**Rajasthan Institute of Engineering & Technology, Jaipur**

**University Roll No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1st year MBA Semester I Ist Mid Term Examination, October– 2018

Subject: - ME SET-A

Time: - 2 Hrs. [Maximum Marks: -20]

 [Min. Passing Marks: 08]

Instructions to the Candidates:

Attempt any 4 questions from Section A and Section B is Compulsory.

**Section A**

1. **Distinguish between economics and managerial economics. (3)**

**Ans- Managerial Economics** has been described as economics applied to decision-making. It may be viewed as a special branch of Economics. However, the main points of differences are the following:

1. The traditional Economics has both micro and macro aspects whereas Managerial Economics is essentially micro in character.

2. Economics is both positive and normative science but the Managerial Economics is essentially normative in nature.

3. Economics deals mainly with the theoretical aspect only whereas Managerial Economics deals with the practical aspect.

4. Managerial Economics studies the activities of an individual firm or unit. Its analysis of problems is micro in nature, whereas Economics analyzes problems both from micro and macro point of views.

5. Economics studies human behaviour on the basis of certain assumptions but these assumptions sometimes do not hold good in Managerial Economics as it concerns mainly with practical problems.

6. Under Economics we study only the economic aspect of the problems but under Managerial Economics we have to study both the economic and non-economic aspects of the problems.

7. Economics studies principles underlying rent, wages, interest and profits but in Managerial Economics we study mainly the principles of profit only.

8. Sound decision-making in Managerial Economics is considered to be the most important task for the improvement of efficiency of the business firm; but in Economics it is not so.

9. The scope of Managerial Economics is limited and not so wide as that of Economics.

Thus, it is obvious that Managerial Economics is very closely related to Economics but its scope is narrow as compared to Economics.

Managerial Economics is also closely related to other subjects, viz., Statistics, Mathematics and Accounting.

A trained managerial economist integrates concepts and methods from all these disciplines bringing them to bear on business problems of a firm.

1. **What is price elasticity of demand? How would you measure it? (3)**

**Ans- Price Elasticity of Demand**

It gives the percentage change in quantity demanded in response to a one percent change in price.

#### Degrees of Elasticity of Demand:

We have seen above that some commodities have very elastic demand, while others have less elastic demand. Let us now try to understand the different degrees of elasticity of demand with the help of curves.

**(a) Infinite or Perfect Elasticity of Demand:**

**(b) Perfectly Inelastic Demand:**

**(c) Elastic Demand:**

**(d) Inelastic Demand:**

**(e) Unitary Elastic Demand**

1. **State the law of demand. Explain the reasons for the downward slope of demand curve. (3)**

**Ans- The Law of Demand**

The **Law of Demand** states that the quantity demanded for a good or service rises as the price falls, ceteris paribus (or with all other things being equal). The other-things-being-equal assumption is very important in law because the demand for goods also varies with several other factors than just the price.

Therefore, the Law of Demand is an inverse relationship between price and quantity demanded. However, there are a few exceptions to this law such as Giffen goods and Veblen goods.

Generally, the Law holds true because of two factors:

### 1. The Substitution Effect

The Substitution Effect occurs when there is a change in the price of a product. For example, we say that the price of olive oil has gone up. In comparison to olive oil, other cooking oils such as canola oil or peanut oil suddenly seem less expensive. Therefore, people will switch to a close substitute if the price goes up and the demand will increase.

To take a real-world example, consider Coke and Pepsi. They are universally considered to be good substitutes for each other. The Substitution Effect simply states that when the price of Coke goes up, then more people will more likely purchase Pepsi.

### 2. The Income Effect

The Income Effect also occurs when there is a change in the price of a product. For example, let’s say you buy four loaves of bread a month and then one day the price of a loaf of bread goes up. This increase in price will likely mean that you cannot afford to buy four loaves, instead, you buy two. You’ve lowered your demand for bread because the price increase has reduced your disposable income. You won’t necessarily stop buying bread or switch over to something cheaper, you just buy less.

1. **Define Time perspective. (3)**

**Ans- Principle of Time Perspective**

**Principle**: “a decision by the firm should take into account of both short-run and long-run effects on revenues and cost & maintain the right balance between the long run and short run.

