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 idea of normal profits play in this difference?
5) Explain how changing environment and global economic trends affect managerial decision making.