MANAGERIAL ECONOMICS

Name:

Grade Course:

Tutor's Name:

Date

Week 2-Discussion 1

According to the economic theory, increasing the price of tobacco products reduces the demand of the product. Elasticity of demand the product's usage either falls or rises if the price increase or reduce respectively. Though the demand for tobacco products are not much elastic as compared to other products, but most studies have concluded that an increase in its price reduces its demand moderately as a result of either reducing the percentage of smokers, and the amount of tobacco smoked by the remaining consumers. The percentage of smokers reduces because tax increase discourages non-users from engaging in smoking activities, while encourages current smokers to stop smoking. This is because taxes increases tobacco prices to every individual; as an effect, though the impact might be smaller in tobacco use, but across the entire population, the effects are enormous (Gallet & List 2003).

There are many factors involved in making decisions about tobacco pricing; they include market size and composition, price elasticity factors, product uniqueness, taxes and break-even pricing. The most influential once are market size and composition and product uniqueness. According to Gallet and List (2003), estimating the size of potential sales volume based on market share analysis is very important. In addition, products that differ greatly from one another encourages buyers to tolerate paying premium prices.

Elasticity determines spare capacity upon which the company has to maintain. In case the company's spare capacity is in plenty, then the company's short-term decisions will be how to increase output without affecting production costs, and therefore increasing company's profitability. It also affects decisions on stock levels, also called inventories. This is because in case the costs of material procurement and finished products are high, implying that the company's sales volumes are less, the company's decision will be making a change in its product's demand by supplying such stock on the market to ensure high profits at an elastic supply. Lastly, based on the fact that elasticity is influenced by the ability of switching to the production of other goods or provision of other services, and the ability of using alternative input resources, it affects the company's decision on the amount of output produced in responding to an increase in price, for the company to continue being profitable (Chiang 2005).

Week 2-Discussion 2

The appropriate example of conducting cross sectional data is when determining the social class containing the largest number of smokers. We randomly select a sample of about 500 individuals from the population, determine their income and education levels, after which after which we can calculate the percentage of individuals in every social class, after which we can determine the social class with the highest number of smokers. The most serious problem with cross sectional data is how to differentiate causes and effects based on simple associations. For instance, after finding a relationship between wealth and smoking, it is not clear what causes the relationship. In addition, some rare occasions cannot be studied using cross sectional data efficiently, as for instance within the largest sample selected, there might be no smoker. To deal with this problem, it is better to select a sample from the smokers.

Regression coefficient of independent variables is values explaining the way through which the dependant variable relates to the independent variable. It is used to determine the size of the effect that the variable is having on the elasticity. The coefficient indicates how elasticity will increase or decrease when the variable increases or decrease (Chiang 2005).

In managerial decisions, elasticity measures are very important to managers as they use the elasticity measurements to determine the reaction of customers after changing prices or other variables. As an effect, elasticity measures give managers a way of comparing consumers' response to changes in prices of different products.

References

Gallet, C. & List, J. (2003). Cigarette Demand: a Meta-analysis of Elasticities. *Health economics* 12(10):821–35.

Chiang, W. (2005). *Fundamental Methods of Mathematical Economics* (4th ed.). New York: McGraw-Hill.