According to this principle, a manger/decision maker should give due emphasis, both to short-term and long-term impact of his decisions, giving apt significance to the different time periods before reaching any decision. Short-run refers to a time period in which some factors are fixed while others are variable. The production can be increased by increasing the quantity of variable factors. While long-run is a time period in which all factors of production can become variable. Entry and exit of seller firms can take place easily. From consumers point of view, short-run refers to a period in which they respond to the changes in price, given the taste and preferences of the consumers, while long-run is a time period in which the consumers have enough time to respond to price changes by varying their tastes and preferences.

Suppose there is a firm with a temporary idle capacity. An order for 5000 units comes to management’s attention. The customer is willing to pay Rs 4/- unit or Rs.20000/- for the whole Lot but not more. The short run incremental cost(ignoring the fixed cost) is only Rs.3/-. Therefore the contribution to overhead and profit is Rs.1/- per unit (Rs.5000/- for the lot)Analysis: From the above example the following long run repercussion of the order is to be taken into account:

1. If the management commits itself with too much of business at lower price or with a smallcontribution it will not have sufficient capacity to take up business with higher contribution.
2. If the other customers come to know about this low price, they may demand a similar low price.Such customers may complain of being treated unfairly and feel discriminated against.
3. **Elaborate elasticity of supply. (3)**

### Ans- Elasticity of supply

The Price Elasticity of Supply measures the rate of response of quantity demand due to a price change. If you've already read Elasticity of Demand and understand it, you may want to just skim this section, as the calculations are similar.

**Definitions**: According to **Lipsey,** "Elasticity of supply is the ratio of percentage change in quantity supplied over the percentage change in price."

In the words of **Prof. Bilas,** "Elasticity of supply is defined as the percentage change in quantity supplied divided by percentage change in price."

**Price elasticity of supply** measures the relationship between change in quantity supplied and a change in price.  The formula for price elasticity of supply is:

* ∆Q =change in the demand.(difference in demand)
* ∆P=change in the price.(difference in the price)
* P1=initial price. (first price/ old price)
* Q1=initial demand. (first demand/ old demand)

The value of elasticity of supply is **positive**, because an increase in price is likely to increase the quantity supplied to the market and vice versa.

1. **Explain long term cost output relation. (3)**

**Ans- Cost-output Relationship in Long-Run – This** is a period, during which all inputs are variable including the one, which are fixes in the short-run. In the long run a firm can change its output according to its demand. Over a long period, the size of the plant can be changed, unwanted buildings can be sold staff can be increased or reduced. The long run enables the firms to expand and scale of their operation by bringing or purchasing larger quantities of all the inputs. Thus in the long run all factors become variable.

Long-run cost-output relations therefore imply the relationship between the total cost and the total output. In the long-run cost-output relationship is influenced by the law of returns to scale. In the long run a firm has a number of alternatives in regards to the scale of operations. For each scale of production or plant size, the firm has an appropriate short-run average cost curves. The short-run average cost (SAC) curve applies to only one plant whereas the long-run average cost (LAC) curve takes in to consideration many plants.

**Section B**

1. **Define the theory of firm and industry. (4)**

**Ans-** A firm is a business organization, such as a corporation, limited liability company or partnership, that sells goods or services to make a profit. "Firm" is often used interchangeably with "business" or "enterprise."

The main objectives of firms are:

1. Profit maximisation
2. Sales maximisation
3. Increased market share/market dominance
4. Social/environmental concerns
5. Profit satisficing
6. Co-operatives

An industry is a group of companies that are related based on their primary business activities. In modern economies, there are dozens of industry classifications, which are typically grouped into larger categories called sectors. Individual companies are generally classified into an industry based on their largest sources of revenue.

**Characteristics of Industry:**

1. Industry refers to the productive aspect of a business.

2. Production is done by the application of human and mechanical power.

3. It creates form utility to natural and partly processed goods.

4. It is concerned with the production of both producer and consumer goods.

5. Industrial activities are regulated by different laws.

6. It involves continuous process.

1. **Briefly explain the following with examples:
(a) Fixed cost (b) Opportunity cost (c) Marginal cost. (d) Profit (4)**

**Ans- (a) Fixed cost:** A fixed cost is an expense or cost that does not change with an increase or decrease in the number of goods or services produced or sold. Fixed costs are expenses that have to be paid by a company, independent of any business activity.

