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First Semester MBA Degree Examination, February 2013

Managerial Economics

Time: 3 hrs.

Max. Marks:100

Note: 1. *Answer any THREE full questions from Q.No.1 to Q.No.6.*
2. Answering Q.7 &Q.8 is compulsory.

PART – A

1 a. State three responsibilities of "Managerial Economist". **(03 Marks)**
b. Explain Banmol's model of sales maximization with the help of a diagram. **(07 Marks)**
c. Describe the nature and scope of managerial economics in relation to business and industry. **(10 Marks)**

2 a. State three exceptions to "law of demand". **(03 Marks)**
b. Explain the objectives and alternative objectives of firm. **(07 Marks)**
c. Explain five fundamental principles/concepts of managerial economics. **(10 Marks)**

3 a. What is advertising and promotional elasticity of demand? **(03 Marks)**
b. Explain the five types of price elasticity of demand with the help of diagrams. **(07 Marks)**
c. Explain laws of variable proportions with the help of an examples and graphs stating increasing, diminishing and negative returns. **(10 Marks)**

4 a. What is product line pricing? **(03 Marks)**
b. Explain economics and diseconomies of scale. **(07 Marks)**
c. Differentiate between 'monopoly' and 'monopolistic competition'. Explain pricing under monopolistic competition. **(10 Marks)**

5 a. An installment agreement is signed for the purchase of a computer system that costs \$3400. The agreement calls for a down payment of \$300 with the balance paid in equal monthly installments over a 10 month period with interest at 8% per year. Find the amount of each monthly payment. **(03 Marks)**
b. A pen company is able to sell 4200 units of its latest soft gel model pen priced at Rs.12/- per piece. A survey conducted by the company's research team shows that if the price of the pen could be lowered by Rs.2/-, the company would be able to sell 6500 units of this pen. What is price elasticity of demand for the pen? **(07 Marks)**
c. A manufacturer makes and sells tables, lamps, chairs. The cost accounting department and the sales department have supplied the following data:

Product	Selling Price per unit	VC per unit (Rs.)	% of rupee sales volume
Tables	40	30	20
Lamp	50	40	30
Chairs	70	50	50

Capacity of the firm : Rs.150,000 of the total sales volume
Annual fixed cost : Rs.20000
Variable cost : Rs.90000
Calculate: i) BEP
ii) Profit if the firm works at 80% of capacity. **(10 Marks)**

6 a. What is peak load pricing? (03 Marks)
b. Explain cost and output relationship in the short term. (07 Marks)
c. Explain different methods available for demand forecasting. (10 Marks)

PART – B

7 a. Over the past couple of months the price of gold has sky rocketed to over Rs.31500 for 10 grams approximately. The customer are vary of purchasing gold in the hope that the rates may fall in the near future. Some gold investor started liquidating their holdings in gold. Do you expect a fall in price? Why? (05 Marks)
b. Ms. Daisy celebrated her birthday and invited her classmates to the party. Mr. Kashif a friend, ate first pastry and enjoyed it a lot. This resulted in his consuming another one, which was very fine. Further, he ate another one and found it was normal. The pastry were purchased from Amma's pastry and were of even size and taste. Analyze why Kashif found difference in the taste of pastry? (05 Marks)
c. Nokia India Limited has a fantastic run in the mobile sector in India. It is observed that the market had an exponential growth over the last decade. In the fall of the last decade the market and price declined. Suggest the economic reasons behind it. (05 Marks)
d. A low cost high volume product is to be released in the highly competitive market. The manager is thinking to adopt one of the pricing strategy. Suggest which one is best? (05 Marks)

PART – C

8 **CASE LET:**

In India biscuits are produced by several small and big manufacturers, including Britannia, ITC Foods, Parle and Priya Gold amongst several others. Production of biscuits requires inputs of raw materials such as wheat, oil and sugar. The price of all these raw materials has gone up by 10-12 percent. Other associated costs have also gone-up. Consequently, biscuits industry is passing 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.15 on the some of the packets. Likewise Parle also increased Rs.12 to Rs.12.5 per kg.

Questions:

a. How do you analyze the cost price relationship in biscuit industry? (05 Marks)
b. Describe the general nature of demand for biscuits in India. (05 Marks)
c. What according to you are the reasons for changing cost price structure of an Indian biscuits industry? Justify your answer. (05 Marks)
d. Biscuits are highly "price sensitive" and "biscuits are under highly competitive market category". What are your comments about these two statements? (05 Marks)

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