

R.K.
GROUP OF COLLEGE

Behind Kalwar Police Station, Kalwar, Jaipur (Raj.)



ASSIGNMENT

Q-1 What is the law of Diminishing Marginal Utility? Explain the difference between total utility and marginal utility and prove that total utility is highest when marginal utility is zero.

Ans Meaning :- This law is an important and fundamental law of economics which was first scientifically explained by Gossen. Later on it was developed by Marshall. The law of diminishing marginal utility states that, other things being equal, the marginal utility of a good diminishes as more of it is consumed in a given time period.

Definitions:- According to Marshall, "The additional benefit which a person derives from a given stock of a thing diminishes with every increase in the stock that he already has."

According to Samuelson, "The law of diminishing marginal utility states that, as the amount of a good consumed increases, the marginal utility of that good diminishes."

Assumptions of the law:-

(v) Consumer is a rational person. It means that he wants to maximise his satisfaction.

(ii) The taste, fashion, customs and habits of the consumer remain unchanged during the period of consumption.

(iii) If we also assumed that the commodity is consumed within a suitable time period. There is a continuity in consumption without any time gap.

(iv) Commodity is consumed in some standard units, such as a cup of tea, a glass of water and so on.

(iv) There is no change in the price of the commodity and its substitutes.

vi) The income of the consumer does not change, during the period of consumption.

iv) Utility can be measured in the cardinal number system.

(viii) Every unit of the commodity being used is of same quality and size.

(ix) Utility of one commodity is independent of the other.

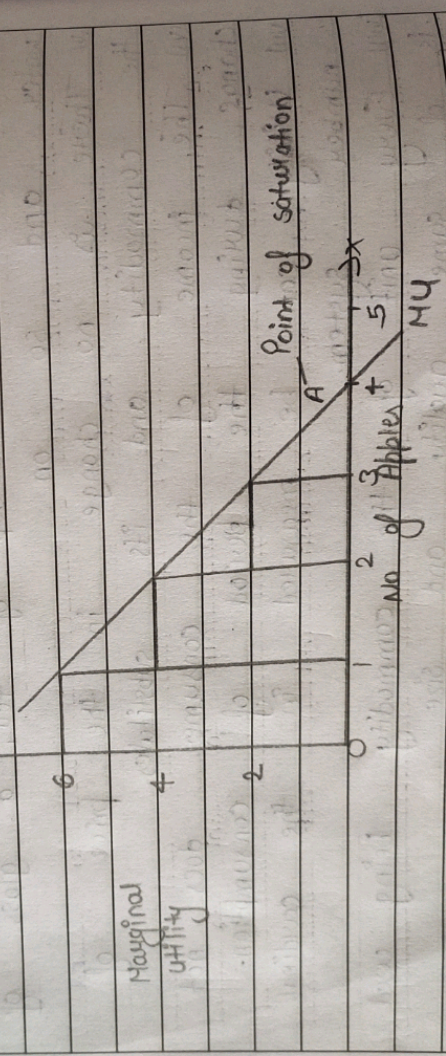
ax1 Marginal utility of money remains constant.

xvii) No change in the mental state of consumer.

Explanation of the law :-

Unit of Apple	Marginal utility
1	8
2	4
3	2
4	0
5	-2
6	

Diagram:-



Explanation :-

i) MU shows a decreasing trend upto 4th unit of apple but it is positive.
 ii) MU is zero at the 4th unit of apple and it is the satiety point. Consumer should

not consume after this point
iii MU becomes negative with the consumption
of 6th unit of apple.

Q2 Explain the Law of Diminishing Marginal Utility
and what is its importance?

⇒ The law is based on common experience of each and everyone of us, in our state as consumers of goods and services. As a consumer goes on consuming more units of a particular commodity, the additional utility that a consumer derives from consumption of that commodity goes on diminishing progressively.

Importance of the Law of Diminishing Marginal Utility :-

Theoretical importance and Practical importance

1) Theoretical Importance :-

(a) Basis of socialism :- In the present era the concept of socialism is becoming more prominent. The basis of socialism is the law of diminishing marginal utility. If the national income is distributed

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unevenly, the major part of the national income will be owned and controlled by few capitalists whereas the majority of the people.

iv) Explain the distinction between Value in Exchange and Value in use. $\Rightarrow$ The concept of marginal utility helps in the explanation of the paradox of value. Adam Smith, the father of economics, was greatly perplexed to know water which is so essential and useful to life has low or even zero price.

