ANURAG
Engineering Engineers

ANURAG GROUP OF INSTITUTION

SCHOOL OF BUSINESS MANAGEMENT
MANAGERIAL ECONOMICS TEACHING PLAN 2016-2017

SL.NO	NO OF CLASSES REQUIRED	CONTENT	REFERENCES	CASE
1	**I**	**Introduction to Economics**		
2	1	Definition and Nature of Managerial economics	P.L.Metha	CASE – I
3	1	Characteristics of Managerial economics		ASSIGNMENT
4	2	Managerial economics relation with other areas		
5	1	The role of Managerial economist	Hirschey	
6	1	Opportunity Cost, Incremental Concept		
7	1	Scarcity, Marginalisam, Equi – Marginalisam		
8	1	Time perspective, Risk and Uncertainty		
9	1	Revision		
10	**II**	**Theory of Demand**	P.L.Metha	CASE – II
11	1	Introduction and Definition of Demand		ASSIGNMENT
12	1	Determinants of Demand		
13	1	Demand Function		
14	1	Types of Demand		
15	1	Changes in Demand		
16	2	Introduction to Elasticity of Demand		
17	1	Definition and Types of price elasticity of demand		
18	1	Definition and Types of income elasticity		
19	1	Cross Elasticity of Demand		
20	1	Estimation of Demand		
21	1	Demand Forecasting		
22	2	Techniques of Demand Forecasting		
23	1	Introduction Supply Analysis		
24	1	Elasticity of Supply		
25	**III**	**Production Analysis**		CASE – III
26	1	Definition and factors of Production	Mithani	ASSIGNMENT
27	1	Production Function		

28	1	Production Function with one variable		
29	1	Production Function with Two variable		
30	1	Production Function with All variable	SumaDamodaran	
31	1	Cobb – Douglas Production Function		
32	1	Marginal Rate of Technical Substitute		
33	1	Economies of Scale and Types		
34	1	Innovation and Global Competitiveness		
35	**IV**	**Cost Theory and Estimation**		CASE – IV
36	1	Cost Concepts	Mithani	ASSIGNMENT
37	1	Cost Determinants	Hirschey	
38	3	Types of Cost		
39	2	Cost Output in Short Run		
40	1	Cost Output in Long Run	Hirschey	
41	1	Average Cost Curves		
42	1	Overall Cost Leadership		
43	2	Break Even Point Analysis		
44	**V**	**Market Structure and Pricing Strategies**	P.L.Metha	CASE – V
45	1	Introduction to Markets		ASSIGNMENT
46	1	Classification of Markets	Mithani	
47	1	Meaning and Features of Perfect Competition		
48	1	Price Determination of Perfect Competition	Hirschey	
49	1	Meaning and Features of Monopoly		
50	2	Price Determination of Monopoly		
51	1	Introduction to monopolistic competition		
52	2	Features and Price Determination under monopolistic competition		
53	1	Introduction and Features of Oligopoly	P.L.Metha	
54	1	Introduction and Features of Duopoly		
55	2	Pricing Methods		
56	2	Pricing Strategies	P.L.Metha	
57	1	Revision		

***63 CLASSES REQUIRED**

QUESTIONS

UNIT – I INTRODUCTION:

Short Type

1. Define managerial Economics?
2. Micro Economics.
3. Macro Economics.
4. Role of Managerial Economist.
5. Opportunity Cost.
6. Incremental concept.
7. Discounting Principle.

Essay questions

1. Define Managerial Economics? Discuss the nature and scope of Managerial Economics?
2. Define Managerial Economics? Its relationship with other areas?
3. Managerial Economics is the integration of economics theory with business practice for the purpose of decision making and forward planning by managers Explain and comment.
4. Explain the basic principles in Economics?

NOTES

Q. Define Managerial economics?

Managerial economics is the "application of the economic concepts and economic analysis to the problems of formulating rational managerial decisions". It is sometimes referred to as business economics and is a branch of economics that applies microeconomic analysis to decision methods of businesses or other management units. As such, it bridges economic theory and economics in practice. It draws heavily from quantitative techniques such as regression analysis, correlation and calculus. If there is a unifying theme that runs through most of managerial economics, it is the attempt to optimize business decisions given the firm's objectives and given constraints imposed by scarcity, for example through the use of operations research, mathematical programming, game theory for strategic decisions, and other computational methods.

Q.Explain Nature of Managerial Economics?