**(b) Opportunity costs**: OC are fundamental costs in economics, and are used in computing cost benefit analysis of a project. A benefit, profit, or value of something that must be given up to acquire or achieve something else. Since every resource (land, money, time, etc.) can be put to alternative uses, every action, choice, or decision has an associated opportunity cost.

**(c) Marginal cost:** In economics, marginal costis the change in the opportunity cost that arises when the quantity produced is incremented by one unit, that is, it is the cost of producing one more unit of a good.

**(d) Profit: T**he surplus remaining after total costs are deducted from total revenue, and the basis on which tax is computed and dividend is paid. It is the best known measure of success in an enterprise.
Profit is reflected in reduction in liabilities, increase in assets, and/or increase in owners' equity. It furnishes resources for investing in future operations, and its absence may result in the extinction of a company. As an indicator of comparative performance, however, it is less valuable than return on investment (ROI). Also called earnings, gain, or income.

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1st year MBA Semester II Mid Term Examination, October– 2018

Subject: - ME SET-B

Time: - 2 Hrs. [Maximum Marks: -20]

 [Min. Passing Marks: 08]

Instructions to the Candidates:

Attempt any 4 questions from Section A and Section B is Compulsory.

**Section A**

1. **How Managerial Economics help the management in decision making and forward planning? (3)**

# Ans- Importance Of Managerial Economics

What is the importance of managerial economics in the decision-making process of business?

Decision making is an integral part of management. Managerial economics helps in effective decision making and a business manager is essentially involved in the processes of decision making as well as forward planning. In doing so, managerial economics is of great importance for a business manager.

It enables to make decisions about appropriate production and inventory policies for the future.

It is a branch of economics that is applied to analyze almost all business decisions. It is meant to undertake risk analysis, production analysis that is useful for production efficiency. Likewise, it is of great use for capital budgeting processes as well.

In the most positive form, it seeks to make successful forecasts with the objective of minimizing the risks involved. It deals with the aspects as how much cash should be available and how much of it should be invested in relation to a choice of processes and projects while making possible the economic feasibility of various production lines.

As regards the pricing of products being produced by a business entity, it is one of the most critical decisions for a manager to fix the price of particular products as it is by means of pricing decisions taken by a manager, the inflow of revenue is determined. The areas that are to be covered through managerial economics application in this respect are, price methods, product line pricing and price forecasting etc.

1. **Explain the law of supply. Discuss the exceptions of law of supply. (3)**

**Ans-** The **law of supply** is a fundamental principle of economic theory which states that, other factors held constant, an increase in price results in an increase in quantity supplied.[[1]](https://en.wikipedia.org/wiki/Law_of_supply#cite_note-1) In other words, there is a direct relationship between price and quantity: quantities respond in the same direction as price changes. This means that producers are willing to offer more products for sale on the market at higher prices by increasing production as a way of increasing profits.[[2]](https://en.wikipedia.org/wiki/Law_of_supply#cite_note-2)

 **The various exceptions to the law of supply are:**

#### 1. Future Expectations:

If sellers expect a fall in price in the future, then the law of supply may not hold true. In this situation, the sellers will be willing to sell more even at a lower price. However, if they expect the price to rise in the future, they would reduce the supply of the commodity, in order to supply the commodity later at a high price.

#### 2. Agricultural Goods:

The law of supply does not apply to agricultural goods as their production depends on climatic conditions. If, due to unforeseen changes in weather, the production of agricultural products is low, then their supply cannot be increased even at higher prices.

#### 3. Perishable Goods:

In case of perishable goods, like vegetables, fruits, etc., sellers will be ready to sell more even if the prices are falling. It happens because sellers cannot hold such goods for long.

#### 4. Rare Articles:

Rare, artistic and precious articles are also outside the scope of law of supply. For example, supply of rare articles like painting of Mona Lisa cannot be increased, even if their prices are increased.

#### 5. Backward Countries:

In economically backward countries, production and supply cannot be increased with rise in price due to shortage of resources.

1. **What is scope of Managerial Economics? Explain in detail. (3)**

# Ans- Scope of Managerial Economics-Managerial Economics deals with allocating the scarce resources in a manner that minimizes the cost. As we have already discussed, Managerial Economics is different from microeconomics and macro-economics. Managerial Economics has a more narrow scope - it is actually solving managerial issues using micro-economics.

