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**First Semester MBA Degree Examination, June/July 2011**  
**Managerial Economics**

Time: 3 hrs.

Max. Marks:100

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

- 1
  - a. What is managerial economics? (03 Marks)
  - b. What is the concept of 'marginal principle'? Discuss the important areas of business decisions in which marginal principle can be applied. (07 Marks)
  - c. Explain the different methods of demand forecasting. (10 Marks)
  
- 2
  - a. State the law of diminishing marginal utility. (03 Marks)
  - b. With the help of diagrams, explain the difference between a movement along a demand curve and shift in the demand curve. (07 Marks)
  - c. State the law of demand. State the factors that make the law of demand operate. What are the exceptions to the law of demand? (10 Marks)
  
- 3
  - a. How is monopolistic competition different from perfect competition? (03 Marks)
  - b. Define monopolistic competition. What are its distinct characteristics? (07 Marks)
  - c. Explain the price and output determination under monopolistic competition in the short run with the help of a diagram. (10 Marks)
  
- 4
  - a. What is production function? (03 Marks)
  - b. Explain the difference between a short run and long run production function. Cite one example of this difference in a business situation. (07 Marks)
  - c. The short run production function of a hosiery mill is  $Q_x = 12L + 6L^2 - 0.1L^3$ , where  $Q_x$  = daily output of banians,  $L$  = the number of workers employed.
    - i) How many workers are employed when the average physical product of banian is maximised?
    - ii) How many workers are employed when the marginal physical product of banian is maximised?
    - iii) It is daily wage rate is Rs.30 and the selling price of banian is Rs.40/- per piece, how many banians should be produced to maximize profits in this business? (10 Marks)
  
- 5
  - a. State the law of supply. (03 Marks)
  - b. State the factors determining the elasticity of supply. (07 Marks)
  - c. Explain the relationship between costs used in analyzing the short run cost-behaviour. (10 Marks)
  
- 6
  - a. What is cost-plus pricing? (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)
  
- 7
  - a. What is transfer pricing? (03 Marks)
  - b. What are the pricing strategies adopted in pricing a product in relation to its established substitutes. (07 Marks)
  - c. Advith manufacturing limited incurs fixed expenses amounting to Rs.12000. Its variable cost of product 'X' is Rs.5 per unit. Its selling price is Rs.8/-.
    - i) Determine its break-even quantity and its margin of safety for the sales of 5000 units.
    - ii) Interpret the results. (10 Marks)

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

8 **CASE STUDY:**

Consumer non-durables like cold-drinks, snacks, etc. marketers have released that the market demand is governed more by the consumer's preference more than the price or income of the product.

The organized biscuit industry is controlled by two major players, Britannia (which holds 40% market share) and Parle (which holds 30% market share). Market research shows that rural India, which is becoming an important buying segment, has a distinct snacking habit. People in rural areas like the low-cost sweet item that is taken with tea. Both Britannia and Parle seem to have understood this distinct preference. Britannia's re-launch of Glucose-D, Circus brands and Tiger brand biscuits has taken the rural market by storm. Tiger brand has an estimated sales of Rs.1.5 billion (mainly from rural and small town areas) garnering 20-25% of market share in glucose biscuit segment. Britannia hopes to make Tiger brand the number one brand surpassing Parle's 'Parle-G', which currently enjoys 55% market share, again, mainly from rural sector.

Urban people who like to snack show a different pattern. Their tea-time biscuits are salty and creamy. Here Britannia's snax, 50-50 and Bourbon seem to have an edge over Parle's Monaco, Krackjack and Hide & Seek. Some research analysts feel that with the launch of Parle's 'Hide & Seek', the company may gain a higher market share than Britannia.

The current market leaders's aim is to convert every third Indian into a Britannia consumer by making products suitable to every taste and pocket. The management feels that the company has to develop a favourable brand image and adopt an acceptable pricing policy to be a permanent market leader. The company has already gone in for Low Unit Packs (LUPs), reducing the cost of packaging considerably. However, the company is aware that the consumer today shows a distinct taste and preference to innovative products. The novelty of the products excites the consumer enough to spend on it.

