

B.COM.
SEMESTER II
Managerial Economics (CC 7)
(100 Marks, 60 Lectures)

Objective: The basic objective of this course is to familiarize the students with the approach, concepts and advanced techniques of managerial economics that are applied in business decision making.

Unit I Pricing Decisions

(20 Marks, 12 Lectures)

- a) **Pricing Methods and Strategies** – Cost based pricing(cost plus, marginal cost & target return pricing), Competition based pricing(penetration, entry deterring and going rate pricing), Product life cycle based pricing(price skimming, packaging, perceived value, loss leader pricing), Cyclical pricing (rigid and flexible pricing), Multi-product pricing, Peak load pricing, Sealed bid pricing, Retail pricing, Administered pricing, Export pricing, International price discrimination, Dumping and transfer pricing.
- b) **General considerations and objectives of pricing policy** – Price elasticity of demand and pricing – price forecasting.

Unit II Profit Analysis

(20 Marks, 12 Lectures)

- a) **Profit**
Meaning, Different concepts, nature, kinds and role of profit; profit policy, profit limiting factors
- b) **Break Even Analysis**
Meaning, assumptions, uses, limitations, application, break even chart and calculation of Break-Even Quantity and Break-Even Sales, contribution margin, safety margin, targeted sales volume and expected profits; Profit-volume (P/V) analysis -meaning, chart, assumptions and measurement (Numerical Problems to be included) Profit forecasting: meaning and methods

Unit III Capital Budgeting

(30 Marks, 18 Lectures)

- a) **Capital budgeting**
Meaning; Nature; Process; Significance; Factors influencing investment decisions; Approaches to determine size of capital budget; Types of projects; steps in capital project evaluation; Methods of project evaluation with numerical problems (Payback period, Average rate of return (ARR), Net Present Value (NPV), Profitability Index(PI) and Internal Rate of Return (IRR) methods); Social cost-benefit analysis (concept, objectives, steps involved and evaluation)
- b) **Cost of capital**
Sources of funds for long-term financing; cost of debt, cost of preference share capital, cost of equity capital, cost of retained earnings – the weighted cost of capital (numerical problems to be included)

Unit IV Decision and Risk Analysis in Business

(30 Marks , 18 Lectures)

- a) **Business Decision making** – certainty , risk and uncertainty, sources of business risk, steps involved in analysis of risky decisions, risk premiums, risk adjustment

- b) Risk and Investment Proposals – measures of incorporating risk(expected value and standard deviation), methods to decide selection of project (the finite-horizon, risk adjusted discount rate, certainty equivalent and decision tree analysis method)

Decisions under uncertainty - Game Theory (Assumptions, Structure, Significance, Limitations and Strategies) – Pure Strategy, Nash Equilibrium, Prisoners' Dilemma, and Applications of Game Theory in Economics. (Numerical problems to be included).

References :

1. Ahuja. H. L. '*Advanced Economic Theory (microeconomic Analysis)*' S. Chand Limited, New Delhi
2. Geetika, Ghosh. P. & Roy Choudhury. P. '*Managerial Economics*' Tata McGraw Hill Education Pvt Ltd, New Delhi.
3. Indira Gandhi National Open University: School of Management: Managerial Economics- MS/9
4. Mehta, P.L. '*Managerial Economics*', Sultan Chand & Sons, Educational Publishers, New Delhi.
5. Mithani.D.M. '*Managerial Economics (Theory & Application)*' Himalaya Publishing House, New Delhi.
6. Mukherjee Sampat, '*Business and Managerial Economics*', New Central Book Agency (P) Ltd., Calcutta.
7. Samuelson, Paul A and Nordhaus, W.P., '*Economics*', McGraw Hill, New York.
8. Varshney R.L. & Maheshwari. K.L., '*Managerial Economics*' Sultan Chand & Sons, Educational Publishers, New Delhi.