- The primary function of management executive in a business organization is decision making and forward planning.
- Decision making and forward planning go hand in hand with each other. Decision making means the process of selecting one action from two or more alternative courses of action. Forward planning means establishing plans for the future to carry out the decision so taken.
- The problem of choice arises because resources at the disposal of a business unit (land, labour, capital, and managerial capacity) are limited and the firm has to make the most profitable use of these resources.
- The decision making function is that of the business executive, he takes the decision which will ensure the most efficient means of attaining a desired objective, say profit maximisation. After taking the decision about the particular output, pricing, capital, raw-materials and power etc., are prepared. Forward planning and decision-making thus go on at the same time.
- A business manager's task is made difficult by the uncertainty which surrounds business decision-making. Nobody can predict the future course of business conditions. He prepares the best possible plans for the future depending on past experience and future outlook and yet he has to go on revising his plans in the light of new experience to minimise the failure. Managers are thus engaged in a continuous process of decision-making through an uncertain future and the overall problem confronting them is one of adjusting to uncertainty.

Q. Explain Scope of Managerial Economics?

- The scope of managerial economics is not yet clearly laid out because it is a developing science. Even then the following fields may be said to generally fall under Managerial Economics:
- 1. Demand Analysis and Forecasting
- 2. Cost and Production Analysis
- 3. Pricing Decisions, Policies and Practices
- 4. Profit Management
- 5. Capital Management

FILL IN THE BLANKS:

1. Managerial Economics is concerned with ---------- behavior of the firm (**ECONOMIC**)
2. Any activity aimed at earning money is called ---------------------------- (**ECONOMIC**)
3. Managerial Economic is closely related to -------------------- (**MICRO ECONOMICS**)
4. Economics was defined as a science of ------------------------ (**WEALTH**)
5. The statement that state how one should behave in a given context are called ---------- (**NORMATIVE STATEMENT**)

UNIT – II THEORY OF DEMAND:

Short Type

1. Define Demand?
2. Demand Function.
3. Cross Elasticity of Demand.
4. Price Elasticity of Demand.
5. Income Elasticity of Demand.
6. Delphi Method.
7. Supply.

Essay Type

1. What is Demand? Explain what are the Determinant of Demand?
2. What is Demand? Discuss various exceptions of this law?
3. What is Elasticity of Demand? Explain various type of Elasticity of Demand?
4. What is Demand Forecasting? Explain in brief various methods of Forecasting Demand?
5. What is Elasticity of Supply? Explain various types of Elasticity of supply?

NOTES

Q.What is Demand Analysis? Definition and Meaning!

Demand is the amount of goods that consumers or buyers are willing and capable to buy at a specific price in a specific time period while everything else remains the same. Demand is an **economic principle** that describes the willingness and desire of consumers to purchase specific goods or services at a specific ceteris paribus.

Q. What is Law of Demand?

The **Law of Demand** describes the inverse relationship of price and the quantity demanded, all else remaining constant. If the price is high, the quantity demand decreases and if the **price** decreases, then the quantity demand will increase.

Q. Elasticity of Demand?

The degree to which demand for a good or service varies with its price. Normally, sales increase with drop in prices and decrease with rise in prices. As a general rule, appliances, cars, confectionary and other non-essentials show elasticity of demand whereas most necessities (food, medicine, basic clothing) show inelasticity of demand (do not sell significantly more or less with changes in price).Also called price demand elasticity.

Q. Explain Different types of Elasticity of Demand?

After knowing what is demand and what is law of demand, we can now come to elasticity of demand. Law of demand will tell you the direction i.e. it tells you which way the demand goes when the price changes. But the elasticity of demand tells you how much the demand will change with the change in price to demand to the change in any factor.

Different types of Elasticity of Demand:

1. Price Elasticity of Demand
2. Income Elasticity of Demand
3. Cross Elasticity of Demand
4. Advertisement Elasticity of Demand

1. Price Elasticity of Demand: We will discuss how sensitive the change in demand is to the change in price. The measurement of this sensitivity in terms of percentage is called price Elasticity of Demand. According to Marshall, Price Elasticity of Demand is the degree of responsiveness of demand to the change in price of that commodity.

Types of Price Elasticity of Demands:

a) Perfectly Elastic

b) Perfectly Inelastic

c) Relatively Elastic

d) Relatively Inelastic

e) Unit Elasticity

2. Income elasticity of demand: In economics, the income elasticity of demand measures the responsiveness of the quantity demanded of a good to the change in the income of the people demanding the good. It is calculated as the ratio of the percent change in quantity demanded to the percent change in income. For example, if, in response to a 10% increase in income, the quantity of a good demanded increased by 20%, the income elasticity of demand would be 20%/10% = 2.

