USN | | | | | | | | | | **12MBA12**

First Semester MBA Degree Examination, June/July 2014

Managerial Economics

Time: 3 hrs.   Max. Marks:100

Note: 1. ***Answer any THREE full questions from Q.No.1 to Q.No.6.***
2. ***Q.No.7 and Q.No.8 are compulsory.***
3. ***Simple calculators may be permitted.***

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.

1 a. What is peak load pricing? **(03 Marks)**
b. "Managerial economics bridges the gap between economic theories and business practice". Discuss. **(07 Marks)**
c. A firm under perfect competition is a price taker and not price maker. Justify. **(10 Marks)**

2 a. Define opportunity cost. **(03 Marks)**
b. State the law of supply. List out the various determinants of supply. **(07 Marks)**
c. Define ISO-quants. Explain the features of ISO-quants with suitable diagrams. **(10 Marks)**

3 a. What do you mean by Cartels? **(03 Marks)**
b. Explain the methods of cost plus pricing. What are its limitations? **(07 Marks)**
c. Describe the law of variable proportions with suitable examples and diagrams. **(10 Marks)**

4 a. List the determinants of short term and long term profits. **(05 Marks)**
b. Bring out the reasons for 'U' shape cost curves. **(05 Marks)**
c. Critically examine the 'Cyert and March' behavioural theory of the firm. **(10 Marks)**

5 a. Bring out the relationship between managerial economics and other decision sciences. **(05 Marks)**
b. What is sole proprietorship? List its important advantages and disadvantages. **(05 Marks)**
c. What conditions are necessary before price discrimination is both possible and profitable? Why does price discrimination result in higher profits? **(10 Marks)**

6 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 ₹800. Variable costs are ₹200 per passenger and fixed costs are ₹3000000 per month. How many passengers should be carried per month to break-even? What would be the net profit at the maximum capacity of 10000 passengers? Show the BEP on a neat diagram. **(10 Marks)**
b. Mr. Devendra T. Vice President sales of 'Sun Zone Solar Systems' has estimated the following demand function for the 100 ltrs solar water heater produced by them.

$$Q = 1500 - 0.04P$$

where, Q = quantity demanded of solar water heaters
P = Price of each solar water heater.

Construct a demand curve assuming price ₹12000, 13000, 14000, 15000 and 16000 per unit. **(10 Marks)**

7 a. In real world market, what pricing formulas will a small business follow? Will they be effective? Justify your answers with examples. **(05 Marks)**
b. Construct a hypothetical cost schedule and bring out the cost-output relationship in the short run between output and TC, TFC, TVC, AC, AFC, AVC. **(05 Marks)**

c. 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)**

d. Suppose you are a manager at a strategic business unit of an organization. Bring out how the analysis of market structure contributes to your strategic business decision making? **(05 Marks)**

8 ***Case Study:***

Variety is spice of life – Indian Fast Food Industry

Walk down streets of Delhi, one will come across a number of food joints, starting from the local 'dhabha' to one time favourite of the Delhites Nirula's to the KFC and Mc Donald's. The fast food industry has a sizable number of new entrants and the trend seems to continue. An obvious reason for such industrial growth seems to be the 'cosmopolitan' taste pattern developed by us. An average Indian 5-10 years back would imagine a Masala Dosa or a burger to be a fast food. We have come a long way from those days. Today's Indians and by that, we do not mean only X generation but school children, middle aged executives, grandfathers and housewive's, all are fond of fast food. In fact fast food is too general term. Today, one has to specify, whether he wants a 'fish-o-fillet' burger from Mc Donald's or a pan pizza from the Pizza Hut or the special KFC fried chicken, the list of various types of fast food just goes on.

Technically speaking, it is the same chicken which will be simply roasted with the standard marination in a road side tandoor, while in a KFC outlet, the chicken will be fried in the famous KFC batter and served with finger chips, coleslaw and the coke. You feel that you have been transported to the country of Uncle Sam, there lies the difference. For consumer it is a different product. The product is differentiated in a number of ways starting from the way you present, the ambiance of the eating joint to the location and duration of working hours. The shop owners harp on this factor and bolster their sales based on this product differentiation in their advertisements.

After all a Mc Chicken burger, with its declared calorie content rendered by dressed smart boys and girls in the posh market place is not the same as a simple chicken burger kept in the hot case of a local shop.

Product differentiation is costly. Developing a new variety of cheese to be used on your pizza and to suit the Indian taste requires some laboratory research, market research, and aggressive sales effort. Opening another Mc Donald's joint in another busy market place all these are costly affairs. But this differentiation brings in additional revenue. A new chicken burger with lesser calorie content that an average burger will attract the young girls. A KFC outlet with a special floor filled with balls and balloons will be a child's delight.

Since this is an industry where anybody with decent budget can enter, it almost becomes an obligation for the existing ones to have a continuous product innovation and differentiation to continue in this business in the long run.

Questions:

a. Explain the features of monopolistic competition. **(05 Marks)**

b. Describe how will you justify the above example is describing a monopolistic competition. **(05 Marks)**

c. Can you draw a parallel example for another product? **(05 Marks)**

d. What are the marketing strategies followed under monopolistic competition? **(05 Marks)**

* * * * *