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First Semester MBA Degree Examination, December 2012
Managerial Economics

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer FOUR full questions from Q1 to Q7.
2. Q8 is compulsory.

- 1
 - a. Define managerial economics. (03 Marks)
 - b. Distinguish between micro and macro economics. (07 Marks)
 - c. Explain law of demand and why the slope of demand curve is downward. (10 Marks)

- 2
 - a. Briefly explain the concept of opportunity cost. (03 Marks)
 - b. Explain the diagrammatically the extension and contraction is demand, increase and decrease in demand. (07 Marks)
 - c. The total cost function is $TC = 40 Q^3 - 900 Q^2 + 10,000 Q$. Find AC and MC and also determine when AC is minimum. (10 Marks)

- 3
 - a. Distinguish between explicit and implicit cost. (03 Marks)
 - b. Explain diagrammatically the relation between average cost and marginal cost. (07 Marks)
 - c. Briefly explain Baumol's hypothesis of sales revenue maximization. (10 Marks)

- 4
 - a. Briefly explain the role of managerial economics in decision making process. (03 Marks)
 - b. Explain the main features of monopolistic competition. (07 Marks)
 - c. Explain in detail, the laws of return to scale. (10 Marks)

- 5
 - a. Briefly explain the limitation of break even analysis. (03 Marks)
 - b. Explain law of supply and what are its assumptions. (07 Marks)
 - c. The demand function for a product is $Q = 400 - 4P$
Where Q is quantity demand and P = Price of per unit
 - i) Determine demand if price is Rs. 10, 15 and 20.
 - ii) At what price would demand be zero?
 - iii) What price producer should charge if producer want to sell 380 units per week. (10 Marks)

- 6
 - a. Explain the main features of monopoly. (03 Marks)
 - b. What is the difference between skimming pricing and penetrations pricing? (07 Marks)
 - c. What do you mean by external economics and explain in detail, the different types of external economics? (10 Marks)

- 7
 - a. What is advertising or promotional elasticity of demand? (03 Marks)
 - b. Define isoquant curve and explain the properties of isoquant curve. (07 Marks)
 - c. Explain the diagrammatically price and output determinations under perfect competition. (10 Marks)

8 Case Study

During a recessionary period in the United State, CEO of the General Motor Ford and Chrysler commonly decided that it is not worth while to close down some of the operating plants and lay off workers. It is rather cheaper to sell cars to rental companies at lower prices even at a loss than to lay off workers. This is because the recession – auto sales slump is a temporary phenomenon and once recovery period begin, restarting of a closed down plant would be more expensive. Further layoff would mean a high compensation to be paid to the workers when their services are terminated, under the union contract. In other words CEOs observed loss of profit in sales (LS_1) would be lesser than the costs of lay out and again additional cost in re-opening of the closed plants (CS_2)

$$LS_1 > CS_2$$

LS_1 = Strategy1 i.e. selling at loss

CS_2 = Strategy2 i.e. lay off workers

It is therefore better to select the strategy1 rather than 2, selection of strategy 2 is not desirable as it would shatter the image of the company as one of the best employer.

Questions :

- a. What is the decision making problem of CEOs of General Motor? (05 Marks)
- b. What course of action thought out by CEO? (05 Marks)
- c. What is strategy 2? (05 Marks)
- d. Which strategy is suitable for the automobile industry? (05 Marks)

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