**Business Economics**

**December 2023 Examination**

**Q1. “Demand forecasting plays a vital role and enables organisations to arrange for the required input as per the predicted demand, without any wastage of material and time”**

**Substantiate your view on demand forecasting and discuss the various factors influencing demand forecasting. (10 Marks)**

**Ans 1.**

**Introduction**

Demand forecasting is the systematic process of estimating the future demand for a product or service. It functions as the cornerstone for many critical business decisions, be it production, financial planning, or human resource management. In a rapidly changing and highly competitive global marketplace, businesses cannot rely merely on historical data or gut instinct. The implications of overestimating or underestimating demand can be severe, affecting a company's profitability, market reputation, and operational efficiency. Overestimation can lead to inventory piling up, increased carrying costs, and eventual losses upon clearance sales. Conversely, underestimation can result in stockouts, loss of market share, and reduced customer trust. Hence, having an accurate prediction of demand helps businesses to plan

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**Q2. Define the term “Elasticity of demand.” Discuss different types of elasticity of demand. Also, explain why this concept should be of interest to anyone in business who has a choice to determine the price at which to sell their products. (10 Marks)**

**Ans 2.**

**Introduction**

Elasticity of demand is a central concept in the realm of economics and business. At its essence, it gauges how sensitively consumer demand responds to changes in various determinants, most notably price. In a market-driven economy where prices oscillate due to numerous factors, understanding how these fluctuations impact consumer buying behavior is paramount. For businesses, elasticity isn't just an abstract concept; it's a vital metric that directly influences their pricing strategies, revenue models, and market positioning. This importance stems from its direct relationship with a firm's revenue and profitability. Understanding demand elasticity aids businesses in making informed decisions about pricing their products, anticipating market reactions, and strategizing marketing efforts. In this discourse, we'll

**Q3 A) “The root of the economic problem is the scarcity of resources while our wants are infinite”. Elaborate the given statement explaining the three types of economic problems faced by an economy in achieving in production and distribution. (5 Marks)**

**Ans 3a.**

**Introduction**

One of the foundational principles in economics revolves around the concept of scarcity. The quintessential dilemma is that resources – time, money, land, labor, and others – are limited, while human wants and needs are virtually endless. This disparity between limited resources and unlimited desires propels the need for making choices, leading to various economic problems. Economies, regardless of their development stages, grapple with determining what to produce, how to

**Q3b) Complete the hypothetical table - compute and show steps on Average Product and Marginal product. (5 Marks)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Quantity** | **Total****Product** | **Average****Product** | **Marginal product** |
| **1** | **10** |  |  |
| **2** | **30** |  |  |
| **3** | **48** |  |  |
| **4** | **56** |  |  |
| **5** | **56** |  |  |
| **6** | **52** |  |  |

**Ans 3b.**

**Introduction**

The concepts of Average Product (AP) and Marginal Product (MP) are fundamental in understanding the law of diminishing returns in production economics. The Average Product is the output per unit of the variable factor employed, while the Marginal Product is the additional output resulting from employing an additional unit of the variable factor, keeping all other factors constant. By computing these values, we can identify patterns and assess the efficiency of productio