VPM's
DR VN BRIMS, Thane
Programme: MMS (2017-19)
First Semester Examination December 2017

Subject	Managerial Economics		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	2	Date	15.12.2017

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1. Answer both parts

A) Price comparison services on the Internet are a popular way for retailers to advertise their products and a convenient way for consumers to simultaneously obtain price quotes from several firms selling an identical product. Suppose that you are the manager of Digital Camera, Inc., a firm that specializes in selling digital cameras to consumers that advertises with an Internet price comparison service. In the market for one particular high-end camera, you have only one rival firm—The Camera Shop—with which you've competed for the last four years by setting prices day after day. Being savvy entrepreneurs, the ease of using the Internet to monitor rival firms' prices has enabled you and your rival to charge extremely high prices for this particular camera. In a recent newspaper article, you read that The Camera Shop has exhausted its venture capital and that no new investors are willing to sink money into the company. As a result, The Camera Shop will discontinue its operations next month. Will this information alter your pricing decisions today? Explain……………………………………***(10)***

B) What will happen to the demand curve of a perfectly competitive firm if:
(i) New sellers are attracted to the industry by the existence of supernormal profits?
(ii) There is an increase in market demand for the firm's output?..............................***(10)***

Q2. ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

A) Fill in the blanks:
(a) As per law of supply, more goods will be supplied at .... price.
(b) The demand curve is .... sloping.
(c) There is only one possible price at which quantity supplied is …………. quantity demanded
(d) In price ceiling, price is purposely held………………..the equilibrium price.
(e) If the market price is lower than the price floor, then ………….. is generated.

B) Which of the following examples best shows the Law of Diminishing Marginal Utility and why?
(a) Raina is happier after buying her fifth pair of shoes than she was after only four pairs.
(b) A reasonably fat Tom gets sick after eating too many Burgers.
(c) Naresh loves cheeseburgers but finds that the third burger did less to increase his happiness than the second burger did.

C) Which of the following will increase the breakeven quantity? Why?
a. A decrease in overall fixed costs
b. A decrease in the marginal costs
c. A decrease in the price level
d. A increase in price level

Q3. ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

A) A company has the following demand equation Q = 1000 – 3000 P + 10 A Q = Quantity demanded P = Product Price A = Advertisement expenditure Assume that P = 3 and A = 2000
a) Suppose the firm drops the price to Rs. 2.50 would this be beneficial.
b) Suppose the firm raises the price to Rs. 4.00 while increasing its advertisement expenditure by 100 would this be beneficial? Explain

B) Explain the following:

a) Consumer Surplus

b) Deadweight loss

C) With the help of a diagram, illustrate the LRATC

Q4. ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

A) Other things being equal, an increase in supply can be caused by. Explain How.

1. A rise in the income of the consumer
2. An improvement in the techniques of production
3. A rise in the price of the commodity
4. An increase in the income of the seller

B) Direct regulation of business has the potential to yield economic benefits to society when

1. Diseconomies of scale exist.
2. Barriers to entry are absent.
3. There are no good substitutes for a product.
4. Many firms serve a given market.

Explain How.

C) what is a kinked demand curve? Explain with an example.

Q5. ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

A) What is the net present value of a project that requires a INR 100 investment today and returns INR 50 at the end of the first year and INR 80 at the end of the second year? Assume a discount rate of 10%.

a. INR10.52

b. INR11.57

c. INR18.18

d. INR30.00

B) Explain monopolistic competition with an example.

C) What is the relationship between inflation and employment?

Q6. ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

A) A business owner makes 1,000 items a day. Each day he or she contributes eight hours to produce those items. If hired, elsewhere he or she could have earned INR250 an hour. The item sells for INR15 each. Production does not stop during weekends. If the explicit costs total INR150,000 for 30 days, the economic profit for the month equals:

a. INR300,000.

b. INR60,000.

c. INR450,000.

d. INR240,000.

B) Explain economies and diseconomies of scale with the help of a graph.

C) Which of the products below is closest to operating in a perfectly competitive industry?

a. Nike shoes

b. Eggs

c. Real Good Chicken

d. Restaurants

Q7. ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

A) George's T-Shirt Shop produces 5,000 custom printed T-shirts per month. George's fixed costs are INR 1,00,000 per month. The marginal cost per T-shirt is a constant INR 75. What is his breakeven price? What would be George's breakeven price if George were to sell 50% more shirts?

B) What is price discrimination? Explain perfect price discrimination.

C) Describe the concept of a cartel with an example from real life.