ENGINEERING ECONOMICS AND FINANCIAL ACCOUNTING

2 MARKS

1. What is managerial economics?
    - It is the integration of economic theory with business practice for the purpose of facilitating decision making and for the purpose of facilitation decision making and forward planning by management.
    - It is an application of that part of microeconomic principles such as demand, production, cost, pricing, market structure and government regulations which focused attention on managerial enterprises.
2. Define managerial economics
    1. "Managerial economics refers to those aspects of economics and its tools of analysis most relevant to the firm's decision-making process"
    2. "Managerial economics consists of the use of economic modes of thought to analyse business situations"
3. Define Marginal and Incremental principle

    This principle states that a decision is said to be rational and sound if given the firm's objective of profit maximization, it leads to increase in profit, which is in either of two scenarios-

    - If total revenue increases more that total cost.
    - If total revenue declines less than total cost.
4. State the law of equi-marginal principle

The laws of equi-marginal utility states that a consumer will reach the stage of equilibrium when the marginal utilities of various commodities he consumes are equal.

5. What is time perspective principle?

    According to this principle, a manager/decision maker should give due emphasis, both to short-term and long-term impact of his decisions, giving apt significance to the different time periods before reaching any decision.

6. State discounting principle.

According to this principle, if a decision affects cost and revenues in long run, all those costs and revenues must be discounted to present values before valid comparison of alternatives is possible.

7. What is firm?

A firm is a unit engaged in production of goods and services. The term firm includes all those enterprises which are related with the production not only of goods but also of services.

8. Define sole proprietorship

It may be a single owner or proprietary firm in which an individual invests his own or borrowed capital, uses his own skills in management, and is solely responsible for the results of operations. The profit or losses are not shared with anyone.

9. Define partnership

It is "relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all"

10. What is profit maximization of a firm?

It means the largest absolute amount of profits over a time period, both short term and long term. Short term is a period where adjustments cannot be made quickly in matters of supply and demand. Long run however enables adjustment to changed conditions.

11. What is uncertainty?

Uncertainty is a state where there is an unawareness of all the alternatives and so also the outcomes-even for the known alternatives.

12. What is decision making?

It is process which includes identifying and defining the nature of the situation, identifying acceptable alternative courses of action, choosing the "best" one and placing it into operation.

13. Write down the steps involved in decision making.

- Identifying the problem.
- Analyzing the problem

- Developing alternative solution for the problem
- Evaluating the alternatives
- Deciding the best course of action
- Conversion of decision into action
- Control.

14. What is decision analysis?

It is the art and science of formal decision making. It is often employed in making business decisions and uses specific methods and tools to identify and assess factors, risks and possible outcomes to reach optimal decisions in an uncertain situation.

15. Differentiate between desire and demand for a commodity.

A desire is just a wish for a commodity and a person may desire for any number of commodities without having the capacity to buy it from the market. A desire becomes demand when it is backed by ability and willingness to pay the price for a commodity.

16. What is derived demand?

It is the demand which has been derived from the demand of some other commodity that it helps to produce e.g. demand for bricks is derived from the demand for construction of a house.

17. What is composite demand?

The demand for a commodity which can be put to several uses and an satisfy two or more than two wants is called composite demand.

The relationship between the demand for goods and the price of complementary goods is inverse. When the price of complementary goods falls its demand would increase. It would increase the demand for goods as they are going to be used along with the complementary goods.

18. State the law of diminishing marginal utility.

It states that with successive increase in the units of consumption of a commodity, every additional unit of that commodity gives lesser satisfaction to the consumer. Consumption beyond point of satiety.

19. What is the meant by the income effect?

Income effect is a part of the price effect. When the price of commodity falls, real income or the purchasing power of the consumer increase. As a result more of the goods will be demanded due to increase in real income is called the income effect of the price change.

20. What is meant by the substitution effect?

It is a part of price effect. When the price of a commodity falls, it becomes relatively cheaper than its substitutes. So the people who were consuming other goods would now start consuming the commodity whose price has fallen, as a result its demand increases.

21. What are the assumptions of law of demand?
    1. Price of related goods remains constant
    2. Income of the consumer does not change
    3. Tastes and preferences of the people remain unchanged.
22. What are the factors which affect the price elasticity of demand for a commodity?
    1. Nature of the commodity
    2. Availability of substitutes
    3. Share in the total expenditure
    4. Different uses of a commodity.
23. What are inferior goods?

It is one which has a lower priority in order of consumer’s preferences because better substitutes exist which the consumer perceives to be superior. A consumer demands inferior goods when he does not have adequate income although he may have desire for superior goods.

