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NEW SCHEME

05MBA12

Reg. No.

First Semester M.B.A Degree Examination, December 2005/January 2006

Master of Business Administration

Managerial Economics

Time: 3 hrs.) (Max.Marks : 100

Note: *1. Answer any FOUR full questions from 1 to 7.*
2. Question No. 8 is compulsory.
3. All questions carry equal marks.

1. (a) State any three important responsibilities of a managerial economist. **(3 Marks)**

   (b) Define opportunity cost principle. Explain its managerial significance. **(7 Marks)**

   (c) Explain clearly the behavioural theories of a business firm. **(10 Marks)**

2. (a) Distinguish between implicit cost and explicit cost. **(3 Marks)**

   (b) Explain the alternative objectives of a business firm. **(7 Marks)**

   (c) A departmental store conducted a survey of demand for men's ties. It found that the average daily demand, D, in terms of price, P is given by the equation

   $D = 80 - 5P$

   i) How many ties per day can the store expect to sell at a price of Rs. 10 per tie?

   ii) If the store wants to sell 50 ties per day, what price should it charge?

   iii) What is the highest price anyone would be willing to pay? **(10 Marks)**

3. (a) What is advertising / promotional elasticity of demand? **(3 Marks)**

   (b) Explain the factors influencing the economies and diseconomies of scale. **(7 Marks)**

   (c) Explain the laws of variable proportions with the help of an example and graphs stating increasing, diminishing and negative returns. **(10 Marks)**

4. (a) What do you mean by loss leader pricing? **(3 Marks)**

   (b) What are the important statistical methods of demand forecasting? **(7 Marks)**

   (c) Illustrate and explain short-run cost-output relationship with examples. **(10 Marks)**

5. (a) Define returns to scale. **(3 Marks)**

   (b) Explain kinked demand curve analysis with the help of a diagram. **(7 Marks)**

   (c) Explain the price and output determination under monopoly in the long run. **(10 Marks)**

6. (a) Define envelope curve. **(3 Marks)**

   (b) Distinguish between skimming pricing and penetration pricing with suitable examples. **(7 Marks)**

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(c) State and explain the law of supply. Discuss the factors influencing the changes in supply. **(10 Marks)**

7. (a) What do you mean by monopolistic competition? **(3 Marks)**

(b) What is incremental principle? What are its managerial significance? **(7 Marks)**

(c) Define BEP? Explain the assumptions and limitations of breakeven analysis. Also explain the safety margin. **(10 Marks)**

8. CASE STUDY

Price and Income elasticites for imports and exports in the real world.

The price elasticity of demand for U.S. manufactured imports has been estimated to be about 1.06 both in the short run and in the long run. That is, a 1% decline in the dollar price of U.S. imports of manufactured goods can be expected to lead to U.S. imports of manufactured goods can be expected to lead to a 1.06% increase in the quantity demanded and thus leave their dollar value practically unchanged in the short run as well as in the long run. On the other hand, the price elasticity of demand for U.S. exports of manufactured goods was estimated to be 0.48 in the short run and 1.67 in the long run. This means that a 1% decline in the price of U.S. exports can be expected to lead to an increase in the quality of U.S manufactured goods exports of 0.48% within a year or two of the price change and 1.67% in the long run (i.e. in a period of 5 years or so). Thus, a decline in U.S. exports price leads to U.S earnings from manufactured exports to fall in the short run and to a rise in the long run.

Finally, the income elasticity of demand for imports was estimated to be 1.94 in the US. This means that a 1% increase in the U.S. income or GNP can be expected to lead to an increase of about 1.94% in U.S. exports. Thus, U.S. imports are normal goods and can be regarded as luxuries. The income elasticity of imports for the other six largest industrial countries (Japan, Germany, France, U.K, Italy and Canada) range from 0.35 for Japan to 2.51 for the U.K. on the other hand the income elasticity of exports range from 0.80 for the U.S and 1.60 for Italy. The price and income elasticities of imports and exports are important to individual consumers and producers in the U.S and abroad, and they affect the level of economic activity in all the nations engaging in international trade.

Questions :

(a) How would the case be analysed with the formulae of income and price elasticities? **(10 Marks)**

(b) What according to you are the reasons for differences in income and price elasticities in different countries. **(10 Marks)**

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05MBA12

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NEW SCHEME

First Semester MBA Degree Examination, July 2006

Master of Business Administration

Managerial Economics

Time: 3 hrs.] [Max. Marks: 100

Note: *1. Answer any FIVE full questions.*
2. Question No.8 is compulsory.
3. All questions carry equal marks.

