**Business Economics**

**December 2024 Examination**

**Q1. Imagine you are a market analyst for a popular snack company, MunchTime Snacks. The company produces a range of snacks, including chips, cookies, and nuts. Recently, MunchTime Snacks conducted a survey to understand consumer behavior regarding their most popular product, the MunchTime Potato Chips.**

**The survey revealed the following data on consumer satisfaction and consumption of**

**MunchTime Potato Chips:**

**Consumer A: Initially buys 1 bag of chips and rates their satisfaction level at 8 out of 10. Consumer A: After buying a second bag, the satisfaction level drops to 5 out of 10. Consumer A: After buying a third bag, the satisfaction level further drops to 3 out of 10. Identify the given law /theory which is stated is the given statement. Enumerate the given statement and explain various assumptions related to this theory (10 marks)**

**Ans 1.**

**Introduction**

In the field of economics, consumer behavior is essential for understanding how individuals make decisions about the consumption of goods and services. When it comes to product satisfaction, companies rely on consumer feedback to gauge how well their offerings meet expectations. The data provided in this scenario shows a decline in Consumer A's satisfaction as they consume additional bags of MunchTime Potato Chips. This example highlights a fundamental economic principle known as the Law of Diminishing Marginal Utility. The law illustrates how the additional satisfaction, or utility, that a consumer gains from consuming extra units of a product decreases as more of the product

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**Q2. “Price elasticity of demand measures how the quantity demanded of a good or service responds to changes in its price. It indicates the sensitivity of consumers to price fluctuations.” Keeping the above statement in mind, Enumerate the various significance of Price elasticity of demand. (10 marks)**

**Ans 2.**

**Introduction**

Price elasticity of demand (PED) is a key concept in economics that measures the responsiveness of the quantity demanded of a good or service to changes in its price. It reflects how sensitive consumers are to price fluctuations. A product with high price elasticity will see significant changes in demand when its price changes, while a product with low price elasticity will have relatively stable demand despite price shifts. Understanding PED is crucial for businesses, policymakers, and economists because it influences pricing strategies, revenue projections, and economic policies. For instance, products like luxury goods often exhibit high price elasticity, while essential goods like basic food items tend to have low elasticity. This distinction helps businesses

**Q3 A. From the given hypothetical table, Calculate Marginal Utility from the given information. (5 Marks)**

|  |  |  |
| --- | --- | --- |
| **Unit Consumed** | **Total Utility (TU)** | **Marginal Utility****(MU)** |
| **0** | **0** |  |
| **1** | **10** |  |
| **2** | **18** |  |
| **3** | **24** |  |
| **4** | **28** |  |

**Ans 3a.**

**Introduction**

Marginal Utility (MU) is a concept in economics that measures the additional satisfaction or benefit a consumer derives from consuming one more unit of a good or service. It is calculated by determining the change in total utility (TU) when an additional unit is consumed. The calculation of marginal utility helps economists and businesses understand consumer behavior and preferences, which is crucial for making decisions