Britannia believes snacking is a leisure activity and hence consumers can relate to it easily if the company associates itself with popular leisure activities. This has given rise to three major Britannia promos in recent times : 'Britannia Khao World Cup Jao'; 'Britannia Khao Cricketer Ban Jao' and linking itself with Star Puls's 'Kaun Banega Crorepati'; both being associated with the Nation's favourite game and all-time favourite game shows in electronic media.

The strategy seems to work well as the company is the distinct market leader, way ahead of other players. With these innovative promos, the company seems to fit the 'taste' of the young, sporty, urban crowd.

**Questions:**

- a. Do you think taste and preference is an equally important demand determinant for consumer durable goods and capital goods as it is for non-durable goods? (05 Marks)
- b. What are the attributes that other than taste and preference the two market leaders in biscuit industry are considering? (05 Marks)
- c. Is there market segmentation as far as taste and preference is concerned in the biscuit industry? (05 Marks)
- d. Discuss the 'taste and preference' of modern Indians. How is Britannia catering to it? Is Parle at Par with its rival while catering to the tastes and preference of urban consumers? (05 Marks)

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**Managerial Economics**

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Max. Marks:100

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

- 1 a. What is managerial economics? (03 Marks)  
b. What is opportunity cost? How do we measure it? (07 Marks)  
c. Define income – elasticity of demand. How does it differ from cross – elasticity and price elasticity? (10 Marks)
- 2 a. Distinguish between fixed cost and variable cost. (03 Marks)  
b. What are the different methods of demand forecasting? (07 Marks)  
c. How is price output determined in the short – run in a monopoly market? (10 Marks)
- 3 a. Explain the law of demand. (03 Marks)  
b. Discuss the various reasons for economics of scale. (07 Marks)  
c. Explain the price and output determination under perfect competition. (10 Marks)
- 4 a. What is a Cartel? (03 Marks)  
b. Define price discrimination. List out any three forms of price discrimination. (07 Marks)  
c. Price is the sole determinant of demand – comment. (10 Marks)
- 5 a. Write a note on Price Elasticity of Demand. (03 Marks)  
b. What is Oligopoly? Bring out the main features of a oligopoly market. (07 Marks)  
c. Following data is available for a firm :  
Fixed cost = Rs 1,50,000 ; Variable cost = Rs 12 per unit ; Selling price = Rs 30 per unit. Find i) Profit, if sales is Rs 6,00,000 ii) Find sales, if profit target is Rs 3,90,000. (10 Marks)
- 6 a. What is BEP? (03 Marks)  
b. Examine Baumol's sales maximization theory. (07 Marks)  
c. Explain the theory of managerial utility maximization, put forth by O.E. Williamson. (10 Marks)
- 7 a. What is learning curve? (03 Marks)  
b. Explain the concepts of constant, increasing and decreasing return of scale. (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  $D = 200 - 10P$ .  
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 150 ties per day, what price should it charge?  
iii) At what price demand will be zero? (10 Marks)

**8 CASE STUDY : (Compulsory)**

Café world is a fast food chain, retailing burgers, pizzas, coffee etc. It has opened up counters in food courts of IT companies in Bangalore.

In a large IT company in I.T.P.L, café world has a counter in a food court which has the counters setup by vendors retailing food products for lunch and snacks. The company has 6000 employees, who visit the food court, everyday. Café world charges modest price for its products. It is planning to reduce it by 10% across all products.

**Questions :**

- a. What type of market is café world in? (05 Marks)
- b. Will a reduction in price enhance market share? (05 Marks)
- c. How will the other competitors react to this reduction in price? (05 Marks)
- d. What strategy would you suggest to increase market share without reducing the price? (05 Marks)

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