3. Cross elasticity of demand: In economics, the cross elasticity of demand and cross price elasticity of demand measures the responsiveness of the quantity demand of a good to a change in the price of another good.

FILL IN THE BLANKS

1. ----------------- deals with Consumer Behavior (**CONSUMPTION**)
2. The additional utility derived from consumption of an additional is called ------ (**MARGINAL UTILITY**)
3. Other things remaining same if price increases quantity demand decrease and vice versa is called -------- (**LAW OF DEMAND**)
4. An extension is the ----- movement along a demand curve (**DOWNWARD**)
5. The relationship between one variable and its determinants with respect to the quantity demand is called ----------------- (**DEMAND FUNCTION**)

UNIT – III PRODUCTION ANALYSIS:

Short Type

1. Production Function.
2. Cob Douglas Production Function.
3. Iso – Cost.
4. Iso – Quant.
5. Returns to Scale.
6. MRTS.
7. Internal Economies.
8. External Economies.

Essay Type

1. Define Production Function? And distinguish between short run and long run production?
2. What is production Function? Explain Production Function with One Variable?
3. What is production Function? Explain Production Function with Two Variables?

4. What is production Function? Explain Production Function with All Variables?
5. What are economies of Scale? Explain different types of Economies?

NOTES

Q.What is meant by Production?

A mathematical equation or graph that shows the relationship between physical inputs and physical outputs for a business. The production function for a business typically focuses on the physical and so does not take into account non physical aspects of production like prices.

PRODUCTION FUNCTION: Production function is defined as technical relationship between a given set of inputs and the possible output from it.

ISO QUANT: ISO QUANT refers to the curve throughout which equal quantity is obtained for several combinations of inputs underlying it.

MRTS: is refers to the rate at which one inputs factor is substituted with the other to attain a given level of output.

FILL IN THE BLANKS

1. Production function reveals ---------------- relationship that reveals the maximum amount of output possible from each set of inputs (**TECHNOLOGICAL**)
2. The quantities of output throughout a given ------- are called (**ISOPRODUCT**)
3. Returns to scale is also called --------- (**FACTOR PRODUCTIVE SCALE**)
4. The ratio of input to output is called --------- (**PRODUCTIVITY**)
5. The economies that accrue to all the firms in an industrial estate are called------------------ (**EXTERNAL ECONOMIES OF SCALE**)

UNIT – IV COST THEORY AND ESTIMATION

Short Type

1. Marginal Cost.
2. Fixed cost v/s variable cost.
3. Break Even Analysis.
4. Short Run Cost.
5. Long Run Cost.
6. Average Cost.

Essay Type

1. What is cost? Explain Cost Output Relationship in Short Run?
2. What is cost? Explain Cost – Output Relation in Long Run?
3. Explain the theory of BEP? With suitable Examples?

NOTES

What is meant by cost?

Cost: The term cost means anything which is sacrificed to obtain something. It may be actual or notional incurred or attributable to a given thing or to ascertain cost of a given thing. When we sacrifice something to obtain anything it is called cost. When we only sacrifice but does not get anything it may be called charity or donation but not cost.

FIXED COST: fixed cost remained fixed at all levels of production in the short run.

VARIABLE COST: variable cost varies along with the change in production.

SHORT RUN COST: is defined as the period relatively shorter when at least some of the factor of production can be consider fixed.

LONG RUN COST: is defined as the period any time beyond the short run over which all factor are variable.

OPPORTUNITY COST: Is refers to the cost of the next best alternative foregone.

FILL IN THE BLANKS

1. The cost of the best alternative foregone is called ------------ (**OPPORTUNITY COST**)
2. Addition to cost as a result of change in the level of business activity is called ---------- (**INCREMENTAL COST**)
3. The relationship between the variable cost and volume of production is --------------------- (**DIERCTLY PROPORATIONATELY**)
4. The LAC curve is ------------- to all the SACs (**TANGENT**)
5. LAC is a flat ----------------- shaped curve (**U SHAPED**)

UNIT – V MARKET STRUCTURE AND PRICING PRACTICE

Short Type

1. Perfect Competition.
2. Monopoly.
3. Duopoly.

4. Monopolistic Competition.
5. Oligopoly.
6. Price Rigidity.
7. Penetration Pricing.
8. Mark up Pricing.

Essay Type

1. Explain the features of perfect competition? How the Price Determination Under this market?
2. What is Monopoly Market? How the Price Determination under this Market?
3. What is Monopolistic Market? How the Price Determination under this Market?
4. What is Price Discrimination? Explain Types of Price Discrimination?
5. What is Oligopoly? Explain the features of this Market?
6. What is Duopoly? Explain the features of this Market?
7. Explain various pricing strategies in market structure?