# Main Scopes are as follows-

**1) Demand analysis and forecasting** - When a business manager decides to venture into a business, the very first thing he needs to find out is the nature and amount of demand for the product, both at present and in the future. A firm's performance and profitability depends upon accurate estimates of demand. The firm will prepare its production schedule on the basis of demand forecast. Demand analysis helps to identify the factors influencing the demand for a firm's product and thus helps a manager in business planning. Demand analysis and forecasting thus help him in the choice of the product and in planning output levels.

The main topics covered under demand analysis and forecasting are the concepts of demand, demand determinants, law of demand, its assumptions, elasticity of demand (price, income and cross elasticity), demand forecasting, etc.

**2) Cost and production analysis**

* Estimation of the cost in production.
* Recognizing the factors, which are causing cost to firm.
* Suggests cost should be reduced for making good profits.
* Production analysis deals with,   Minimum cost should be spend on raw materials and maximum production should be obtained

**3) Pricing decisions, policies and practices** - Once a particular quantity of output is ready for sale, the firm has to fix its price given the conditions in the market. Pricing is a very important aspect of Managerial Economics as a firm's revenue earnings largely depend on its pricing policy. A correct pricing policy makes a firm successful, while incorrect pricing may lead to its elimination. The topics covered under this area are: price determination in various market forms such as perfect market, monopoly, oligopoly, etc., pricing methods such as differential pricing and product-line pricing, and price forecasting.

**4) Profit management**- Business firms are established with the objective of making profits and it is thus the chief measure of success. For maximizing profits the firm needs to take care of pricing, cost aspects and long-range decisions, i.e., it has to evaluate its investment decisions and carry out the best policy of capital budgeting for the firm under a given set of conditions. If we know the future, profit analysis would be an easy task. However, in a world of uncertainty our expectations are not always realized, so that profit planning and measurement constitute a difficult area of Managerial Economics. The important aspects covered under this area are: nature and measurement of profit, profit policies, and techniques of profit planning like break-even analysis, cost-volume-profit analysis, etc.

**5) Capital Management**- Large amount of money is invested in the business and that amounts should be managed efficiently.

**6**) **Competition-** Study of markets is one of the important aspects of the work of a managerial economist. A manager should have clear knowledge of different markets existing in the environment. The environment is not constant and goes on changing. Thus, the manager should know clearly about perfect and imperfect markets so as to introduce the product in such markets where he can increase the sales revenue. The main aspects are perfect market, monopoly market, monopolistic market, oligopoly market, and price fixation under different market conditions.

1. **Elasticity of demand is very useful for decision making. Comment. (3)**

### Ans- Uses of Price Elasticity of Demand in Managerial Decision-making

Knowledge of the nature of the elasticity of demand for his products will help a business to decide whether he should cut his price in a particular case. Such knowledge would also help a businessman to determine whether and to what extent the increase in costs could be passed on to the consumer

Uses of price elasticity can be point out as below:

1. **Price distribution:** A monopolist adopts a price discrimination policy only when the elasticity of demand of different consumers or sub-markets is different. Consumers whose demand is inelastic can be charged a higher price than those with more elastic demand.
2. **Public utility pricing:** In case of public utilities which are run as monopoly undertakings e.g. elasticity of water supply railways postal services, price discrimination is generally practiced, charging higher prices from consumers or users with inelastic demand and lower prices in case of elastic demand.
3. **Joint supply:** Certain goods, being products of the same process are jointly supplied, e.g. wool and mutton. Here if the demand for wool is inelastic compared to the demand for mutton, a higher price for wool can be charged with advantage.
4. **Super Markets:** Super-markets are a combined set of shops run by a single organization selling a wide range of goods. They are supposed to sell commodities at lower prices than charged by shopkeepers in the bazaar. Hence, price policy adopted is to charge slightly lower price for goods with elastic demand.
5. **Use of machine:** Workers often oppose use of machines out of fear of unemployment. Machines need not always reduce demand for labor as this depends on price elasticity of demand for the commodity produced. When machines reduce costs and hence price of products, if the products demand is elastic, the demand will go up, production will have to be increased and more workers may be employed for the product is inelastic, machines will lead to unemployment as lower prices will not increase the demand.
6. **Factor pricing:** The factors having price inelastic demand can obtain a higher price than those with elastic demand. Workers producing products having inelastic demand can easily get their wages raised.
7. **International trade:** (a) A country benefits from exports of products as have price inelastic demand for a rise in price and elastic demand for a fall in price. (b) The demand for imports should be inelastic for a fall in price and elastic for a rise in price. (c) While deciding whether to devalue a country’s currency or not, price elasticity of demand for a country’s exports would be an important factor to be taken into consideration. If the demand is price elastic, it would lead to an increase in the country’s exports and devaluation would fail to achieve its objective.
8. **Shifting of tax burden:** It is possible for a business to shift a commodity tax in case of inelastic demand to his customers. But if the demand is elastic, he will have to bear the tax burden himself, otherwise demand for his goods will go down sharply.
9. **Taxation policy:** Government can easily raise tax revenue by taxing commodities which are price inelastic.

