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**1. The concept of elasticity for demand is importance for determining the prices of various factors of production. Discuss the various factors that influences the price elasticity of demand.**

**Answer**: The term elasticity is borrowed from physics. It shows the reaction of one variable with respect to a change in other variables on which it is dependent. Elasticity is an index of reaction.

In economics the term elasticity refers to a ratio of the relative changes in two quantities. It measures the responsiveness of one variable to the changes in another variable.

Elasticity of demand is generally defined as the responsiveness or sensitiveness of demand to a given change in the price of a commodity. It refers to the capacity of demand either to stretch or shrink to a given change in price. Elasticity of demand indicates a ratio of relative changes in two quantities.ie, price and demand. According to prof. Boulding. “Elasticity of demand measures the responsiveness of demand to changes in price” 1 In the words of Marshall,” The elasticity (or responsiveness) of demand in a market is great or small according to the

**2. Complete the hypothetical table below and explain in brief, the behaviour of each type of cost.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Quantity**  | **Total Fixed Cost**  | **Total Variable Cost**  | **Total Cost**  | **Average Fixed Cost**  | **Average Variable Cost**  | **Total Cost** | **Marginal Cost**  |
| **0** |  | **0** |  |  |  |  |  |
| **1** |  | **25** |  |  |  |  |  |
| **2** |  | **40** |  |  |  |  |  |
| **3** |  | **50** |  |  |  |  |  |
| **4** |  | **60** |  |  |  |  |  |
| **5** | **100** | **80** |  |  |  |  |  |
| **6** |  | **110** |  |  |  |  |  |
| **7** |  | **150** |  |  |  |  |  |
| **8** |  | **300** |  |  |  |  |  |
| **9** |  | **500** |  |  |  |  |  |
| **10** |  | **900** |  |  |  |  |  |

**Answer**: **Fixed Cost** refers to total money expenses incurred on fixed inputs like plant, machinery, tools & equipments in the short run. Total fixed cost corresponds to the fixed inputs in the short run production function. TFC remains the same at all levels of output in the short run. It is the same when output is nil. It indicates that whatever may be the quantity of output, whether 1 to 6 units, TFC remains constant. The TFC curve is horizontal and parallel to OX-axis, showing that it is constant regardless of out put per unit of time. TFC starts from a point on Y-axis indicating that the total fixed cost will be incurred even if the output is zero.

TFC = TC - TVC

**Variable Cost** refers to total money expenses incurred on the variable factor inputs like raw materials, power, fuel, water, transport and communication etc, in the short run. Total variable cost corresponds

**3. Demand forecasting in an organisations plays a vital role in business organisations. It provides reasonable data for the organization's capital investment and expansion decision.**

**a. Keeping the above statement in consideration. Discuss the various steps involved in demand forecasting**

**b. Discuss the various needs for demand forecasting in business organisations?**

**Answer**: a) Demand forecasting seeks to investigate and measure the forces that determine sales for existing and new products. Generally, companies plan their business - production or sales in anticipation of future demand. Hence forecasting future demand becomes important. The art of successful business lies in avoiding or minimizing the risks involved as far as possible and face the uncertainties in a most befitting manner. Thus DemandForecasting refers to an estimation of most likely future demand for product under given conditions.

**Various steps involved in demand forecasting**

1. **Determining the objectives**: The first step in this regard is to consider the objectives of sales forecasting carefully.
2. **Period of forecasting:** Before taking up forecasting, the company has to decide the period of forecasting — Whether it