**Micro Economics**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for April 2025 Examination**

**1. ABC Manufacturing produces a popular brand of smartphones and is planning to launch a new model in a highly competitive market. To decide on the pricing strategy, the management wants to understand how the demand for their smartphones will change if they alter the price. They also wish to explore how different types of products may react differently to price changes.**

**In the context of ABC Manufacturing’s scenario, explain the concept of price elasticity of demand. Discuss the various types of price elasticity of demand and how this understanding can help the company determine an effective pricing strategy for their new smartphone model.**

**Answer:**

**Introduction:**

ABC Manufacturing is preparing to launch a new smartphone model in a competitive market and needs to determine an optimal pricing strategy. To do this, the company must understand how consumer demand will respond to price changes. This response is measured using the concept of price elasticity of demand (PED), which indicates how sensitive the quantity demanded is to changes in price. Different products exhibit varying levels of elasticity based on factors like necessity, brand loyalty, and availability of substitutes. By analyzing different types of price elasticity of demand, ABC Manufacturing can make informed pricing decisions, balancing profitability with demand. A clear understanding of PED will help the company set competitive prices, maximize revenue, and strategically position the new smartphone in the market.

**This is partially solved sample answer**

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**2. Explain the concepts of Total Utility and Marginal Utility with appropriate illustrations and their real-life applications. Given the data, compute the Marginal Utility for each unit of the good consumed, and analyze how it changes as consumption increases.**

|  |  |  |
| --- | --- | --- |
| **Unit Consumed** | **Total Utility** | **Marginal Utility** |
| **0** | **0** |  |
| **1** | **15** |  |
| **2** | **27** |  |
| **3** | **36** |  |
| **4** | **42** |  |
| **5** | **45** |  |

**Answer:**

**Introduction:**

Utility is the satisfaction or benefit a consumer derives from consuming a good or service. Total Utility (TU) refers to the overall satisfaction gained from consuming a certain quantity of a product, while Marginal Utility (MU) is the additional satisfaction gained from consuming one more unit of the good. As consumption increases, MU typically decreases, following the Law of Diminishing Marginal Utility, which states that each additional unit consumed provides lesser satisfaction than the previous one. This concept is widely applied in real life, such as in pricing strategies and consumer decision-making. Given the provided data, we can compute MU for each unit and analyze how it changes as more units are consumed, helping businesses optimize product offerings and pricing.

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**3a. Mr. Arjun, an economics student, is preparing a project comparing different types of economies. While researching, he learns about the capitalist, socialist, and mixed economic systems and their unique features. However, he is particularly interested in understanding the role of government in a capitalist or free enterprise system and a socialist system.**

**In the context of Mr. Arjun’s research, elaborate on the three types of economies and the role of the government in each economy.**

**Answer:**

**Introduction:**

Economies are classified into capitalist, socialist, and mixed systems based on ownership and government intervention. In a capitalist economy, private individuals control production, with minimal government interference. A socialist economy, on the other hand, emphasizes state ownership and central planning to ensure equal wealth distribution. A mixed economy combines elements of both, balancing free enterprise with government regulation. Understanding the government’s role in these systems helps analyze economic efficiency, wealth distribution, and market control, which are crucial for economic policies and development.

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**3b. Calculate the price elasticity of supply (PES) from the given data and interpret the result.**

|  |  |
| --- | --- |
| **Price (Rs)** | **Quantity Supplied (Units)** |
| **100** | **40** |
| **120** | **50** |

**Answer:**

**Introduction:**

Price Elasticity of Supply (PES) measures how the quantity supplied of a good responds to a change in its price. It is calculated as the percentage change in quantity supplied divided by the percentage change in price. Understanding PES helps businesses and policymakers determine how quickly producers can adjust supply in response to price fluctuations. In this case, using the given data, we will compute PES and interpret whether the supply is elastic, inelastic, or unitary, helping assess market responsiveness.

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