1 a. What is managerial economics? **(03 Marks)**
b. Explain the application of equimarginal principles to a firm. **(07 Marks)**
c. Explain the behavioural theories of a firm. **(10 Marks)**

2 a. Distinguish between opportunity cost and incremental cost. **(03 Marks)**
b. Define isoquant curve. Explain its properties. **(07 Marks)**
c. At Rs 100, 1000 units of a commodity are demanded, at new price Rs 120/-, 800 units are demanded. Find out point elasticity at P_1 and P_2.
i) Identify the type of elasticity of demand.
ii) Explain briefly the practical applications of elasticity of demand. **(10 Marks)**

3 a. What is law of supply? **(03 Marks)**
b. What is pure monopoly? Explain price and output determination under monopoly in short run. **(07 Marks)**
c. Explain the demand forecasting methods. **(10 Marks)**

4 a. What is loss leader pricing? **(03 Marks)**
b. Explain kinked demand curve analysis with the help of a diagram. **(07 Marks)**
c. Distinguish between external and internal economics scale. Explain. **(10 Marks)**

5 a. Differentiate between a firm and an industry. **(03 Marks)**
b. Explain forms of price discrimination. **(07 Marks)**
c. Explain law of variable proportion in detail. **(10 Marks)**

6 a. What is monopoly power? **(03 Marks)**
b. Explain firms short run cost curves. **(07 Marks)**
c. The following data are given:
Fixed cost = Rs 30,000/-
Variable cost = Rs 2/- perunit
Selling price = Rs 10/- unit
Sales = Rs 1,00,000/-
i) Calculate profit, if likely sales are Rs 1,40,000/-
ii) Calculate sales, if a target profit of Rs, 60,000/- has been budgeted.
iii) What would be the selling price per unit, if the break even point has to be brought down to 5,000 units? **(10 Marks)**

7 a. What do you understand by the term "profit maximization"? **(03 Marks)**
b. "The demand curve slopes downwards". Give reasons. **(07 Marks)**
c. Highlight the practical applications of Break even analysis. **(10 Marks)**

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8 Case Study:

Quad Plex cinema is the only movie theatre in Idaho Falls. The nearest rival movie theatre, the Cedar Bluff Twin, is 35 miles away. Thus Quad Plex cinema possesses a degree of market power. Despite having market power, Quad Plex cinema is currently suffering losses. In a conversation with the owners of Quad Plex, the manager of the movie theatre made the following suggestions: "Since Quad Plex is a local monopoly we should just increase ticket prices until we make enough profit".

Answer the following questions with respect to the above case:

1. Bring out the features of monopoly. **(10 Marks)**
2. Comment on this strategy. **(05 Marks)**
3. How might market power of Quad Plex cinema be measured? **(05 Marks)**

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NEW SCHEME

First Semester MBA Degree Examination, Dec.06 / Jan.07
Business Administration
Managerial Economics

Time: 3 hrs.] [Max. Marks:100

Note: ***1. Answer any FIVE full questions.***
2. Q.NO.8 is compulsory.

1 a. How is managerial economics different from economics? (03 Marks)
b. How does managerial economics helps the managers in decision making? (07 Marks)
c. Discuss in brief the pricing methods adopted by business firms. (10 Marks)

2 a. What is break even analysis? (03 Marks)
b. Explain the properties of iso quank curves. (07 Marks)
c. What are the objectives of a business firm? Discuss. (10 Marks)

3 a. What is production function? (03 Marks)
b. The demand function of a product is given by $Q_d = 200 - 5p$.
i) Construct a demand curve for price from Rs.10 to Rs.40.
ii) At what price will the demand be zero?
iii) If producer wants to sell minimum 165 units, what should be the price? (07 Marks)
c. With the help of a diagram state and explain the law of demand. Also state the exceptions to the law. (10 Marks)

4 a. What are various types of elasticity's of demand? (03 Marks)
b. Distinguish between actual cost and opportunity cost with examples. (07 Marks)
c. Monopolistic competition is a blend of perfect competition and monopoly. Discuss. How is price output determined in the short run in monopolistic competition? (10 Marks)

5 a. Write any 3 features of perfect competition. (03 Marks)
b. What are managerial uses of price elasticity of demand? (07 Marks)
c. Following data is available for a firm :
Fixed cost = Rs.50000
Variable cost = Rs.4 per unit
Selling price = Rs.10 per unit
Sales = Rs.100000
Find i) Profit if sales is Rs.200000
ii) Find sales if profit targeted is Rs.70000. (10 Marks)

6 a. What is price discrimination? (03 Marks)
b. What is oligopoly? Bring out the main features of oligopoly market. (07 Marks)
c. Briefly explain the time perspective and equi-marginal principles of managerial economics. (10 Marks)

7 a. What is a cartel? (03 Marks)
b. Examine Baumol's sales maximization theory. (07 Marks)
c. What is monopoly? Discuss features and benefits. (10 Marks)

Contd.... 2

8 **Case Study** :

Rex company is an industrial manufacturing unit specializing in one particular product used in automobile industry. very few competitors are there in the market. Prices are fairly stable. The company is thinking of reduction in price in order to enhance its market share.