NOTES

- **Monopolistic competition**: a type of imperfect competition such that many producers sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes. In monopolistic competition, a firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms
  Oligopoly: in which a market is run by a small number of firms that together control the majority of the market share.
  Duopoly: a special case of an oligopoly with two firms.
  Monopsony: when there is only a single buyer in a market.
  Oligopsony: a market where many sellers can be present but meet only a few buyers.
  Monopoly: where there is only one provider of a product or service.

FILL IN THE LANKS

1. The place or a point at which buyers and sellers negotiate the terms of purchase or sale is called ---------------------- (**MARKET**)
2. A market in which there is freedom of entry and exit for the traders is called ----------- (**PERFECT COMPETETION**)
3. The market with a single buyer is called -------- (**MONOPOSNY**)
4. The market with many producers each producing a differentiated product is called --------------- (**MONOPOLISTIC COMPETETION**)
5. In monopoly the marginal revenue is less than ----------- (**AVERAGE REVUNE**)

MODEL PAPER – I

(MANAGERIAL ECONOMICS)

Section – A (Short Answer type question) (5x4=20)

- Answer all Question, Each carry equal marks

Write a short note on

1. Opportunity Cost.
2. Demand Function.
3. Iso Quant.
4. Marginal Cost.
5. Kink Demand Curve.

Section – B (Essay Questions) (5x8=40)

11. (A) Define Managerial Economics? Discuss the nature and scope of Managerial Economics?

OR

(B) Explain the basic principles in Economics?

12. (A) what is Law of Demand? Discuss various exceptions of this law?

OR

(B) What is Elasticity of Demand? Explain various type of Elasticity of Demand?

13. (A) what is production Function? Explain Production Function with All Variables?

OR

(B) What is Economies of Scale? Explain different types of Economies?

14. (A) what is cost? Explain Cost Output Relationship in Short Run?

OR

(B) Explain the theory of BEP? With suitable Examples?

15. (A) Explain the features of perfect competition? How the Price Determination Under this market?

OR

(B) Explain various pricing strategies in market structure?

MODEL PAPER – II

(MANAGERIAL ECONOMICS)

Section – A (Short Answer type question) (5x4=20)

- Answer all Question, Each carry equal marks

Write a short note on

1. Difference between Micro Economics and Macro Economics.

2. Cross Elasticity of Demand.

3. MRTS.

4. Marginal Cost.

5. Oligopoly.

Section – B (Essay Questions) (5x8=40)

6. (A) Managerial Economics is the integration of economics theory with business practice for the purpose of decision making and forward planning by managers Explain and comment.

OR

(B) Define Managerial Economics? Its relationship with other areas?

7. (A) what is Demand? Discuss various exceptions of this law?

OR

(B) What is Demand Forecasting? Explain in brief various methods of Forecasting Demand?

8. (A) what is production Function? Explain Production Function with Two Variables?

OR

(B) What is Economies of Scale? Explain different types of Economies?

14. (A) what is cost? Explain Cost Output Relationship in Long Run?

OR

(B) Explain the theory of BEP? With suitable Examples?

15. (A) Explain the features of monopolistic competition? How the Price Determination Under this market?

OR

(B) Explain various pricing strategies in market structure?

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MANAGERIAL ECONOMICS 2014 REGULAR

Section – A (Short Answer type question) (10x2=20)

- Answer all Question, Each carry equal marks

Write a short note on

1 Distinguish between Micro and Macro Economics?

2. State Objectives of the Firm.

3. Explain Discounting Principles'.

4. Distinguish Risk and Uncertainty.

5. Write short notes on Cobb – Douglas Production Function.

6. Explain Returns to Scale.

7. Explain Absolute and Opportunity Cost.

8. State the distinction between Fixed and Variable Cost.

9. Define Oligopoly.

10. What is Price Discrimination?

Section – B (Essay Questions) (5x8=40)

11. (A) Define Managerial Economics and point out its chief characteristics, state how Managerial Economics differ from Economics.

OR

(B) Explain Simons Satisfying Model?

12. (A) Write a note on the following with suitable examples:

i) Law of Demand

ii) Demand Schedule

iii) Demand Determinants

OR

(B) Discuss briefly the various methods of forecasting demand and point out their limitation. What are the criteria of a good forecasting method?