24. State the assumption of the law of supply
    1. Price of related goods remains unchanged
    2. Technology of production should not change.
    3. Cost of factors of production should remain the same
    4. Goals of the firm should not change.
25. Give any three factors affecting elasticity of supply.
    1. Nature of commodity
    2. Cost of production
    3. Time element
26. What are the determinants of supply?
    1. Price of the product

2. Technology changes
3. Resources supplies
4. Tax/subsidy
5. Expectations about future price
6. Price of other goods purchased

27. Define market demand.

Market demand is the total quantity demanded by all the purchasers together.

28. What is capital?

It is the value of resources owned and deployed in a business. Initially, business promoters provide capital either from their won sayings or loans from outside. This cash is converted into assets such as land building, plant and machinery, etc.

29. State the law of supply.

The law of supply states that the quantity of a commodity supplied varies directly with the price, other determinants of supply remaining constant.

30. Define price elasticity of supply.

Price elasticity of supply measures the relationship between change in quantity supplied and a change in price.

31. What is disequilibrium?

When supply and demand are equal the economy is said to be at equilibrium. At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of goods being demanded.

32. What is fixed cost?

Fixed costs are the costs which do not change with change in the level of output. Fixed costs include the following expenses:

1. Rent of the building used for business.
2. Wages of permanent employees.

33. Define marginal cost

Marginal cost is the change in total cost by producing an additional unit of output.

34. State the factors influencing pricing decisions.
    1. Cost of manufacturing
    2. Objectives and policies of management
    3. Demand of the product
    4. Competitor's influences in the market
    5. Purchasing power of the consumer
    6. Distribution strength of the firm
    7. Government policies

35. Explain short run period in economics.

It is defined as a period during which at least one element of factor input is in fixed input is in fixed supply, the fixed factor input is plant and equipment.

36. State and explain the law of demand?

The law of demand states, that other things being equal, demand expands when price falls and contracts when price rises.

37. Define Cross-elasticity of demand.

Cross elasticity of demand is the responsiveness of demand for a commodity, say 'x', to a given change in the price of a related commodity, say 'y'.

38. List out the different methods of demand forecasting.
    1. Delphi method
    2. Nominal group method
    3. Market research method
    4. Sales force composite method
    5. Simple average method
    6. Moving average method
    7. Trend projection method
    8. Correlation regression method

39. What is meant by incremental cost?

Incremental cost is the additional cost due to a change in the level or nature of business actitvity.

40. What is break- even point?

Break-even point for a firm occurs where it's TR=TC, i.e., total revenue equals total costs. The firm in this situation makes normal profits only or it is a no profit- no los situation. The long run equilibrium of all competitive firms will occur only at the break-even point.

41. List out the various pricing policies in India.
    1. Skim pricing
    2. Penetration pricing
    3. Mixed pricing
    4. Absorption cost pricing
    5. Market pricing
    6. Sealed-bid pricing
42. What is meant by opportunity cost?

    Opportunity cost of a factor refers to is value in its next best alternative use.

    It is also known as transfer earnings on the cost of foregone alternatives.

43. What is per capita income?

    Per capita income means the amount of income per person, calculated by dividing the total income of a group by the number of individuals comprises.

44. What is survey method of forecasting?

    It is a systematic gathering, recording and analyzing of primary data through survey which is conduction of interview with a target population by administration structured questionnaire.

45. What is average cost?

    Average cost is per unit cost of producing a commodity, i.e., total cost divided by the number of units of output.

46. Explain fixed cost.

These are the costs incurred on fixed factor inputs. Remains fixed at all levels of output. Fixed costs are incurred even at zero output level.

47. What are the pricing methods?

    1. Cost-plus pricing method
    2. Break-even analysis method
    3. Target rate-of-return method
    4. Leadership pricing method
    5. Going rate pricing method
    6. Marginal cost pricing method

48. What is price index?

    The ratio of one or combination prices to the price of the same item or combination of items at a different time.

49. Name the factors influencing demand.

    1. Changes in the price of other goods.
    2. State of trade
    3. Changes of taste and fashion
    4. Changes in the quantity of money
    5. Changes in the size of population
    6. Changes in real income
    7. Advertisement expenditure
    8. Changes in availability of credit

50. What is demand forecasting?

    Demand forecasting is the estimate of level of demand amount or quantity to be expected for goods or services for some period of time in the future.

51. Define incremental cost.

It is the additional cost due to a change in the level of business activity. The change may take several forms, like addition of new products, adding new machines etc.

