificed by rejecting a particular alternative to another competing alternative choice.
* Equi-marginal principal- The principles provides a base for maximum exploitation of all the resources(inputs) of a firm, so as to maximise its profit.
* Contribution Concept- It helps in determining the best product mix when allocation of scarce resources is involved.
* Risk and Uncertainity-Management often deals with decisions which have long-term impact.

1. Explain the different decision making environments.

The decisions taken under different situations and environment can be broadly classified as to:

* Decisions under certainity- By certainity we mean that the environment or condition in which decision is taken is sure and certain.
* Decisions under uncertainity- Uncertainity is a condition in which the decision maker is not at all aware of the events that may likely to come in a given situation.
* Decisions under risk- Under the condition of risk, there are more than one possible events that can take place and the chance of happening is almost sure to a certain extent.

1. What are the types of demand?

The different types of demand are as follows:

**i. Individual and Market Demand:**

It refers to the classification of demand of a product based on the number of consumers in the market.

Individual demand can be defined as a quantity demanded by an individual for a product at a particular price and within the specific period of time.

Market demand is the aggregate of individual demands of all the consumers of a product over a period of time at a specific price, while other factors are constant.

**ii. Organization and Industry Demand:**

This refers to the classification of demand on the basis of market.

The demand for the products of an organization at given price over a point of time is known as organization demand.

The sum total of demand for products of all organizations in a particular industry is known as industry demand.

**iii. Autonomous and Derived Demand:**

This refers to the classification of demand on the basis of dependency on other products.

The demand for a product that is not associated with the demand of other products is known as autonomous or direct demand. The autonomous demand arises due to the natural desire of an individual to consume the product.

On the other hand, derived demand refers to the demand for a product that arises due to the demand for other products. Moreover, the demand for substitutes and complementary goods is also derived demand.

**iv. Demand for Perishable and Durable Goods:**

This refers to the classification of demand on the basis of usage of goods. The goods are divided into two categories, perishable goods and durable goods.

Perishable or non-durable goods refer to the goods that have a single use.

On the other hand, durable goods refer to goods that can be used repeatedly.

**v. Short-term and Long-term Demand:**

This refers to the classification of demand on the basis of time period.

Short-term demand refers to the demand for products that are used for a shorter duration of time or for current period. This demand depends on the current tastes and preferences of consumers.

On the other hand, long-term demand refers to the demand for products over a longer period of time.

Generally, durable goods have long-term demand.

1. Differentiate between Movement and shift in demand?

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| --- | --- | --- |
| **BASIS** | **MOVEMENT IN DEMAND CURVE** | **SHIFT IN DEMAND CURVE** |
| Meaning | Movement in the demand curve is when the commodity experience change in both the quantity demanded and price, causing the curve to move in a specific direction. | The shift in the demand curve is when, the price of the commodity remains constant, but there is a change in quantity demanded due to some other factors, causing the curve to shift to a particular side. |
| Curve | movement in demand curve | shift in demand curve |
| What is it? | Change along the curve. | Change in the position of the curve. |
| Determinant | Price | Non-price |
| Indicates | Change in Quantity Demanded | Change in Demand |
| Result | Demand Curve will move upward or downward. | Demand Curve will shift rightward or leftward. |

**(5 X 5 = 25 marks)**

**Section C**

*Answer any 1 question. It carries 15marks.*

1. Explain  the law of diminishing Marginal utility with its assumptions and exceptions

This law has been developed by the classical economist, Prof. Alfred Marshal.The law states that: As consumer consumes more and more units of a commodity, the additional utility obtained from each additional units goes on decreasing.

ASSUMPTIONS

* All units of commodity should be of normal and homogeneous in size and quality.
* There should not be any time lag in the consumption of successive units of the commodity.
* The consumer should be rational.
* The habits, tastes, income and fashion of the consumer should remain the same.
* There should not be any change in the price of the commodity and related price.
* Utility is measurable in cardinal numbers.

EXCEPTIONS OF THE LAW

* The law does not apply to rare collections, such as old coins, stamps etc.
* The law is not fully applicable in the case of money.This is because man is not completely satisfied with money.
* Marginal utility of certain commodities(like telephone) depends not only on one stock of that commodity, but also on what other possess

1. What is decision making? What are the steps in decision making?

Decision making is the process of choosing a particular course of action from among various alternatives to accomplish the predetermined objectives of the management.

Steps in Decision making:

1. Defining the problem
2. Analysing the problem
3. Developing alternatives
4. Evaluating alternatives
5. Selecting the best alternative
6. Implementing the decision
7. Follow-up action

**(1 X 15 = 15 marks)**

***Scan QR code for the answer scheme***