Questions :

a. What type of market is the company in? **(05 Marks)**

b. Will a reduction in price enhance the market share as expected by the company? **(05 Marks)**

c. Flow would the other competitors react to this reduction in price. **(05 Marks)**

d. What strategy would you suggest to increase its market share without reducing the price? **(05 Marks)**

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NEW SCHEME

First Semester MBA Degree Examination, July 2007
Business Administration
Managerial Economics

Time: 3 hrs.] [Max. Marks:100

Note : *1. Answer any FOUR full questions from 1 to 7.*
2. Question No.8 is Compulsory.

1 a. What do you understand by demand? **(03 Marks)**
b. Discuss the roles and responsibilities of a Managerial Economist. **(07 Marks)**
c. Explain diagrammatically the properties of Isoquants. **(10 Marks)**

2 a. Distinguish between extension of demand and increase in demand. **(03 Marks)**
b. What are the sources of monopoly power? Explain. **(07 Marks)**
c. Explain the Law of Variable proportions with the help of an example and diagrams stating the increasing, diminishing and negative returns. **(10 Marks)**

3 a. What do you mean by price discrimination? **(03 Marks)**
b. Explain briefly the different objectives of the firm. **(07 Marks)**
c. The following information is extracted form the records of ABC Ltd.
Fixed cost - Rs. 50,000
Selling price/Unit - Rs. 10
Variable cost/Unit - Rs. 6.
Find the following :
i) P/V ratio.
ii) Break even point in terms of value (Rs)
iii) Break even point in terms of units.
iv) Margin of safety when an actual sale is 15000 units. **(10 Marks)**

4 a. Distinguish between Fixed costs and Variable costs. **(03 Marks)**
b. What are the exceptions to law of demand? Explain. **(07 Marks)**
c. Explain the price and output determination under monopolistic competition in the short run with the help of diagram. **(10 Marks)**

5 a. What do you mean by product differentiation? **(03 Marks)**
b. Explain Economies and Diseconomies of scale. **(07 Marks)**
c. "Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by Management". Discuss. **(10 Marks)**

6 a. What are the factors influencing elasticity of demand? **(03 Marks)**
b. Explain diagrammatically the kinked demand hypothesis of Oligopoly market. **(07 Marks)**
c. Illustrate and explain long run cost output relationship with examples and diagrams. **(10 Marks)**

Contd...2

7 a. Define production function. **(03 Marks)**

b. What is Full – Cost Pricing? Explain its uses and limitations. **(07 Marks)**

c. State and discuss precisely the Baumol's hypothesis of sales revenue maximization and Marris hypothesis of maximization of firms growth rate. **(10 Marks)**

8 CASE STUDY :

Using Elasticities in decision making.

R. J. Smith corporation is a publisher of romance novels – nothing exotic or erotic just stories of common people falling in and out of love. The corporation hires an economist to determine the demand for its product. After months of hard work and submission of an exorbitant bill, the analyst tells the company that demand for the firms novels (Q_X) is given by the following equation:

$Q_X = 12{,}000 - 5000\,P_x + 5I + 500\,P_c$.

Where, P_X = Price charges for the R.J. Smith novels.

I = Income per capita and

P_c = Price of books from competing publishers.

Using this information :

a. Determine what effect of price increase would have on total revenues. **(05 Marks)**

b. Evaluate how sales of the novels would change during period of rising incomes. **(05 Marks)**

c. Assess the probable impact if competing publishers raise their prices. **(10 Marks)**

Assume that the initial values of P_X, I and P_c are \$5, \$10,000 and \$6 respectively.

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First Semester MBA Degree Examination, Dec. 07 / Jan. 08
Managerial Economics

Time: 3 hrs. Max. Marks:100

Note : *1. Answer any FIVE full questions.*
2. Question No. 8 is compulsory.

1 a. What is Managerial Economics? **(03 Marks)**
b. Explain clearly the principle of 'opportunity cost' with examples. **(07 Marks)**
c. Discuss Baumol's theory of Sales Revenue Maximization. **(10 Marks)**

2 a. Define a Firm. **(03 Marks)**
b. State and explain the Law of Demand. **(07 Marks)**
c. A departmental store conducted a study of the demand for men's ties. It found that the average daily demand D, in terms of price P is given by the equation $D = 80 - 5P$.
i) How many ties per day can the store expect to sell at a price of Rs 10 per tie?
ii) If the store wants to sell 50 ties per day, what price should it charge?
iii) What is the highest price anyone would be willing to pay? **(10 Marks)**