(c) Basis of Law of Demand $\Rightarrow$ Why demand curve slopes downward to right? This can also be explained with the help of law of diminishing marginal utility. As the consumer wants more and more of a commodity, the utility derived from that commodity

(d) Basis of consumer surplus $\Rightarrow$ The concept of consumer surplus is also based on the law of diminishing marginal utility. A consumer is ready to pay higher price for first unit of commodity and less for the second commodity.

(c) Basis of Law of Equi-marginal utility:- The law of equi-marginal utility is also based upon the law of diminishing utility. This law explains the equilibrium of a consumer with the help of his resources.

→ Practical Importance:-

(i) Basis of production:- In the modern economy, there is a diversity in the production of commodities. The goods are different in colour, design and technique. It is simple.

(ii) Basis of Progressive Rate of Taxation:- As you know in the quantity of a particular commodity its marginal utility declines, so rich people have lesser marginal utility for a unit of money.

(iii) Helpful in Determining the prices:- The law of diminishing marginal utility is helpful in determining the prices. In order to dispose of a higher stock of goods, it is advisable for the producer to charge lower prices whereas if the goods are produced in a small quantity, we can charge higher prices.

Q.3 What is demand forecasting? What are the methods of demand forecasting? What is the importance of demand forecasting for a businessman?

→ Demand forecasting $\Rightarrow$ "Philip Kotler" has defined demand forecasting as a "market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area, in a defined time period, in a defined marketing environment under a defined marketing programme."

So, the big question for many businesses is trying to guess how many people will want to buy their products down the road.

Methods of Demand forecastings $\Rightarrow$

There are various methods of demand forecasting but the choice of appropriate method is a question of requirement, experience and expertise.

i) Survey Method

ii) Studies and Experiments

iii) End use methods

iv) Statistical Methods

v) Biometric methods

vi) Econometric Methods

* Importance of demand forecasting :-

(i) Demand forecasting is an estimation of potential demand for a product for some specified future date (or period).

(ii) Demand forecasting is only a prediction and not necessarily an accurate quantification.

(iii) Demand forecasting is heavily based on historical data so far as existing product's demand is concerned. However, this can be done for new products also.

(iv) Demand forecasting is not free from constraints of the business firms for which it is being done, such as the physical and managerial capabilities.

(v) Demand forecasting may be in physical and monetary terms.

(vi) Demand forecasting is largely influenced by socio-economic and political environment.

(vii) Forecasting methods vary widely in their accuracy and sophistication when applied to different variables.

(viii) Demand forecasting is influenced both by micro and macro factors in the market setting.

Every business firm has to take many decisions which may have bearing on its future planning and action. One such decision, among others, is about the demand forecasting. For every business decision demand forecasting is at its centre. It is much more important where the business firm is planning for a large scale production.

Q.4 Define long run cost analysis and explain the relation between long run costs and production?

→ Long run cost analysis is the process of finding the least expensive way to produce a given amount of output when all production factors are variable. In the long run, companies can adjust all inputs to find the optimal production scale, so there are no fixed costs. In the long run, companies can search for the production technology that will allow them to produce the desired level of output at the lowest cost. Lower cost lead to higher profits, as long as total revenues remain unchanged.

Relation between long run costs and production:-

Long run costs:- According to G.L. Thirkettle, "Long-run average cost per unit of output when the entrepreneur has time to vary all factors of production so that he has the most profitable size of the plant and the best proportion of fixed and variable factors for any given output".

The long-run is directly related with the production function in the long run.

The long run total cost divided by the level of output. Long-run average cost depicts the least possible average cost for producing various levels of output. The long run average cost is derived from the summing up of various short run average costs or 'Plant curves'.

Production:- Production is the process of making from raw materials or manufacturing goods and products. In other words, production takes inputs and uses them to create an output which is fit for

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Consumption - a good or product which has value to an end-user or customer. Production consists of a process of turning inputs such as labor and raw materials, into finished goods or services. Production processes vary and include mass production, batch production, flexible manufacturing and just-in-time production. Productivity is how much output you can get out of inputs. It contains whatever information will best, and most efficiently, inform that effort.

