ASSIGNMENT

Course Code	**:**	**MMPC-010**
Course Title	**:**	**Managerial Economics**
Assignment Code	**:**	**MMPC-010/TMA/JAN/2026**
Coverage	**:**	**All Blocks**

Note: Attempt all the questions and submit this assignment to the coordinator of your study centre. Last date of submission for January 2026 session is 30th April, 2026 and for July 2026 session is 31st October, 2026.

1. "The Equi-Marginal Principle can be applied to both consumption as well as production". Discuss this statement with the help of an example.

2. "The main determinant of elasticity is the availability of substitutes." Explain this statement in the context of Price elasticity of demand.

3. Differentiate between Isocost and Isoquants. Analyze graphically, how an optimal combination of inputs can be arrived in the long run using Isocost and Isoquant.

4. Critically analyze pricing decisions under Perfect Competition and under Monopoly.

5. Explain Price Discrimination. Does Price Discrimination exist in the real world? Discuss with reference to any particular product or service.

1. “The Equi-Marginal Principle can be applied to both consumption as well as production”. Discuss this statement with the help of an example.

Answer

The equi-marginal principle is a rule for allocating a limited resource among different uses so that the last unit spent or employed in each use gives the same marginal return. A consumer has limited income and a producer has limited productive resources or expenditure. In both cases, the decision-maker can improve the total result by shifting a unit of the scarce resource from a use with a lower marginal return to a use with a higher marginal return. This process continues until the marginal return per unit of resource is equal in all important uses. At that point, no further reallocation can increase total satisfaction or total output at the margin.

Application to consumption

In consumer theory, the principle is commonly expressed through marginal utility per rupee. Suppose a consumer buys two goods, X and Y, whose prices are Px and Py. If the marginal utility obtained from the last rupee spent on X is greater than the marginal utility obtained from the last rupee spent on Y, the consumer can increase total utility by spending a little more on X and a little less on Y. The reallocation changes the marginal utilities because marginal utility generally falls as more units of a good are consumed. Consumer equilibrium is reached when the ratios become equal, subject to the budget constraint: MUx/Px = MUy/Py. If money itself is treated as another use, the marginal utility of money also provides a reference for the allocation.

Consider a simple example. A student has Rs. 300 available for snacks during a study day. Tea costs Rs. 30 per cup and sandwiches cost Rs. 60 each. The student should not divide the money mechanically. Suppose the first few cups of tea give a high addition to satisfaction, but each extra cup gives less additional satisfaction. The same is true of sandwiches. If the last Rs. 30 spent on tea gives 18 units of marginal utility while Rs. 30 worth of the last sandwich purchase gives only 10 units, some expenditure should move toward tea. As tea consumption rises and sandwich consumption falls, the marginal utility per rupee of tea falls and that of sandwiches rises. The best affordable combination is reached when the marginal utility obtained from the last rupee spent on both goods is approximately equal. The principle therefore explains not only what to buy but also how much of each good to buy.