3 a. Distinguish between Point and Arc elasticities with examples. **(03 Marks)**
b. What are the different methods of demand forecasting? **(07 Marks)**
c. Define Income – elasticity of demand and distinguish its various types. How does income-elasticity differ from Cross – elasticity? **(10 Marks)**

4 a. Define an Isoquant and explain its properties. **(03 Marks)**
b. Briefly analyze the different methods of pricing products. **(07 Marks)**
c. Explain the meaning of price-leadership. What are the conditions necessary for effective price leadership? **(10 Marks)**

5 a. What is meant by 'Returns to Scale'? **(03 Marks)**
b. Discuss the various economics of scale. **(07 Marks)**
c. How is price-output determined in the short-run in a monopoly market? **(10 Marks)**

6 a. Explain the features of monopolistic competition. **(03 Marks)**
b. State and explain the Law of Supply. **(07 Marks)**
c. Explain the short-run cost-output relationship with statistical examples. **(10 Marks)**

7 a. Define Price Discrimination. List out any 4 forms of price discrimination. **(03 Marks)**
b. How do you define Break-Even Analysis (BEA)? Construct a Break-Even chart. **(07 Marks)**
c. A manufacturer buys certain components for producing X at Rs 20 per unit. If he has to make these components, it would require a fixed cost of Rs 15,000 and average variable cost of Rs 5. His present requirement is 1000 units of these components. Advice him whether he should make or buy them. if he intends to double the output. **(10 Marks)**

8 **CASE STUDY:**

Indian Biscuit Industry – Cost –Price Nexus.

In India, biscuits are produced by several small and big manufacturers, including Britannia, ITC Foods, Parle and Priya Gold among several others.

Production of biscuits requires inputs of raw materials such as wheat, oil and sugar.

In 2006, wheat price increased by 20-25 percent. Prices of vegetable oil and sugar have gone up by 10-12 percent. Other associated costs have also gone up. Consequently, biscuit industry passes through high input costs. Continuation of the cost pressures would imply increase in the prices of biscuits. In fact, Surya Foods and Agro Ltd. (Makers of Priya Gold) already announced prices ranging from Rs 7 to Rs 5 on the packets. Likewise Parle also increased Rs 2 to 2.5 per kg.

Questions :

a. How do you analyze the cost – price nexus in biscuit industry?
b. What is the general nature of demand for biscuits in India?
c. What according to you are the reasons for changing cost-price structure of an Indian biscuit industry? Justify your answer.
d. "Biscuits are highly price-sensitive" and "Biscuits are under highly competitive market category". What are your comments about these two statements? **(20 Marks)**

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05MBA12

First Semester MBA Degree Examination, June / July 08

Managerial Economics

Time: 3 hrs. Max. Marks:100

Note : *1. Answer any FOUR full questions from 1 to 7.*
2. Question No. 8 is compulsory.

1 a. Is Managerial Economics, Science or an Art? Explain. **(03 Marks)**
b. Distinguish between Micro and Macro economics. **(07 Marks)**
c. Discuss the methods of measurement of price elasticity of demand. **(10 Marks)**

2 a. What is Autonomous demand and Derived demand? **(03 Marks)**
b. Explain why profit maximization is not always the aim of a firm. **(07 Marks)**
c. Explain how the equilibrium price – output is determined under monopoly in short run. **(10 Marks)**

3 a. What is meant by "Giffen Paradox"? **(03 Marks)**
b. What are the uses of price elasticity of demand? **(07 Marks)**
c. Briefly explain with sketches, the properties of ISO-QUANT curves. **(10 Marks)**

4 a. What is Dumping? **(03 Marks)**
b. Explain why short-run cost curve is U – Shaped. **(07 Marks)**
c. Briefly explain the uses and limitations of Break-Even-Analysis. **(10 Marks)**

5 a. Distinguish between explicit and implicit costs. **(03 Marks)**
b. Discuss the pricing strategies for a new product. **(07 Marks)**
c. Briefly explain the laws of returns to scale. **(10 Marks)**

6 a. What is Mark – up pricing? **(03 Marks)**
b. Briefly explain any two fundamental principles of managerial economics. **(07 Marks)**
c. When is price discrimination possible, profitable and desirable? **(10 Marks)**

7 a. What are the abuses of monopoly? **(03 Marks)**
b. What are the characteristics of Oligopoly? **(07 Marks)**
c. Explain the Baumol's sales revenue maximization model of a firm. **(10 Marks)**

8 **CASE STUDY** :

The following Table gives Income Elasticities for certain commodities in 3 categories in India as estimated by "NCAER" in its report on long term projections of Demand for and Supply of selected agricultural commodities 1960 – 61 to 1975 – 76.