5. What do you understand by Perfect competition? Explain its characteristics and explain how price is determined in the short run and long run perfect competition?

⇒ Perfect Competition:- Perfect Competition is a market structure in which there is a large number of buyers and sellers having homogenous product. Single producer known as firm and sum of firms known as industry. In the perfect competition industry is price maker and firm is price taker. There is single price in the market.

Definition of Perfect Competition :- Professor Benham has defined, potential sellers and buyers are perfectly aware of the price at which transaction take place and of all the offers made by other sellers and buyers, and when any buyer can purchase from any seller, and conversely, under such conditions the price of a commodity will tend to be the same all over the market."

* Characteristics of perfect competition :-

i) large number of buyers and sellers:- The first condition for a perfect competition is the large number of buyers and sellers so that no particular buyer or seller is able to influence the price and quantity of a commodity.

iii) Homogeneous Products:- All the firms in the industry are producing homogeneous or identical product and the same is sold in the market. There is no difference in the form of brand.

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iv) Free entry and exist of firms in industry:- In perfect competition

all the firms are free to enter the industry and old firms can leave the industry.

v) Perfect knowledge of market conditions:- In perfect competition all the sellers and buyers of commodities have perfect knowledge of market conditions not only present but future also.

vi) Perfect mobility of goods and factors of production :- Goods and

factor of production both should be fully mobile in a perfectly competitive situation, this means that factors of production and goods.

vii) Absence of transport cost:- Under perfect competition there is no transport cost in the market because the area where goods are bought and sold is adjacent.

viii) Firms are price taker and industry are price maker:- Under perfect competition price is determined by total demand and supply of an industry and individual

firms accept the price.

iii) Independent decisions:- Under perfect competition firms are free to take independent decision regarding the production.

iv) Normal profit during long period:- Under perfect competition all the firms earn normal profit only during long period there is freedom of the entry and exist of the firm in the industry.

Q-6 Define Monopoly and how price is determined in the short run and long run under monopoly?

→ Meaning and Definitions of Monopoly:-

Monopoly is a market situation where there is a single seller of product and he has perfect control over the supply of that commodity.

The word 'Monopoly' has been derived from two Greek words, 'Monos', which means single and 'Polous' which means seller.

D.S. Watson, "A monopolist is the only producer of a product that has no close substitutes." The term monopoly defines Handerson and Quant.

Prof. T. S. Bain remarks, "Single firm monopoly occurs when one seller stages the whole show. He produces such a product which no close competition or rival."

The demand curve of a monopolist slopes downward, which means that he can either choose a high price or a large output. The two cannot go together.

control over the supply of the commodity, he can follow an independent price policy for the commodity. Under conditions of perfect competition price is determined by the equilibrium of the forces of demand and supply, but under monopoly it is not so. Under monopoly supply is not free to adjust itself to the changing demand.

While determining the price of the commodity, the monopolist is faced with two possibilities. Firstly, he may fix the price or let the supply or output be fixed by the conditions of demand.

Secondly, he may fix the output or supply of his commodity and leave the price to be determined by the conditions of demand.

13 Define national income. Explain the various methods of measuring national income and their difficulties.

=> Meaning :- National income is a measure of the total economic output or income generated within a country's borders over a specific period, typically a year. It represents the value of all goods and services produced in the country, including both material products and immaterial services. National income encompasses various sources of income, including wages, salaries, profits, rent, interest, and other forms of earnings.

Definitions:- Alfred Marshall, "National income is the net on its natural resources, produce annually a

Certain net aggregate of commodities, material and immaterial, including services of all kinds." of the net increase in assets derived from time.

John Maynard Keynes, "National income is the money value of all goods and services produced in the country in a year."

Richard Stone, "National income is the sum of all incomes received for current production."

1) Income Method :-

Income method is that method, which measures national income from the side of the payment made in the form of wages, rent, interest, and profit to the primary factors of production: labour, land, capital and enterprise respectively.

-Steps of Calculate national income:-

i) Primary Sector

ii) Secondary Sector

iii) Tertiary Sector

-Classification of Factor Income:-

Compensation of Employee:- When a labour provides physical or mental services, he/she receives something

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from the employer, which is known as compensation. The compensation of the employee includes:

- Wages and salary in cash
- Payment in kind
- Employer's contribution to social security schemes.

