VPM's
DR VN BRIMS, Thane
Programme: MMS (2018-20)
First Semester Examination December 2018

Subject	**Managerial Economics**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**4**	**Date**	**15.12.2018**

		Instructions:- • **Q. No 1** is compulsory. • Attempt **Any Four** from the Remaining Six Questions. • Figures to the right indicate marks in full.	
Q. 1		**Case Study:**	**20**
		The incessant rains and floods that have ravaged Kerala since the beginning of August has led to widespread destruction of property and displacement, the extent of which is yet to unravel fully. An assessment of the destruction, the economic costs and impact of reconstruction is a challenge given the scale and extent of the damages. The rebuilding and reconstruction of the 5 most affected districts and of the infrastructure destroyed is likely to be a long drawn out process, one which is likely to have a sizeable economic and financial costs attached to it. **Rehabilitation led economy activity to increase** Following the temporary disruption in business and economic activity, the reconstruction and rehabilitation of the flood affected regions infrastructure and businesses would result in an increase in economic activity. The increased activity however is likely to be centered on rebuilding efforts and may not lead to an overall increase in economic activity given the huge loss to property and infrastructure, the reconstruction of which would be time consuming given the shortages of skilled manpower and financial resources in the state. While some segments of the service sector are likely to be adversely affected in the coming quarter's viz. tourism and hospitality, the increase in demand for services ranging from construction, repair and maintenance services (electricians, plumbers, painters etc), health care, public administration and financial services needed for the reconstruction purposes would witness an increase. Service sector is the driver of the state's economy (63% of GVA and has grown at an average 6.8% during 2012-17). Overall the service sector growth is unlikely to see a notable increase as the increase in reconstruction related services is unlikely to offset the losses witnessed in the tourism and hospitality segments (largest share in services GVA at over 40%). Although the replacement demand for consumer goods is likely to increase, given that Kerala has a low industrial base this is unlikely to translate into higher manufacturing activity in the state. Agriculture has been adversely affected by the deluge and is likely to see a significant contraction in output. **Areas Affected :** **Plantations:** Apart from having affected the normal course of life, the floods in Kerala have also negatively impacted the state plantations industry. Agriculture and allied sectors is one of the key sectors for	

Kerala economy as many people in the state directly or indirectly depend on plantation and agriculture for their livelihood. The state is the largest producer of rubber in the country. Other crops include coconuts, rubber, tea and coffee, cardamom and pepper, cashew, areca nut, nutmeg, ginger, cinnamon and cloves. Floods in the state therefore have disrupted the output of these crops which, in turn, will impact the revenues or earnings from this industry.

As per our calculations, the rubber and tea industry is estimated to witness a loss of around Rs.420-430 crore and Rs.35-40 crore, respectively, for the period August-September 2018 reflecting the impact of floods in the five most affected districts of Kerala that include Eranakulam, Idukki, Kottayam, Kollam and Pathanamthitta.

The supply side disturbance in rubber industry would significantly increase the cost for tyres industry as rubber is the major input used for making of tyres. In addition to rubber and tea industry, the other plantations like coffee and spices like cardamom are also expected to face the impact of floods which, in turn, would disrupt supply for these commodities. As per the table below, India's coffee production from Kerala accounts for around 20% of the total output and supply of small cardamom from Kerala amounts to a share of about 85% of all-India small cardamom production.

Gold: According to a National Sample Survey Office (NSSO)'s survey on household consumption of various goods and services in India, 2011-12, amongst all the states, Kerala accounts for the largest share in the purchase of gold ornaments. The survey indicated that the monthly per capita consumption of gold in Kerala was approximately 3-4 times higher than the second largest state. Onam and the days before the same witness significant purchase of gold ornaments. Gold market would be highly impacted by floods.

Consumer Durables: The consumer durables market in Kerala usually experiences high demand during Onam festival. Almost 50%-60% of the entire sales happen during Onam. We can expect a drop in the total spending of consumer durables by Rs 1,000 crores due to the lack of spending during the festive season due to flood situation.

Going forward a significant replacement demand of consumer goods such as televisions, refrigerators, air conditioners and washing machines is anticipated once the floods recede and rehabilitation efforts are under taken and house are repaired/ reconstructed.

The impact of the floods on Kerala is quite sharp and the economic consequences significant. This is beyond the suffering caused to the families affected by the flood.

Q1. Discuss the impact of floods on the demand for gold.

Q2. Consumer durable markets in Kerala usually experiences high demand during Onam. A drop is expected in spending of consumer durables due to the lack of spending during the festive season due to flood situation. Discuss the impact on consumer durable market post floods. Consumer durables usually have high price elasticity would this be true in the above case .Explain?