Category	Commodity	Rural	Urban
1. Cereals	Minor Cereals. (Jowar, Bajra, Maize, Barley, Ragi, Small Millets, etc)	- 0.83	- 1.32
	Major cereals (Rice, Wheat etc)	0.55	0.12
2. Cloth	Handloom Cloth	-0.12	0.21
	Mill made Cloth	0.66	0.70
3. Tobacco	Bidi Tobacco	0.64	-0.19
	Cigarette Tobacco	1.51	1.17

a. What is Income Elasticity of demand and how would you measure it? **(02 Marks)**
b. How would you interpret the above findings in 3 categories? **(18 Marks)**

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05MBA12

First Semester MBA Degree Examination, Dec.08 / Jan.09
Managerial Economics

Time: 3 hrs. Max. Marks:100

Note : *Answer any FIVE full questions including Q-8 which is compulsory.*

1 a. Distinguish between micro and macro economics. **(03 Marks)**
b. Briefly discuss the responsibilities of a managerial economist. **(07 Marks)**
c. "Managerial economics is the integration of economic theory with business practices for the purpose of facilitating decision making and forward planning by management". Discuss. **(10 Marks)**

2 a. What is opportunity cost principle? **(03 Marks)**
b. Why is profit maximization not always the aim of firm? Explain. **(07 Marks)**
c. Explain the Bavmol's model of sales revenue maximization. **(10 Marks)**

3 a. What are the criteria of a good forecasting method? **(03 Marks)**
b. Explain the reasons for the operation of law of demand. **(07 Marks)**
c. Briefly explain the uses of price elasticity of demand. **(10 Marks)**

4 a. What is a production function? **(03 Marks)**
b. When the income of a person is Rs. 40 his demand for a particular commodity is 8 units. When his income goes up to Rs. 50 his demand for that commodity becomes 10 units. Calculate his income elasticity by proportionate method and arc method. **(07 Marks)**
c. Briefly explain with illustration, the law of variable proportions. **(10 Marks)**

5 a. What are the determinants of cost? **(03 Marks)**
b. Briefly explain the different properties of an ISO-Quant curve. **(07 Marks)**
c. Why is the average cost curve is U-shaped in the long run? Explain. **(10 Marks)**

6 a. When price discrimination is possible? **(03 Marks)**
b. Discuss the abuses of monopoly. **(07 Marks)**
c. How is equilibrium price and output determined under monopolistic competition? Explain. **(10 Marks)**

7 a. What is break-even analysis? **(03 Marks)**
b. What are the uses or application of break-even analysis? **(07 Marks)**
c. A firm sells its products at the rate of Rs. 7 per unit. The variable cost is Rs. 2 per unit and the fixed cost is Rs. 80,000.
i) Calculate the break even point.
ii) What would be the profit if the firm sells 40,000 units?
iii) What would be the 'BEP' if the firm spends Rs. 4,000 on advertisement?
iv) How much the seller should sell to earn profit of Rs. 40,000? **(10 Marks)**

8 **Case Study**

Pricing

Off-the-shelf ready meals is a booming business, thanks to new technology and changing life styles in Urban India. Though Indians are not fully exposed to packaged foods, socio economic changes like rise in income, rapid urbanization, rise in number of working women etc. are driving them towards packaged foods.

Several companies including 'ITC', 'MTR', 'GITS', Tasty Bites, Satnam overseas have launched ready to eat foods in the domestic market, while others like 'HLL' and Amul are firming up their plan.

When instant noodles were launched in the domestic market some 20 years ago, they brought about a revolution in the urban Indian kitchen. Two minutes was all it took to cook a meal. Instant foods have gone a step ahead – a pair of scissors is all one needs to serve a dinner. Just put the sealed packet in hot water for five minutes, cut it open and eat it. The new technology ensures proper sterilization, increasing the shelf life of a pack to 12 months without the need of refrigeration.

'ITC wishes to introduce Ashirwad brand ready meals. To achieve success, ready to eat food has to appeal to the price conscious masses and masses will have to be convinced about the quality, freshness of what is inside. But the biggest challenge to 'ITC' is price setting. In the backdrop of this situation, answer the following questions :

a. What are some price setting objectives, that ITC can have? **(05 Marks)**

b. What are the factors influencing price? **(05 Marks)**

c. Suggest a pricing strategy for ITC with its advantages and limitations. **(05 Marks)**

a. Suggest different forms of price discounts. **(05 Marks)**

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08MBA12

First Semester MBA Degree Examination, Dec.08/Jan.09
Managerial Economics

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FOUR questions from Q.1 to Q.7.***
Question No.8 is compulsory.

