**Business Economics**

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

**Internal Assignment Applicable for June 2025 Examination**

**Q1. Rahul operates a thriving coffee shop in a busy commercial district. He observes that a small price increase in his premium espresso leads to a sharp decline in sales, while a similar price hike for regular black coffee has minimal impact on demand. This variation in consumer response raises a crucial question: What factors influence the price elasticity of demand for different products? Analyse the key factors that determine price elasticity, including the availability of substitutes, brand loyalty, income levels, and consumer preferences and habits. Based on these insights, how can Rahul adjust his pricing strategy to enhance profitability while ensuring customer retention and satisfaction?**

**Answer:**

**Introduction:**

Price elasticity of demand is an important concept in business, especially for small entrepreneurs like Rahul, who runs a successful coffee shop in a busy commercial area. Price elasticity refers to how much the demand for a product changes when its price changes. If a small change in price causes a big change in demand, the product is said to be price elastic. On the other hand, if a price change has little or no effect on demand, the product is price inelastic. Rahul has noticed an interesting difference in how customers react to price changes. When he increases the price of premium espresso, many customers stop buying it, indicating high elasticity. But when he increases the price of regular black coffee, the sales don’t change much, showing low elasticity.

This difference in consumer response brings up an important question—what factors influence the price elasticity of demand? Rahul must understand these factors so he can make smarter pricing decisions. If he charges too much for the wrong product, he could lose customers. But if he underprices his popular items, he might miss out on profits. This analysis will help Rahul understand the key factors that affect price elasticity and how to use this knowledge to improve profitability without losing customers.

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**Q2. Meera is the operations manager of a fast-growing organic food company. As her company plans to expand into new markets, she needs to forecast future demand to make informed capital investment and expansion decisions. Since the company is launching a new line of organic snacks, historical sales data is limited, making traditional statistical forecasting methods less effective. To tackle this challenge, Meera explores qualitative demand forecasting techniques that rely on expert opinions, market research, and consumer insights rather than past data. Evaluate the key qualitative methods of demand forecasting that Meera can use in this situation?**

**Answer:**

**Introduction:**

Demand forecasting is essential for any company planning for the future, especially when making important investment and expansion decisions. Meera, the operations manager of a fast-growing organic food company, is currently facing this situation. As the company prepares to launch a new line of organic snacks in unfamiliar markets, she needs to accurately forecast how much demand there might be for the products. This information will help her decide how much to produce, how much to invest, and how to allocate resources wisely. However, because this product line is new and doesn’t have much historical sales data, traditional forecasting methods based on past trends and numbers won’t work effectively.

In such cases, qualitative forecasting methods become more useful. These techniques don’t rely on sales figures or past patterns. Instead, they gather opinions from experts, feedback from consumers, and observations from the market. These methods are helpful when entering new markets or launching new products where data is limited or nonexistent. For Meera, using these techniques will help her make educated guesses about future demand and reduce the risk of underproduction or overproduction. The following discussion will explain the key qualitative forecasting methods she can use and how they can support her company’s growth strategy.

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**Q3 (A) A local bakery sells freshly baked muffins. When the price of a muffin is Rs.10, the bakery sells 50 muffins per day. However, due to an increase in ingredient costs, the bakery raises the price to Rs.12, and as a result, daily sales drop to 40 muffins. Calculate the price elasticity of demand (PED) for the muffins. Evaluate how can the bakery use this information to decide future pricing strategies?**

**Answer:**

**Introduction:**

Understanding how customers respond to price changes is very important for any business. The local bakery in this case raised the price of muffins from Rs.10 to Rs.12 due to higher ingredient costs, but this led to a drop in daily sales from 50 to 40 muffins. To know how sensitive customers are to such changes, the bakery can calculate the Price Elasticity of Demand (PED). PED helps measure the percentage change in quantity demanded in response to a percentage change in price. Knowing this can guide the bakery in making smarter pricing decisions in the future.

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**Q3 (B) Riya enjoys both chocolates and cookies equally but is willing to give up two chocolates for one extra cookie while maintaining the same level of satisfaction. Using the concept of indifference curve analysis, analyze the above scenario and discuss the indifference curve and its properties in detail.**

**Answer:**

**Introduction:**

Understanding how people make choices between two goods they enjoy is an important part of consumer behavior in economics. Riya likes chocolates and cookies equally but is willing to give up two chocolates for one additional cookie, while still feeling equally satisfied. This is a perfect situation to explain using the indifference curve analysis, which shows combinations of two goods that give a person the same level of satisfaction. By studying this, we can better understand her preferences and how much value she places on each good when making a decision.

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