Q3. The farmers whose crops were destroyed were much worse off but the farmers whose crops were not destroyed were benefited from the floods .Explain why with diagram

Q4. What would be the effect of this natural calamity on the auto

<table>
<tr><td></td><td></td><td>companies and how would they react to the situation?</td><td></td></tr>
<tr><td>Q. 2</td><td></td><td>Answer Any two from the following.</td><td>5x2 = 10</td></tr>
<tr><td></td><td>a.</td><td>Vinnie owns a painting company with fixed costs of $ 200
and the following schedule for variable costs:
<table>
<tr><td>Quantity of houses painted per month</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr>
<tr><td>Variable costs ($)</td><td>10</td><td>20</td><td>40</td><td>80</td><td>160</td><td>320</td><td>640</td></tr>
</table>
Calculate average fixed cost, average variable cost, and average total cost for each quantity of. What is the efficient scale of painting company?</td><td></td></tr>
<tr><td></td><td>b.</td><td>Using demand and supply diagram show:
i. The effect of a fall in production of sugarcane on the price and quantity of sugar during diwali months.
ii. The effect of the above phenomenon on other industries which uses sugar as an input.</td><td></td></tr>
<tr><td></td><td>c.</td><td>What is Managerial Economics explain the steps in managerial decision making process. At what step the knowledge of economic theory and method help a manager to arrive at an optimum strategy.</td><td></td></tr>
<tr><td>Q. 3</td><td></td><td>Answer Any two from the following.</td><td>5x2= 10</td></tr>
<tr><td></td><td>a.</td><td>Suppose the seller of a textile cloth wants to lower the price of its cloth from Rs. 150 per metre to Rs. 142.5 per metre. If its present sales are 2000 metres per month and further it is estimated that its price elasticity of demand for product is equal to 0.7 show:
i. Whether or not his total revenue will increase as a result of his decision to lower the price.
ii. Calculate the exact magnitude of its new total revenue.</td><td></td></tr>
<tr><td></td><td>b.</td><td>Differentiate between long-run equilibrium under perfect competition and long- run equilibrium under monopolistic competition.</td><td></td></tr>
<tr><td></td><td>c.</td><td>Why is a monopolist’s marginal revenue less than the price of its good? Can marginal revenue ever be negative? Explain.</td><td></td></tr>
<tr><td>Q. 4</td><td></td><td>Answer Any two from the following.</td><td>5x2 = 10</td></tr>
<tr><td></td><td>a.</td><td>The demand and supply function of a good are Q_d = 100-3P and Q_s = 2P-20. If the price is Rs.20, would there be deficit or surplus?</td><td></td></tr>
<tr><td></td><td>b.</td><td>In the long run with free entry and exit, is the price in a market equal to marginal cost, average total cost, both, or neither? Explain with a diagram.</td><td></td></tr>
<tr><td></td><td>c.</td><td>How is the concept of economic profit different from the concept of business profit? Explain with example.</td><td></td></tr>
<tr><td>Q. 5</td><td></td><td>Answer Any two from the following.</td><td>5x2 = 10</td></tr>
<tr><td></td><td>a.</td><td>Two projects A and B are available to a firm. Cost in the current year and the net cash flow in the next year of each is given below. Which project a firm should choose if market rate of interest is 10% per annum?
<table>
<tr><th>Project</th><th>Cost of this year</th><th>Net Cash flow in the next year</th></tr>
<tr><td>Project A</td><td>100 Lakh</td><td>120 lakh</td></tr>
<tr><td>Project B</td><td>150 Lakh</td><td>180 Lakh</td></tr>
</table></td><td></td></tr>
<tr><td></td><td>b.</td><td>An important feature of monopoly equilibrium is that unlike competitive firms, the monopolist does not have a supply curve. Explain.</td><td></td></tr>
<tr><td></td><td>c.</td><td>What is Price discrimination, when is it possible for the sellers to discriminate price and when would it be profitable to them. Discuss.</td><td></td></tr>
<tr><td>Q. 6</td><td></td><td>Answer Any two from the following.</td><td>5x2 = 10</td></tr>
</table>

	a.	An indifference curve of Sonia contains the following market baskets of Apples and Bananas. Each of these baskets gives her equal satisfaction. <table><tr><td>Market Basket</td><td>Apples</td><td>Bananas</td></tr><tr><td>1</td><td>2</td><td>16</td></tr><tr><td>2</td><td>3</td><td>11</td></tr><tr><td>3</td><td>4</td><td>7</td></tr><tr><td>4</td><td>5</td><td>4</td></tr><tr><td>5</td><td>6</td><td>2</td></tr><tr><td>6</td><td>7</td><td>1</td></tr></table>Find out marginal rate of substitution of Sonia. How marginal rate of substitution does varies as she consumes more of Apples and less of Bananas? Give Reasons.	
	b.	Imagine a society that produces military goods and consumer goods, which we'll call "guns" and "butter." a) Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape. The various combinations are given below: 200 guns if it produces only guns. 100 pounds of butter and 190 guns. 250 pounds of butter and 150 guns. 350 pounds of butter and 75 guns. 400 pounds of butter if it produces only butter. b. Show a point that is impossible for the economy to achieve. Show a point that is feasible but inefficient.	
	c.	With the help of a long run average cost curve diagram explain the concept of returns to scale.	
Q. 7		Write short note on **Any two** from the following	**5x2 = 10**
	a.	Bandwagon effect and Snob effect	
	b.	Inderminateness of demand curve under oligopoly	
	c.	Price discrimination	
	d.	Importance of demand forecasting	