**Business Economics**

**April 2025 Examination**

**Q1. XYZ Pvt. Ltd., a mid-sized manufacturing company producing eco-friendly water bottles, has witnessed a surge in demand due to increased environmental awareness. However, the company faces several significant challenges in scaling up production to meet this growing demand. Firstly, the limited availability of skilled labor poses a constraint on expanding production capacity. Secondly, the company depends on imported machinery, with a three- month lead time, which delays the procurement process and hampers timely scaling efforts.**

**Additionally, seasonal variations in the availability of raw materials further disrupt production schedules and supply chain efficiency. These factors collectively restrict XYZ Pvt. Ltd.'s ability to respond swiftly to the rising demand, despite the reduction in production costs due to government subsidies on raw materials. As a result, the company is assessing its capacity to increase production effectively to capitalize on the growing eco-friendly water bottle market. Analyze the above scenario and discuss the concept on elasticity of supply and discuss the various determinants of elasticity of supply. (10 Marks)**

**Ans 1.**

**Introduction**

In today’s competitive business landscape, supply-side responsiveness plays a crucial role in determining the success of a firm. XYZ Pvt. Ltd., a mid-sized manufacturing company producing eco-friendly water bottles, has experienced a significant increase in demand due to rising environmental consciousness among consumers. While this surge presents an opportunity for growth, the company faces challenges in scaling up production. Limited availability of skilled labor, dependence on imported machinery with long lead times, and seasonal variations in raw material supply restrict its ability to respond efficiently to the demand shift. Despite the benefits of reduced production costs due to government subsidies,

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**Q2. XYZ Tech Solutions is a growing software company specializing in developing mobile applications. The company plans to launch a new app designed to improve customer engagement for retail businesses. Management believes that the app will attract significant interest, but they are unsure of the future demand, especially since the market for such applications is still evolving. To make informed decisions regarding production, marketing, and resource allocation, XYZ Tech Solutions needs a reliable demand forecast. To address this, XYZ Tech decides to use the Delphi technique. On the above scenario, discuss the various factors affecting demand forecasting and details about Delphi technique method of demand forecasting with respect to above context. (10 Marks)**

**Ans 2.**

**Introduction**

Demand forecasting plays a crucial role in strategic planning for businesses, especially in industries experiencing rapid technological advancements. XYZ Tech Solutions, a growing software company specializing in mobile applications, is preparing to launch a new app designed to improve customer engagement for retail businesses. While management expects significant interest, the uncertainty surrounding market demand poses a challenge. Given that the market for such applications is still evolving, an accurate demand forecast is essential for making informed decisions on **production, marketing, and resource allocation**.

To address this challenge, XYZ Tech Solutions has chosen the **Delphi technique**, a widely used forecasting method that relies on expert opinions to derive a consensus on future demand

**Q3. XYZ Electronics, a leading retailer in consumer electronics, is planning to introduce a price reduction on their latest smartphone model, the SmartTech Pro. The current price of the smartphone is ₹50,000, and the company estimates that if they lower the price to ₹45,000, the quantity demanded will increase from 10,000 units to 15,000 units**

**a) Calculate the price elasticity of demand for the SmartTech Pro using the percentage/proportionate change method. (5 Marks)**

**Ans 3a.**

**Introduction**

Price elasticity of demand (PED) is a key economic concept that measures how the quantity demanded of a product responds to changes in its price. For businesses, understanding this concept is crucial for making pricing decisions, as it helps predict consumer behavior and revenue impact. XYZ Electronics is considering lowering the price of its latest smartphone, the **SmartTech Pro**, from ₹50,000 to ₹45,000. The company estimates that this price reduction

**b) Analyze the above scenario and specify If the company observes that competitors are also reducing their prices for similar models, how might this affect the elasticity of demand for the SmartTech Pro? (5 Marks)**

**Ans 3b.**

**Introduction**

In a competitive market, pricing decisions are rarely made in isolation. If competitors also reduce their prices on similar smartphone models, the demand elasticity for SmartTech Pro may shift. While XYZ Electronics initially observed a high price elasticity (5.0) when reducing its smartphone price, competitor actions could alter consumer responsiveness. In this scenario, analyzing how competition influences elasticity is essential for making informed pricing and