52. What is meant by perfect competition?

It is usually, another name for pure competition. According to some writers, a market characterized by pure completion, complete freedom of entry, and no special advantages of any seller over another, along with total mobility of productive factors from one industry to another.

53. Define imperfect competition.

A market situation in which neither absolute monopoly nor perfect competition prevail; a situation closest to real life in most circumstances.

54. List three semi-variable costs.

1. Electricity charges
2. Telephone charges
3. Depreciation
4. Maintenance expenses

55. Define ‘perfect completion’

It is a market situation in which there is a large number of buyers and sellers and a uniform price prevails in the market. Individual buyers and sellers cannot influence price.

56. Define monopolistic competition

It is a market situation in which both the monopolistic element and the competitive element are present. There is a large number of buyers and sellers and the existence of differentiate produced where firms can enter or leave the industry freely.

57. Define monopoly

A monopoly is a market situation in which there is a single seller of the commodity with no close substitutes available in the market. The single seller can influence the price by varying his sales.

58. Define oligopoly

Oligopoly is a market situation in which there are a few sellers of the commodity, each producing a substantial proportion to the total output of the industry.

59. Explain the basic economic concept of scarcity.

Scarcity is a relative term, indicating shortage in relation to demand. It is only because of scarcity that price exists.

60. What is meant by supply in economics?

Supply is the amount of commodity or service which will be offered for sale at a given price per unit of time.

61. Explain the relationship between cost and output.

The cost of production in an industry depends on the rate of output which is important in economic analysis of cost. The relationship between cost and output determines the cost function.

62. List the main difference between short term and long term cost.

The short term cost are cost which are recurring but the long term cost are used over a period of time i.e., the time duration is longer. For example, capital investment is a long term cost whereas the purchase of raw-materials is a short-term cost.

63. What is monopolistic competition?

It is a market situation in which competition exists between each of two or more sellers whose products are close, but not perfect, substitutes for one another. Products are differentiated by means of distinctive brand names, variations in preparation and presentation and bye advertising.

64. What is full-cost pricing?

Full- cost pricing is one of the popular methods of pricing under which the final price of a product is determined after adding some markup to the full cost.

65. Define safety margin

Safety margin is the difference between the actual sales quantity and the break-even sales quality expressed in monetary terms or as a percentage.

66. What are producer's goods? Give examples.

Producer's goods are economic goods made for the purpose of producing consumer goods and other capital goods. Example: machinery of all kinds, cotton, cement, process materials, components parts etc.

67. State four pricing methods employed by businessmen.

    1. Full costpricing
    2. Target rate of return pricing
    3. Going rate pricing
    4. Sealed-bid pricing.

68. What is increase in demand?

    Increase in demand occurs when the price falls.; this will be illustrated by the downward sloping curve of demand curve.

69. Name the types of elasticity of demand.

    1. Price elasticity of demand
    2. Income elasticity of demand
    3. Cross elasticity of demand

70. What is utility?

    It is the capacity of a good or service to satisfy a human want. Utility cannot be measured in any definite quantitative form.

71. List the various types of competitions existing in the market.

    1. Perfect competition
    2. Imperfect competition
    3. Monopolistic competition
    4. Oligopoly
    5. Monopoly
    6. Monopsony
    7. Oligopsony

72. What is engineering economics?

    Engineering economics is concerned with the application of economic principles to engineering problems.

73. What are the various methods of presenting comparative financial statement?

1. Ratio analysis
2. Funds flow statement
3. Cash flow statement
4. Comparative income statement
5. Comparative balance sheet
6. Common size statement
7. Trend percentage

74. What is balance sheet?

The balance sheet comprises of a list of assets, liabilities and capital fund at a given date. It sets forth the financial condition of a business concern as revealed by the accounting records.

75. Explain rate of return.

It is the ratio of return from the investment of a sum of money over a period to the amount of money invested. Also know as yield or accounting rate of return on investment.

76. Define capital budgeting

It can be defined as a function which is concerned with designing and carrying through a systematic investment programme for acquiring fixed assets. Such as land, building, plant, equipments etc.

77. Define pay back period

It is the length of time it will take an investment to return what was put in. this technique is generally used for forecasting when a project will reaches breakeven point.

78. Define cash flow.

It is the amount of cash being received and expended by a business, which is often analysed into its various components. It projection sets out all the expected payments and receipts in a given period.

79. What is ratio analysis?

An analysis of financial statements based on ratios is known as ratio analysis. A ratio is a mathematical relationship between two or more items taken from the financial statements.

80. What are the components of cost?

1. Prime cost
2. Factory cost
3. Office cost
4. Total cost