Economics for managers student

Economics

Economics for Managers Reading Gang, Core Economics for Managers, CSS. 1 and 2. C&T, Chi. 11 SIT Assignment 3: Decision Making and Costs In order to prepare for the class on March 20 you are required to read on individual decision making and costs answer the following questions 1 58431 _(Student ID) Submission Instructions: Your assignment must be in Word format. You must submit your assignment through the 'SIT Assignment-submission' icon located on the home page of the BEHAVE MOL site.

This assignment will not be accepted after 12 noon on Tuesday, March 18. Please ensure you include your name and ID number. Answer questions 1 and 2 via the dropped and answer questions 3 and 4 via the Quiz section on Mol. If you have problems submitting your assignment you MUST immediately contact your lecturer explaining the situation by email. In your email you must clearly identify in the title of your email that you experiencing a problem in BEHAVE Economics for Managers. In the body of the email explain the specific problem.

As a by-product of reading your answers I will form an opinion of your individual fort but your grade here is based on your participation ? I will not be giving you a grade on the content of your answers as the exercise is purely formative rather than summation. The writing up of this assignment is supposed to be your own individual effort. The standard rules of attribution of authorship of ideas apply. And note I will take action against any case of plagiarism.

Question 1 You are thinking of opening a deluxe fruit smoothie shop in Sydney.

To do so requires importing highly specialized equipment from Europe. The equipment costs $200, 000 and could be re-sold used for $50, 000. The shipping costs $100, 000 (one way). There are no other fixed costs. It will last for 2 years.

A. What are your sunk costs, if there are no other existing or prospective smoothie shops in Sydney?

Answer: The sunk cost includes equipment cost $200, 000 but should have induction for $50, 000 , which then becomes $1 50, 000 and adds the shipping one way), the total sunk cost is $250, 000.

B. If you go ahead and stay in the business for two years, your business might earn either {$180, 000} (success), or lose {-$OHIO, OHO} (slightfailure), or lose {-$700, 000} (major failure), all with 1/3 probability. The numbers are expressed in terms of net profits, your profits after deducting ALL costs (including sunk equipment costs). The day after your business opens, it will be reviewed in the Sydney Morning Herald, and that review will tell you with almost perfect certainty whether the business will be a success, a slight failure, or a major failure. What do you do at that stage?

Answer: I should make decision trees to analyses these results.

C. Do you invest in the business? Why or why not? (Show calculations and where relevant draw decision trees).

Answer: The sunk cost is $250, 000, even if the business develops successful, and then it earn $180, 000. It will also lead to lose about $70, 000.

D. Suppose now that the equipment cost only $80, 000, but the expected net profit figures are still valid. Rare you more or less likely to invest? More generally, are you more or less likely to invest if a smaller share of your costs will be sunk after investment? Why?

Answer: The sunk cost includes equipment cost will change to 180, 000, in this situation, despite the business develops successful, it also has no profit, so I am less likely to invest. I will more likely to invest if a smaller share of my costs will be sunk after investment, because in this case, I will earn profit.

Question 2 8.

A. In the highly competitive TV manufacturing industry, a new innovation makes it possible to cut the average cost of a 50-inch plasma screen from $1, 000 to $400. Most TV manufacturers quickly adopt this new innovation, earning massive short run profits.

In the long run, what will the price off plasma TV be? The price will fall to $400, because P = AC in the long run in a competitive industry.

B. In the highly competitive memory key industry, a new innovation makes it possible to cut the average cost of a 20-megabyte memory key, small enough to fit in your pocket, from $5 to $4. In the long run, what will the price off 20-megabyte memory key be? P = $4 in long run.

C. Assume that the markets in parts (a) and (b) are both constant cost industries. If demand rises massively for these two goods, why won't the price of these goods rise in the long run?

The price won't rise because new firms will enter (and some current firms will expand) keeping the average cost equal to the new, lower value. That's what it means to be in a constant cost industry.

D. In constant cost industries, does demand have any effect on price in the long run? No, it doesn't. Demand has an effect on quantity but not on price in constant cost markets. E. When average cost falls in any competitive industry, regardless of cost structure, who gets 100 percent of the benefits of cost cutting in the long run: consumers or producers?