1. **Define short term cost output relation. (3)**

**Ans- Cost-Output Relationship in Short-Run**  - Cost concepts made use of in the cost behavior are Total cost, Average cost, and Marginal cost. Total cost is the actual money spent to produce a particular quantity of output. Total Cost is the summation of Fixed Costs and Variable Costs.

TC=TFC+TVC

Upto a certain level of production Total Fixed Cost i.e., the cost of plant, building, equipment etc, remains fixed. But the Total Variable Cost i.e., the cost of labor, raw materials etc., vary with the variation in output. Average cost is the total cost per unit. It can be found out as follows.­­­­­­­­

AC=TC/Q

Total of Average Fixed Cost (TFC/Q) keep coming down as the production is increased and Average Variable Cost (TVC/Q) will remain constant at any level of output.

1. **Explain fundamental concept of Incremental principle. (3)**

# Ans- Incremental Principle in Economics- The **incremental concept** is closely related to the marginal costs and marginal revenues of economic theory. **Incremental concept** in managerial economics involves two important activities which are as follows:

* Estimating the impact of decision alternatives on costs and revenues.
* Emphasizing the changes in total cost and total cost and total revenue resulting from changes in prices, products, procedures, investments or whatever may be at stake in the decision.

The two basic components of incremental reasoning are as follows:

* Incremental cost: Incremental cost may be defined as the change in total cost resulting from a particular decision.
* Incremental revenue: Incremental revenue means the change in total revenue resulting from a particular decision.

The incremental principle in economics may be stated as under:

A decision is obviously a profitable one if;

* It increases revenue more than costs
* It reduces costs more that revenues.
* It decreases some costs to a greater extent than it increases other costs
* It increases some revenues more than it decreases other revenues

**Section B**

1. **Write short note on:**

**(i) Cost curve (ii) Equi-Marginal principle**

**(iii) Business cost and full cost (iv) Economies of scale (4)**

## Ans- (i) Definition: Cost Curve

The **cost curve** for a company or a product is the graph containing the total cost as a function of the total quantity produced. The graph exhibits the overall profitability of the company or the product by mapping its current position on the graph and comparing it with the best alternative.

The quantity for which the marginal cost curve crosses the marginal revenue curve i.e. **marginal cost = marginal revenue**, that quantity is the optimum quantity to be produced in case of maximum profit. The total cost curve, average cost curve, marginal cost curve, total revenue curve, average revenue curve and the marginal revenue curve, all incorporate the same axes and hence, they can be shifted from one graph to another, thus, helping in finding the optimum quantity.

**(ii) Equi-Marginal principle**:The Law of Equi-Marginal Utility is an extension to the law of diminishing marginal utility. The principle of equi-marginal utility explains the behavior of a consumer in distributing his limited income among various goods and services.

This law states that how a consumer allocates his money income between various goods so as to obtain maximum satisfaction.

Let us consider each dollar spent. Marginal utility per dollar shows that one dollar spend on Product A provides the highest satisfaction of 20 utils as opposed to only 12 and 8 utils from products B and C, respectively.

**It can be expressed as:**

MUA = MUB = MUC

**(iii) Business cost and full cost:** In **business**, **cost** is usually a monetary valuation of (1) effort, (2) material, (3) resources, (4) time and utilities consumed, (5) risks incurred, and (6) opportunity forgone in production and delivery of a good or service. Whereas The Full Cost is the total cost incurred in production and is comprised of business cost, opportunity cost, and normal profit. The business cost is the overall cost incurred to carry out the business operations. ... This includes the cost of materials, labor, fixed and variable manufacturing overheads.