1 a. What is managerial economics? **(03 Marks)**
b. Explain clearly the principle of 'Opportunity cost' with examples and point out its managerial significance. **(07 Marks)**
c. Explain the different methods of demand forecasting. **(10 Marks)**

2 a. State the law of demand. **(03 Marks)**
b. With the help of diagrams, explain the difference between a movement along a demand curve and a shift in the demand curve. **(07 Marks)**
c. Explain the law of variable proportions. **(10 Marks)**

3 a. Define Oligopoly. **(03 Marks)**
b. What are the main characteristics of perfect competition? **(07 Marks)**
c. Explain the price & output determination under monopolistic competition in the short run with the help of a diagram. **(10 Marks)**

4 a. What do you mean by price discrimination? **(03 Marks)**
b. Explain briefly the different objectives of a firm. **(07 Marks)**
c. Discuss skimming pricing and penetration pricing with suitable examples. **(10 Marks)**

5 a. Distinguish between fixed costs and variable costs. **(03 Marks)**
b. 200 units of a commodity are demanded at a price of Rs.10. When the price rises to Rs.15, the quantity demanded falls to 120 units. Calculate the arc elasticity (or interval elasticity) of demand. **(07 Marks)**
c. Discuss short run cost-output relationship with examples and illustration. **(10 Marks)**

6 a. What is law of supply? **(03 Marks)**
b. Explain the concept of Break-even analysis with a Break-even chart. **(07 Marks)**
c. The following data are given:
Total fixed cost = Rs. 15,000
Variable cost per unit = Rs. 5
Selling price per unit = Rs. 8
Find out : (i) Break-even point (BEP) in terms of units.
(ii) Break-even point (BEP) in terms of value.
(iii) Margin of safety if actual sale is 5500 units. **(10 Marks)**

7 a. What is advertising or promotional elasticity of demand? **(03 Marks)**
b. Define an isoquant and explain its properties with diagrams. **(07 Marks)**
c. Discuss external and internal economies of scale with examples. **(10 Marks)**

8 CASE STUDY:

Usually air travel is considered to be luxury for the common people. The CEO of Southwest Airline, Herb Kelleher, long time back in 1972, held the view contrary to the belief that the air travels are meant mostly for the well-to-do people and executive class. Kelleher sought to make air travel affordable and accessible to ordinary people.

The U.S. Civil Aeronautic Board (CAB) had prescribed regulations for all inter-state fares for airlines in the USA. The Southwest Airlines came out as an intra-state airline with a bargain fare in Texas covering Dallas, Huston and san Antonia. Only one class seatings were provided without any frill services. Simply cash receipts and reasonable plastic boarding passes were used for the cost economy. The consumers responded remarkably well to the low price air travel.

Jet Blue, a new airline, in 2000 entered into the US air travel market. It also followed the Southwest business model, but with a larger aircraft within two-year time, it had 27 airbus A320 planes for the travel network covering 19 cities.

Recently in Malaysia, as against well established and government supported Malaysia Airlines (MAS), the new private airline company called Air Asia, came out on the Southwest model, offering budget fare in selected centres and gradually extended up to Bangkok in Thailand, and Jakarta, Surabaya and other destinations in Indonesia. Air Asia advertising slogan is 'Now Every One Can Fly'.

a. How do you analyse air travel in terms of price, income, cross and promotional elasticities of demand? **(10 Marks)**
b. Discuss the type of demand elasticity revealed by the above case. **(05 Marks)**
c. Discuss a similar case of success of cheap air travel in India in recent years. **(05 Marks)**

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First Semester MBA Degree Examination, June-July 2009
Managerial Economics

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FOUR questions from Q.1 to Q.7***
Question No.8 is compulsory.

1 a. State six duties or functions of a managerial economist. **(03 Marks)**
b. Explain clearly the concepts of 'Time Perspective' and 'Discounting'. **(07 Marks)**
c. Explain Law of Demand with diagrammatic representation and illustrations. **(10 Marks)**

2 a. Explain the concept of 'firm' and 'industry' with examples. **(03 Marks)**
b. Clarify the concepts of "perfect competition" and "monopolistic competition". **(07 Marks)**
c. Explain clearly the Baumol's model and Marris's theory regarding objectives of a firm. **(10 Marks)**

3 a. Explain in brief, any three uses of 'elasticity of demand' in business operations. **(03 Marks)**
b. Clarify the exceptions to the "law of demand" with the help of a demand curve (exceptional demand curve). **(07 Marks)**
c. At an initial advertisement expenditure of Rs. 2 lakhs, the demand for Bajaj bike was 60,000 units in a month. However when advertisement expenses were increased to Rs. 3 lakhs, the sales volume raised to 80,000 units. Calculate the advertisement elasticity of demand and give comments. **(10 Marks)**

4 a. Narrate or describe Law of Diminishing Returns. **(03 Marks)**
b. Define "economies of scale" in the broad sense. Explain five forms of internal economies. **(07 Marks)**
c. Classify Average Fixed Costs (AFC), Average Variable Costs (AVC) and Average Total Costs (ATC) with the help of some hypothetical example and relevant cost curves. **(10 Marks)**

