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12MBA12

First Semester MBA Degree Examination, June / July 2013
Managerial Economics

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any THREE questions, from Q.No.1 to Q.No.6.***
2. ***Q.No. 7 and Q.No.8 is compulsory.***

1 a. What do you understand by the term "Ceretis paribus"? **(03 Marks)**
b. Compare and contrast the pricing strategies Viz, penetration pricing, loss leader pricing and peak load pricing. **(07 Marks)**
c. Explain different types of costs with a focus on economic philosophies. **(10 Marks)**

2 a. Distinguish between substitutes and complements, with examples. **(03 Marks)**
b. Explain the concept of returns to scale and distinguish among increasing returns to scale, constant returns to scale. **(07 Marks)**
c. Compare the characteristics of an oligopoly with those of perfect competition, monopoly and monopolistic competition. **(10 Marks)**

3 a. What is marginal rate of technical substitution? **(03 Marks)**
b. There are few exceptions to the law of Demand. What are they? Explain. **(07 Marks)**
c. What is price discrimination? Explain its various degrees using suitable examples. **(10 Marks)**

4 a. Relate the principal agent problem with Williamson's theory of maximization of managerial utility function. **(05 Marks)**
b. Explain the concept of opportunity cost and its linkage with production possibility curve. **(05 Marks)**
c. Briefly explain the product life cycle based pricing with the help of a FMCG and a consumer durable. **(10 Marks)**

5 a. Diagrammatically depict the various cost curves. (No explanations required). **(05 Marks)**
b. Discuss the two constraints discussed in Marn's theory and their role in achieving growth maximization. **(05 Marks)**
c. "Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision making and forward planning by the management". Explain. **(10 Marks)**

6 a. A small firm incurs fixed expenses amounting to Rs 12000. Its variable cost of product X is Rs 5 per unit and selling price is Rs 8 per unit. Determine the break even quantity and margin of safety for the sales of 5000 units. **(05 Marks)**
b. For each of the following equations, determine whether the demand is elastic, inelastic or unitary elastic at the given price. i) $Q = 100 - 4P$ and $P =$ Rs 20
ii) $Q = 1500 - 20P$ and $P =$ Rs 5 iii) $P = 50 - 0.1Q$ and $P =$ Rs 20. **(15 Marks)**

7 a. How would the demand curve of the following commodities look like? Represent graphically (No explanation required) : i) Life saving drugs ii) Safety pins iii) Designer watches iv) Beedi v) Salt. **(05 Marks)**

b. Mr. Ram Prakash is planning to invest Rs 10 lakhs in to any one business and the probable profits from the four alternatives he has is as follows :
From the retail business : Rs 6 lakhs ; From the banking business : Rs 4 lakhs
From the hotel business : Rs 7 lakhs ; From the whole sale business : Rs 5 lakhs.
Find the opportunity cost of starting a i) Hotel business ii) Retail business iii) Banking business iv) Wholesale business. **(05 Marks)**

c. Assume that a firm increases the productivity of workers through a special innovative learning and training. How would this affect its total products average product and marginal product curves? Depict diagramatically. **(05 Marks)**

d. Categorize the following businesses / organizations / products into various types of market structures Viz. Perfect competition , Oligopoly , monopoly or monopolistic competition. Justify your answer.
i) Tomatoes with the roadside vendor ii) Indian Railways iii) Petrol form Bharat Petroleum outlet iv) Sony television v) Lux soap. **(05 Marks)**

8 **Nokia going the QWERTY way**

The Indian mobile handset market is projected to grow by 25% by next year to 210 million units as against 151 million handset in the previous year, with smart phones contributing sales of nearly 12 millions. Nokia is still the most selling brand with a 56% market share but it is losing its market share due to the emergence and gradual popularity of Androids and smart phones, availability of local brands like spice and micromax and shift in the Indian consumer preferences for more features. Nokia is al set to uphold itself as a trustworthy brand by adopting multiple strategies. "Its time we leverage our market position and brand ".......". We will sell several low cost dual SIM handsets with features like camera and radio which are much in demand", says Mr. Shiva Kumar, MD and Vice President of Nokia India while launching new series of smart phones.

QWERTY is one of the fastest growing mobile phone categories in the world due to the rise in messaging and social networking. In order to cash in on the growing demand of QWERTY phones, Nokia launched its new handset Nokia X2-01 with its low price, colourful designs and optimized messaging ability. The Nokia X2-01 makes it easy to set up chat and send emails directly and superfast access to Ovi mail, Ovi chat and more. This handset will help in demonstrating the use of QWERTY keypads to Indian consumers, it will be available at Rs 4459.

Questions :

a. In your opinion, what is the objective of Nokia in introducing the new series of phones? Elaborate with relevant theory.
b. Do you agree that growth maximization with managerial discretion is more suitable for public limited companies like Nokia?
c. Identify the market structure for Nokia in India and elucidate its features.
d. What is the pricing strategy adopted by Nokia? Do you think it is the appropriate strategy?

(20 Marks)

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