13. (A) with the help of Isoquant and Isocost curves, Explain the concept of production Function with two variable inputs. How the optimum combination of inputs can be obtained?

OR

(B) Economies of Scale may be either internal or external they may be Technical, managerial, Financial or risk bearing Elucidate

14. (A) Discuss briefly different cost concepts relevant to managerial decision of planning and control

OR

(B) What is Break- even Point? How it can be calculated, explain with suitable example. Write the assumptions underlying Break – even Analysis.

15. (A) what are the features of perfect competition? Explain the Price output determination under perfect competition in Short Run.

OR

(B) Explain the following

i) Skimming Price Policy

ii) Penetration Pricing Policy

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MANAGERIAL ECONOMICS 2014 SUPPLYEMENTARY

Section – A (Short Answer type question) (10x2=20)

- Answer all Question, Each carry equal marks

Write a short note on

1 Define managerial Economics?

2. State Objectives of business Firm.

3. Explain the concept of Equi- Marginalisam.

4. What is meant by elasticity of Supply?

5. What is Cobb Douglas Production Function?

6. Economies of Scale.

7. Explain any 5 Cost concepts.

8. Define Economies of Scale with suitable example.

9. What are the features perfect Competition.

10. Define penetrations pricing and loss Leader Pricing?

Section – B (Essay Questions) (5x8=40)

11. (A) Define Managerial Economics? Discuss the nature and scope of Managerial Economics?

OR

(B) Explain different Theories of Firms?

12. (A) Discuss about Basic Economic Principles?

OR

(B) Define Demand? Explain the need for Demand Forecasting?

13. (A) Define production Function? Explain laws of returns to Scale?

OR

(B) Explain the Relationship of MRTS, Isoquant and Isocost to production function with two variables?

14. (A) Explain different types of Cost and cost concept in Economics?

OR

(B) Write short notes on:

i) Economies Scope

ii) Break – Even Analysis

iii) Overall cost Leadership

iv) Profit Volume Ratio

15. (A) Define Monopoly Market? And explain how Price is Determination Under this market?

OR

(B) Distinguish between Perfect Competition and Monopolistic Competition?

Additional case study: The demand for gas

The freezing cold spell at the beginning of 2010 not only increased demand for road salt, (see the additional case study for chapter 6) but it increased demand for gas in the UK.

Usage reached 454 cubic meters; the previous record was 449m set in January 2003. The National Grid which is responsible for energy in the UK issued several warnings in a matter of days that demand could outstrip supply and asked supplier so increase the supply. The National Grid also told major gas users, such as power plants, to reduce demand.

Big generators, such as E.On, have both gas-fired and coal-fired power stations and are able to choose between the two. In total, 27 large gas users were asked to switch - 12 in the East Midlands and 15 in the North West.

Questions

1. Illustrate the effect of the cold spell on the demand for gas using a demand curve diagram.
2. Illustrate the effect of the National Grid instructing major gas users to reduce their demand.
3. Analyze two other factors that you think influence demand for gas.
4. Do you think demand for gas is price elastic or price inelastic? Explain your reasoning.

Additional case study: Facebook

Firms in India are losing productivity because of Face book. Office staffs are spending too long on the social networking site. According to The Associated Chambers of Commerce and Industry (Assocham) employees use Orkut, Facebook, MySpace, and LinkedIn for "romancing" and other purposes. On average, employees spend an hour a day on sites like Face book. This reduces productivity by 12.5%. Nearly half of office employees accessed Facebook during work time. Some 83% saw nothing wrong in surfing at work during office hours. In September 2009 Portsmouth City Council in England banned staff from accessing Facebook on its computers when it was discovered that they spent, on average, 400 hours on the site every month.

Question

1. What is meant by productivity?
2. Analyze the impact on a fall in productivity on costs.
3. Analyze the possible consequences for businesses in India of banning access to Facebook and other social networking sites.
4. Do you think access should be denied?

Additional case study: Monopolies

Many European governments are reluctant to allow online betting in an attempt to protect their national gambling businesses. A recent study found that seven countries out of the 27 in the European Union banned online gambling. Of the other 20 only 13 have opened their markets to competition; in the rest gambling is dominated by monopolies owned or licensed by the government. In the Netherlands, for example, residents can only place online bets with a state monopoly: De Lotto. The Ministry of Justice even warned banks in the country that they could be prosecuted if they transferred money to online gambling companies. Other countries have ordered online betting companies to block access to their sites. Their governments argue that this is to protect people from gambling excessively. However the revenue they gain from their own monopolies should not be ignored as a possible motive.