5 a. What is oligopoly? Mention any four features of it. **(03 Marks)**
b. Explain with the help of a diagram, the 'Kinked Demand Curve'. **(07 Marks)**
c. Clarify the pricing strategies of "Price Skimming" and "Penetration Pricing". What is the major difference between these two? **(10 Marks)**

6 a. Explain briefly the meaning and usefulness of Break Even Analysis in business. **(03 Marks)**
b. Firm XYZ incurs fixed expenses of Rs.30000. Its variable cost of its popular product 'MAST1' is Rs. 10 per unit. Its selling price is Rs. 16. Calculate its Break-even quantity (BEQ) and interpret it. **(07 Marks)**
c. What is the concept of 'profit' of a firm? Instead of maximization of profits many firms are now more interested in controlling their profits. Explain any four reasons for controlling profits. **(10 Marks)**

7 a. Explain in short, the concept of "demand forecasting", and its significance in large-scale firms in the business. **(03 Marks)**
b. Clarify the principle or concept of 'Opportunity Cost', with some examples. Discuss its major three economic/business uses. **(07 Marks)**
c. Narrate 'Law of Supply' and explain it with the help of an illustration and/or diagram. State any five assumptions underlying this law. **(10 Marks)**

8 Case Study :

Price Strategies and Profits

Navrang – a movie theatre in a town has two types of customers: (i) College students and (ii) Senior citizens. The college students will watch the Sunday morning movie if the ticket price is Rs. 50/- or less, and the senior citizen will watch if the price is Rs. 25/- or less. Also assume that there is no other cost in showing the movie, so the profit is same as the revenue from the sale of tickets.

On Sunday morning, there are 40 college students and 20 senior citizens in the theatre. The theatre has three price strategies: (i) Uniform rate of Rs. 25/- for all (ii) Uniform rate of Rs.50/- for all, and (iii) Rs. 50/- for college students and Rs. 25/- for senior citizens.

a. Calculate the profits of the theatre under above three strategies each. **(10 Marks)**

b. Advise and give your comments on above strategies and profits. Which price strategy or option would you advice, as an economist? **(10 Marks)**

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08MBA12

First Semester MBA Degree Examination, Dec.09/Jan.10

Managerial Economics

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any Four full questions form Q No. 1 to 7.***
2. Question No. 8 is compulsory.

1 a. Define managerial economics. **(03 Marks)**
b. Explain the various determinants of demand. **(07 Marks)**
c. Compare the managerial theories of Williamson and Marris. **(10 Marks)**

2 a. What is isoquant? Depict graphically. **(03 Marks)**
b. Characterize break even chart graphically. Also state the assumptions in break even analysis. **(07 Marks)**
c. Explain, with diagrams price determination under perfect competition. **(10 Marks)**

3 a. What is Adam Smith's "invisible hand"? **(03 Marks)**
b. Given the total cost function, $TC = 40\ Q^3 - 900\ Q^2 + 10000\ Q$, find the AC and MC functions. Also, determine when AC is minimum. **(07 Marks)**
c. How is price determined under simple monopoly? **(10 Marks)**

4 a. What is "Margin of safety"? **(03 Marks)**
b. Given the demand function $P = 20 - Q$ and the total cost function, $C = Q^2 + 8Q + 2$, answer the following questions. What output maximizes the total profit and what are the corresponding values of price, profit and total revenue (sales)? **(07 Marks)**
c. What is "elasticity of demand'? Graphically explain various types of price elasticities. **(10 Marks)**

5 a. How a Cobb-douglas function is represented? **(03 Marks)**
b. Discuss the nature and scope of managerial economics. **(07 Marks)**
c. The production manager of a company estimates that their production process is currently characterized by the following short run production function :
$Q = 72x + 15x^2 - x^3$. when Q is tonnes of production per year and x is units of variable input per production period.
i) Determine the equation for the MP and AP of the variable factor.
ii) What is the marginal product when seven units of the variable input are employed?
iii) What is the maximum output capability per year? **(10 Marks)**

6 a. What are giffen goods? **(03 Marks)**
b. Explain the principle of equi-marginal utility with the help of an example. **(07 Marks)**
c. What is price discrimination? Explain its types. **(10 Marks)**

7 a. What is economies of scale? **(03 Marks)**

b. What is opportunity cost? You are deciding how to spend next Sunday. You have four mutually exclusive choices, which will give you the following units of pleasure :

