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First Semester MBA Degree Examination, Dec.2013/Jan.2014
Managerial Economics

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer any THREE full questions from Section-A.
2. Section-B and C are compulsory.

SECTION – A

- 1 a. What is managerial economics? (03 Marks)
b. Suppose you are a sales manager of an organization. Explain how the analysis of demand contributes to your business decision making. (07 Marks)
c. What conditions are necessary before price discrimination is both possible and profitable? Why does price discrimination result on higher profits? (10 Marks)
- 2 a. State the long run equilibrium conditions in monopolistic market. (03 Marks)
b. Mention the salient features of long run average cost curve. What is the significance in managerial decision making? (07 Marks)
c. "Price leadership is an alternative cooperative method used to avoid tough competition". Comment. (10 Marks)
- 3 a. What is the nature of demand curve for the following commodities?
i) Life saving drugs
ii) Designer watches
iii) Safety pins. (03 Marks)
b. With a neat diagram present Baumol's sales maximization model. (07 Marks)
c. What is production function? How does a long run production function is different from a short run production function? (10 Marks)
- 4 a. What is accounting profit and economic profit? Which are provides more appropriate basis for evaluating business operations? Why? (05 Marks)
b. What is oligopoly? What are the distinguishing features of oligopoly market? (05 Marks)
c. "Managerial economics bridges the gap between economic theory and business practice". Discuss. (10 Marks)
- 5 a. State the law of supply. List the factors which determine the supply. (05 Marks)
b. Discuss cost-output relationships in the short run with a suitable cost schedule. (05 Marks)
c. "It is believed that a firm under perfect competition is a price-taker and not a price maker." Explain with suitable diagram. (10 Marks)
- 6 a. With the help of an example describe the decision making process in managerial economics. (10 Marks)
b. Profit is maximum when the difference between TR and TC is greatest. How is this equivalent to saying that profit is maximum when $MR = MC$? (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.

SECTION – B

- 7 a. KSRTC (volvo service) has a capacity to carry a maximum of 10,000 passengers per month from Bangalore to Hyderabad at a fare of Rs.600. Variable costs are Rs.100 per passenger and fixed costs are Rs.30,000 per month. How many passengers should be carried per month to break-even? **(05 Marks)**
- b. Following a price change for diet coke, explain how retailers use sales information to learn if lays snack chips represent a compliment or substitute for diet coke. **(05 Marks)**
- c. If you are the owner of a small scale industry (business), what pricing formulas will you follow? Will they be effective? Justify your answer with examples. **(05 Marks)**
- d. Mr. Devendra T, Vice president-sales of 'sun zone solar systems' has estimated the following demand function for the 100 liters solar water heater produced by them:
 $Q = 1500 - 0.04P$, Where, Q = Quantity demanded of solar water heaters; P = Price of each unit. Construct a demand curve assuming price $P_1 = 12,000$, $P_2 = 13,000$, $P_3 = 14,000$, $P_4 = 15,000$ and $P_5 = 16,000$ per unit. **(05 Marks)**

SECTION – C

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CASE STUDY

The Times of India is one of the leading newspapers in India. In September 1972, it reduced its price from 45 paise to 20 paise per paper while the price of its rivals remained unchanged. The number of news papers sold by TOI and its rivals was as follows:

Paper	August-1972	May-1973
TOI	3,55,000	5,18,000
Statesman	10,24,000	9,93,000
The Hindu	3,92,000	4,02,000
Hindustan times	3,25,000	2,77,000

Questions:

- a. Calculate the price elasticity for TOI. **(05 Marks)**
- b. Based on the above information, state whether the price elasticity of demand for TOI is elastic or inelastic. **(05 Marks)**
- c. Was the cross elasticity of demand between statesman and TOI is positive or negative? Why? **(05 Marks)**
- d. In your view what may be the possible reasons for the increase in demand for 'The Hindu'? **(05 Marks)**

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