Operating Surplus:- The operating surplus includes income from property, capital, land and entrepreneurship. It is earned in both the private and government enterprises.

The operating surplus includes the following items:

- Rent
- Interest
- Profit (Dividend + Corporation Tax + Undistributed Profit)

Mixed Income :- Mixed Income refers to the incomes of the self-employed resources by the enterprise. These income are mixed in terms of wages, rent, interest, and profit.

$$NDP_{fc} = COE + OS + \text{Mixed Income}$$

Net Factor Income from Abroad :-

$$NNP_{fc} = NDP_{fc} + NIFA$$

$$NNHP = NNP_{fc} + \text{Net Indirect Tax}$$

$$GNHP = NNHP + \text{Dep.}$$

$$\text{Net Indirect Tax} = \text{Indirect Tax} - \text{Subsidies.}$$

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2. Product Method:- In the production method, the money value of all final goods and services produced in a country within the year is calculated.

- Classification of output:-

- (i) Consumer non-durable goods like milk, bread etc.
- (ii) Consumer durable goods like television sets, etc.
- (iii) value of services.

3. Final Output Method:- According to this technique, national income is estimated by finding the market value of final goods and services in an year.

$$GDP_{MP} = P \times Q$$

$$GNP_{MP} = GDP_{MP} + NIFA$$

$$NNP_{MP} = GNP_{MP} - Dep.$$

$$NNP_{FC} = NNP_{MP} - Net Indirect Tax$$

* Difficulties in the Measurement of National Income:-

- (i) Conceptual difficulties:- Treatment of defence expenditure, capital expenditure etc. are treated differently in different countries.

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(2) Problem of economic dualism:- In many developing countries, where along with the market sector, certain sector still exists which is totally non-monetised.

(3) Problem of Double Counting:- Sometimes it is difficult to make a distinction between intermediate consumption and final consumption. Hence the same transaction is counted for more than once.

(4) Problem of Depreciation Accounting:- When we deduct capital depreciation from GNP, the resulting measure is NNP. Depreciation is a charge on profits which lowers national income.

(5) Flexible Occupational structure of population:- In India there is no specific classification of working population in different occupations.

(6) Problem of Data:- A very crucial problem in estimation of national income is not only the insufficiency of data. Sometimes it so happens that estimation of national income by one agency is different.

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Define national income and explain the relation between national income and economic welfare.

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Ordinary national income and economic welfare are positively associated. Every increase in national income will increase economic welfare, and vice versa. To study this relationship in detail, we will have to examine the following four fundamental heads of national income:

(i) Change in the size and composition of National income and Economic welfare.

(ii) Change in the distribution of National Income and Economic welfare.

(iii) Changes in the Components of National Income and Economic welfare.

(iv) Stability in National Income and Economic welfare.

(1) Changes in the Size and Composition of National Income and Economic welfare:- Ordinarily the size and composition of National Income has a

direct and positive relationship with economic welfare. As a result of a change in the level of national income, there should be no reduction in the income of the weaker sections of society.

If the tastes and habits of the people changes suitably and favourably, economic welfare will go up

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2) Changes in the Distribution of National Income and Economic welfare:- There can be two forms of it: (a)

(b) Transfer of National Income from the richer section and of society to the poorer section of society.

(a) Transfer of National Income from poor to Rich:- According to some economists, if a part of the income of the poorer section of society is transferred to the richer section, it will go a long way in increasing National Product.

(b) Transfer of National Income from Rich to Poor:- Today, on account of socialist tendencies prevailing in almost all the countries of the world, efforts are being made towards:-

(i) Transfer of Purchasing power through Direct Method:- This method aims at cutting off a part of incomes of the rich and transferring it to the poor.

(ii) Transfer of Purchasing power through Indirect Method:- According to this method, instead of money income, real income is transferred.

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(3) Stability in National Income and Economic welfare:- In a capitalist economy, the stability in national income depends upon the decision of the producers regarding production. In these economies, the profit motive plays a vital role in inspiring the producers. If the size of increase in national income is permanent, it is an indicator of better economic welfare.

(4) Changes in the Components of National Income and Economic welfare:- After studying a relationship between we shall now try to know which of the various components of national income cause an increase in economic welfare.

After examining thoroughly different concepts in the above different sections and sub-sections, we arrive at the conclusion that the concept.