**(iv)** **Economies of scale** Economies of scale refer to reduced costs per unit that arise from increased total output of a product. For example, a larger factory will produce power hand tools at a lower unit price, and a larger medical system will reduce cost per medical procedure.

Economies of scale give rise to lower per-unit costs for several reasons. First, specialization of labor and more integrated technology boost production volumes. Second, lower per-unit costs can come from bulk orders from suppliers, larger advertising buys or lower cost of capital. Third, spreading internal function costs across more units produced and sold helps to reduce costs. "Internal functions" include accounting, information technology, and marketing. The first two reasons are also considered operational efficiencies and synergies. The second two reasons are cited as benefits of mergers and acquisitions.

1. **What is cost? Discuss the various types of cost.**  (4)

**Ans-** costis usually a monetary valuation of (1) effort, (2) material, (3) resources, (4) time and utilities consumed, (5) risks incurred, and (6) opportunity forgone in production and delivery of a good or service.

**Types of cost:**

Below are some of the types of costs used in cost accounting:

## Direct Costs

[**Direct costs**](https://www.investopedia.com/terms/d/directcost.asp) are related to producing a good or service. A direct cost includes materials, labor, expense, or distribution cost associated with producing a product. It can be easily traced to a product, department or project. For example, Ford Motor Company [(F)](https://www.investopedia.com/markets/stocks/f/) manufactures cars and trucks. A plant worker spends eight hours building a car. The direct costs associated with the car are the wages paid to the worker and the parts used to build the car.

## Indirect Costs

**Indirect costs,** on the other hand, are expenses unrelated to producing a good or service. An indirect cost cannot be easily traced to a product, department, activity or project. For example, with Ford Motor Company [(F)](https://www.investopedia.com/markets/stocks/f/), the direct costs associated with each vehicle include tires and steel. However, the electricity used to power the plant is considered an indirect cost because the electricity is used for all the products made in the plant. No one product can be traced back to the electric bill. For more on direct and indirect costs.

## Fixed Costs

**Fixed costs**donot vary with the number of goods or services a company produces. For example, suppose a company leases a machine for production for two years. The company has to pay $2,000 per month to cover the cost of the lease. The lease payment is considered a fixed cost as it remains unchanged.

## Variable Costs

**Variable costs** fluctuate as the level of production output changes, contrary to a fixed cost. This type of cost varies depending on the number of products a company produces. A variable cost increases as the production volume increases, and it falls as the production volume decreases. For example, a toy manufacturer must package its toys before shipping products out to stores. This is considered a type of variable cost because, as the manufacturer produces more toys, its packaging costs increase. However, if the toy manufacturer's production level is decreasing, the variable cost associated with the packaging decreases. For more on how fixed and variable costs affect the profit of a company.

## Operating Costs

[**Operating costs**](https://www.investopedia.com/terms/o/operating-cost.asp)are expenses associated with day-to-day business activities but are not traced back to one product. Operating costs can be variable or fixed. Examples of operating costs, which are more commonly called operating expenses, include rent and utilities for a manufacturing plant. Operating costs are day-to-day expenses, but are not classified as costs of producing the products. Investors can calculate a company's operating expense ratio, which shows how efficient a company is in using their costs to generate sales.

## Opportunity Cost

**Opportunity cost** is the benefit given up when one decision is made over another. In other words, an opportunity cost represents an alternative given up when a decision is made. This cost is, therefore, most relevant for two mutually exclusive events. In investing, it's the difference in return between a chosen investment and one that is passed up. For companies, opportunity costs do not show up in the financial statements but are useful in planning by management.

For example, if a company decides to buy a new piece of manufacturing equipment rather than lease it. The opportunity cost would be the difference between the cost of the cash outlay for the equipment and the improved productivity versus how much money could have been saved had the money been used to pay down debt.

## Sunk Costs

**Sunk costs** are historical costs that have already been incurred and will not make any difference in the current decisions by management. Sunk costs are those costs that a company has committed to and are unavoidable or unrecoverable costs. Sunk costs (past costs) are excluded from future business decisions because the costs will be the same regardless of the outcome of a decision.

## Controllable Costs

**Controllable costs** are expenses managers has control over and have the power to increase or decrease. For example, deciding on how supplies are ordered or the payroll for a manufacturing company would be controllable, but not necessarily avoidable.