Going for motor bike rally	+ 70
Playing cricket	+ 40
Watching television	+ 25
Going shopping	+ 15

i) What is the opportunity cost of going for motorbike rally?
ii) What is the opportunity cost of going shopping? **(07 Marks)**

c. The demand curve for a product is $P = 100 - 2Q_D$, where P is the price (Rs) and Q_D is quantity demanded. The actual price of the product is Rs. 70 per ton. If the supply curve is $P = 50 + 3Q_S$ when Q_S is quantity supplied, would you expect to price to rise or fall? If so, by how much? How? **(10 Marks)**

8 a. Complete the following table for bicycles, using the demand and supply equations :
$Q_D = 100000 - 250\ P$ and
$Q_S = 200\ P - 12500$, when Q_D = and Q_S are quantity demanded and quantity supplied respectively and P is the price.

	change in P	change in Q_D	% change in P	% change in Q_D	demand elasticity
P = 150 to 200					
P = 250 to 200					
P = 200 to 250					
P = 300 to 290					
P = 300 to 310					
P = 100 to 0					

	change in P	change in Q_S	% change in P	% change in Q_S	demand elasticity
P = 150 to 200					
P = 75 to 100.					

(12 Marks)

b. When Ram's income increases by 10%, his demand for goods A increases by 2%, his demand for goods B increases by 15% and his demand for goods C decreases by 5%. Calculate and comment on Ram's income elasticity of demand for the three goods. **(08 Marks)**

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08MBA12

First Semester MBA Degree Examination, May/June 2010
Managerial Economics

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Q.No. 8 is compulsory.***

1 a. Describe any two roles of a managerial economist. **(03 Marks)**
b. Define equi-marginal principle. Explain its managerial significance. **(07 Marks)**
c. Analyse Boumol's Hypothesis of sales revenue maximization. **(10 Marks)**

2 a. State any two exceptions to the law of demand. **(03 Marks)**
b. Briefly explain the types of elasticity of demand. **(07 Marks)**
c. The demand function for chocolates in a city is, $Q_d = 400 - 4P$,
where Q_d = Quantity demanded of chocolates in '000 packets per week.
P = Price of chocolate per packet.
i) Construct a demand curve assuming price of Rs.10, 12, 15, 20 and 25 per packet.
ii) If the producer wants to sell 380000 packets per week, what price should it charge? **(10 Marks)**

3 a. What is Break-even analysis? **(03 Marks)**
b. Explain the features of monopoly. **(07 Marks)**
c. Outline the scope of managerial economics. **(10 Marks)**

4 a. What are ISO-Quants and ISO-cost line? **(03 Marks)**
b. How does managerial economics help the manager in decision making under uncertainty? **(07 Marks)**
c. A firm sells its products at the rate of Rs.7 per unit. The variable cost is Rs.2 per unit and the fixed cost is Rs.80000.
i) Calculate the BEP.
ii) What would be the profit if the firm sells 40000 units?
iii) What would be the BEP if the selling price is reduced to Rs.5 per unit?
iv) How much the seller should sell to earn a profit of Rs.40000 with the new price of Rs.5 per unit? **(10 Marks)**

5 a. State any three assumptions underlying law of supply. **(03 Marks)**
b. Briefly explain the uses and limitations of Break even analysis. **(07 Marks)**
c. How is the equilibrium price and output of a firm determined under monopolistic competition? Explain. **(10 Marks)**

6 a. What is full cost pricing? **(03 Marks)**
b. Explain the concepts of total product, average product and marginal product of a variable factor with a hypothetical production schedule. **(07 Marks)**
c. Explain the concepts of average fixed cost, average variable cost, average cost and marginal cost and show their inter relationship. **(10 Marks)**

7 a. Define opportunity cost principle with an example. **(03 Marks)**
b. Why in practice the long run average cost curve is likely to be U-shaped? **(07 Marks)**
c. Explain the traditional approach to the laws of returns to scale. **(10 Marks)**

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

8 **Case Study:**

Over the years market trade in major cities is turning to become oligopolistic with varying degrees of concentration. A remarkable feature of urban metropolitan development is the rising share of the super market and corresponding decline of cooperative and independent retailers. Dunnett (1992) illustrated the phenomenon evidence from the UK grocery trade during (1961-89). It is observed that supermarket claimed 29%, cooperative 11% and independent retailers 60% of the market share in grocery retailing in 1961.

In 1981, the market share of the super markets increased to 63% and that of cooperative to 14% whereas the share of independent retailers declined to 23%. By 1989, the share of supermarket went up to 74%, while that of co-operatives decreased to 11% and that of independent retailers to 15%. If such a process happened in a city like Mumbai or Delhi in lagging countries like India, it may create an adverse impact on the self employment situation and on the intensity of the problem of inequality in the distribution of income.

Questions:

a. Discuss briefly the features of oligopoly market situation. **(10 Marks)**
b. Analyze the above case in the context of India in view of the impact of oligopoly market situation. **(10 Marks)**

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