**Business Economics**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for 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.**

**Answer:**

**Introduction:**

Elasticity of supply measures the responsiveness of the quantity supplied of a good to changes in its price. A high elasticity indicates that producers can quickly increase supply in response to price changes, whereas low elasticity shows that supply is relatively unresponsive.

In the case of XYZ Pvt. Ltd., the challenges indicate a relatively inelastic supply. Despite increased demand for eco-friendly water bottles due to environmental awareness, the company faces constraints in scaling production, such as limited skilled labor, reliance on imported machinery with long lead times, and seasonal raw material availability. These factors make it difficult for the company to adjust supply quickly in response to rising prices or demand.

**Determinants of Elasticity of Supply:**

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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.**

**Answer:**

**Introduction:**

Demand forecasting is crucial for XYZ Tech Solutions to predict future demand for its customer engagement app, given the evolving market. By analyzing factors such as market trends, customer preferences, competitor actions, and economic conditions, the company can make informed decisions. The Delphi technique, leveraging expert consensus, offers a structured and reliable method to address uncertainty in demand estimation.

The Delphi technique is well-suited for XYZ Tech Solutions’ scenario as it relies on expert insights to forecast demand in an uncertain and evolving market. Combined with an understanding of key factors affecting demand, it will enable the company to make informed decisions about production, marketing, and resource allocation for the new app.

**Factors Affecting Demand Forecasting in the Context of XYZ Tech Solutions:**

**Delphi Technique for Demand Forecasting:**

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**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.**

**Answer:**

**Introduction:**

Price elasticity of demand (PED) measures the responsiveness of quantity demanded to price changes. XYZ Electronics plans to reduce the SmartTech Pro's price from ₹50,000 to ₹45,000, estimating an increase in demand from 10,000 to 15,000 units. Using the percentage change method, we calculate PED to determine how sensitive consumers are to this price reduction.

To calculate the price elasticity of demand (PED) using the percentage/proportionate change method, we use the following formula:

$$PED=\frac{\% Change in Quantity Demanded}{\% Change in Price}$$

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**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?**

**Answer:**

**Introduction:**

Competitor price reductions for similar smartphone models can increase the price elasticity of demand for the SmartTech Pro. Consumers will have more alternatives, making them highly responsive to price changes. This intensifies competition, as even slight pricing differences could significantly affect demand. XYZ Electronics must carefully assess market dynamics to maintain its competitive edge.

If competitors reduce their prices for similar smartphone models, the price elasticity of demand (PED) for the SmartTech Pro is likely to increase, making demand more elastic. Here’s why:

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