Questions

1. If governments believe that gambling is bad for their citizens then in economic terms how would you classify this service?
2. Why might governments want to protect their own monopolies in the gambling sector?
3. What might be the effect of greater competition in the gambling industry in these countries?

Additional case study: Increased prices for drinks

In 2010 the government's main medical adviser drew up plans for a minimum price for alcohol intended to double the cost of some drinks.

Under the proposal no drinks could be sold for less than 50 pence per unit of alcohol they contain. This would mean most bottles of wine could not be sold for under £4.50. The proposal is aimed at reducing alcohol abuse. A spokesman for an opposition party said that it was more important to deal with peoples' attitudes and not just the price of alcohol.

The Portman Group, set up by drinks manufacturers to promote sensible drinking, argues that it would damage the majority of drinkers who behave responsibly in terms of their consumption.

The NHS bill for alcohol abuse is an estimated £ 2.7bn a year. Recent figures show hospital admissions linked to alcohol use have more than doubled in England since 1995. Alcohol was the main or secondary cause of 207,800 NHS admissions in 2006/7, compared to 93,500 in 1995/96. The number of alcohol-related deaths in England has doubled since the early 1990s to nearly 9,000 a year.

Questions

1. What sort of product is alcohol in economic terms if the government wants to restrict consumption of it?
2. Analyze the social costs of alcohol consumption.
3. Analyze the factors that would determine the impact of a price increase on the consumption of alcohol
4. Is introducing a minimum price a better way of reducing consumption than trying to change peoples' attitudes?

MANAGERS IN THE DOCK

The new productivity strategies require that managers loosen control over employees that they support rather than dominate employee efforts and that they proactively provide feedback, which may upset people. Productivity improvement also requires increased measurement and communication of results. Managers may be skeptical that productivity improvement will help them rather than hurt them. To the extent that managers use control-dominate-conflict avoidance to promote their careers, it is unreasonable to expect them to readily abandon these norms and related behaviors.

Mindlessness is a basic and frequent cause of resistance to productivity improvement. When managers and employees are not fully aware of the conditions that are necessary of success, productivity improvement often flounders. For examples, ask their employees to conduct a survey of program clients but fail to provide adequate time, resources, and training for the survey to be conducted properly. The lack of appropriate conditions givers rise to dissatisfaction and resistance. Obstacles occur that are not overcome. Mindlessness also cause complaints about intensively and authoritarian conduct. For example, managers often profess commitment to participatory decision – making process, but they are mindless when they fail to consider that subsequent autocratic decision - making will generate resistance. Mindlessness is often caused by competing priorities, inexperience and laziness

Questions:

1. Do you subscribe to the above – stated view?
2. Does one often encounter such situation in organization dictated by profit or non-profit objectives?
3. Is the above logic compatible with the theory of firm?

JEWELLERY IS THE NAME OF THE GAME

Once upon a time, there was a saying “Old is Gold”. Today the mantra is “Gold is Old”. The latest fashion trend is of diamond jewelllery. This shift in preference from gold to diamond jewellery was bound to happen. It doesn’t take a degree in Nuclear Physics to figure out that in today changing economic environment, consumption pattern are being dictated by the youth. And for them gold is flashy and gaudy. The biggest problem with gold jewellery is that you can’t wear it all the time. The bulk of the gold jewelry owned by consumers is worn only on specially occasion and then put a away in the locker. Diamond jewelry on the other hand, is practically and ideal for daily or casual use.

Many gold jewelry dealers that one reason why people are shifting away from gold jewelry is because of the decline in gold prices. A few years ago, gold was trading at Rs 5600 per ten grams, where as today, it is trading in golf price 4200 per ten grams. This dealer believes if gold prices start to rise; the preference of people will shift once again to gold.

Could there be any truth in this theory? No, perhaps not. These people need to go back to school and brush up on their economics. One way of looking at this issue is that because people are shifting their preference to diamond, the demand for gold has gone down. Because there is less demand for gold, the price for gold is low. Because the craze for diamond jewellery is increasing, it is unlikely that the demand for gold will increase, and the therefore it is unlikely that the price of gold will increase.

Questions:

1. Dou you agree with the above inference? Explain
2. It is case of changes in personal preferences, social perception, fashion trends or capital valuation of the two kinds of jewelry?
3. Dou you visualize a significant shift over time, given the income and spatial distribution of India’s population?