

BEC 30325: MANAGERIAL ECONOMICS

Tutorial 01

Introduction to Managerial Economics

- 1) Distinguish between Economics and Managerial Economics and highlight the importance of Managerial Economics.
- 2) Explain “The Theory of firm” in the context of Managerial Economics and state three limitations of this theory.
- 3) Describe the effects of each of the following managerial decisions or economic influences on the value of the firm:
 - a) The firm is required to install new equipment to reduce air pollution.
 - b) Through heavy expenditures on advertising, the firm's marketing department increases sales substantially.
 - c) The production department purchases new equipment that lowers manufacturing costs.
 - d) The firm raises prices. Quantity demanded in the short run is unaffected, but in the longer run, unit sales are expected to decline.
 - e) The Federal Reserve System takes actions that lower interest rates dramatically.
 - f) An expected increase in inflation causes generally higher interest rates, and, hence, the discount rate increases.
- 4) How is the popular notion of business profit different from the economic profit concept? What role does the profit play in the decision making process of an organization ?
- 5) Explain how changing environment and global economic trends affect managerial decision making.