VPM's
DR VN BRIMS, Thane
Programme: MMS (2019-21)
First Semester Examination January 2020

Subject	**Managerial Economics**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**4**	**Date**	**07.01.2020**

		Instructions:- • **Q. No 1** is compulsory. • Attempt **Any Four** from the Remaining Six Questions. • Figures to the right indicate marks in full.	**Marks**
Q. 1		Case Study	**20**
		Prices are often seen as information messengers on the functioning of a market economy. Just like prices, policies are viewed as performance messengers on the state of governance within that economy. Volatile price behaviour signals an ineffectively functioning market (sometimes resulting in a state of market failure), one, that is highly distorted either by excessive regulation through policy intervention or a lack of thereof. India is currently facing a scenario where excessive interference by the government has not only disrupted the functioning of markets across sectors, but this can also be observed in the context of areas like food consumption which are part of people's day-to-day existence. What's happening to the onion prices in recent months is a testament to this. Over the last quarter, onion prices soured from around Rs 25-30 per kg to around Rs 120 per kg across major cities and semi-urban parts. Consumption demand is weak as prices for goods under the necessary consumption basket are rising. A subsequent rise in food inflation made the Reserve Bank of India cautionary in its Monetary Policy Committee meet as it decided not to cut interest rates any further and guard itself against a possible inflationary spike. This, especially at a time when growth is stumbling, wages are low and unemployment is at an all-time high. We must acknowledge how volatility of the onion market remains a function of a long history of government interference, starting from the Essential Commodities Act, 1955, that made procurement and distribution of 'essential commodities' like onion, food grains, etc, essentially a public function. The combined regulatory formula of the state-bureaucracy system distorted farm-based incentives and choked the agricultural market over time. Some of the states contributed to this by doing very little to improve local sourcing, warehousing and other infrastructure-based connectivity of markets for farmers. This forced people to either switch to other vocations or migrate. However, in the current scenario, it is more troubling to see the distributive impact of an already volatile market condition which makes the current spike in onion prices distressing for both, urban and rural households. We can break these down to three core issues. Broadly, wages are continually falling in both urban and rural segments. And with declining (or stagnating) wage growth, consumption demand has already (and is likely to further) weakened as prices for goods	

		under the necessary consumption basket are rising. **Falling consumption** Moreover, agriculture is seeing one of its worst crises as farm incomes are contracting and price-based incentives remain mostly skewed to benefit intermediaries and retailers in the agriculture market. As prices rise and the government attacks cash-based economy, this has cut deep into the development of farm-based rural communities which were traditionally seen as part of the unorganized economy. Three, the weakening of consumption demand, choking of credit supply from public sector banks (especially NBFCs), the aggregate production volume is slowing down further, which has been validated by recent growth numbers. Growth remains a function of a number of components. Since each of these segments has witnessed a slowdown, had it not been for government-based expenditure, the growth numbers could have reflected a real growth rate of well below 2-2.5 per cent. However, can the present government be blamed entirely for this scenario? I have previously argued how the extent to which India's current growth situation, evolving over the last four years, has a direct causal link with the changing politico-economic landscape, as the Modi government continues to take centralised, unilateral actions that are largely based on short-term political principles against longer-term market principles. Still, it would be unfair to put the entire blame on this government. **Government holds the key** There are structural concerns where investment and production patterns need to be altered. All economic agents (households, producers, financial institutions, external sector) must change their future course and plan of action. It needs to be envisioned from a broader canvas through a cohesive policy framework and legal interventions. Meanwhile, the latter would require a deliberative, decentralised approach from the government. More importantly, let some of the states take a more cautious (yet proactive) approach to revive their Gross State Domestic Product (GSDP) numbers. With weak state fiscal capacity and a centralising government, this seems difficult. So, somewhere, both the source of the problem and its solution feature the Indian government as the anchor agent. It must be the cause of change it wants to see (especially with respect to its vision for the economy), and any action it takes (or doesn't take) must encourage other agents to gravitate towards this common desirable vision. What many would like to know is what the ‘economic vision’ is that the government wants to embark on. As for now, the 'political vision' is taking precedence and crowding out any possibilities for the economy to see the light of dawn it so desperately needs to see. Answer the following questions:	
		Q1 Excessive interference of the government on the functioning of the market is one of the reasons of soaring prices of onions. What other reasons do you think are responsible for the rising prices of onions .And explain the effect of this on the following: 1. Supply of Onions 2. Farmers	**7**
		Q2 How has the demand for onions and the other goods of necessity	**7**

		basket have been affected by volatile price behavior. Explain using diagram. Q3 What steps taken by the government led to this situation and what steps government should take as per you to resolve the above mentioned issues	**6**
Q. 2		Answer **Any two** from the following.	**5x2 = 10**
	a.	What is production possibility curve? Explain the concept of choice, opportunity cost with the help of production possibility curve.	
	b.	The objective of any business is basically to maximize profit Suppose you are a manager an organization Explain your role at the organization with respect to decision making and how managerial economics will guide you in the process?	
	c.	Variable Cost per unit = Rs 15 Fixed Expenses = Rs 54000 Selling Price per unit = Rs 20 1. Calculate B.E.P 2. What should be the Selling Price per unit if BEP should be brought down to 6000 units	
Q. 3		Answer **Any two** from the following.	**5x2= 10**
	a.	The government of a country is serious about drugs. Possession of drugs is illegal and is severely penalized. However, a black market exists which the government has failed to dismantle despite serious attempts. The health minister is worried about the situation. A consultant working with health ministry suggested that the government should increase the price of a pack of cigarettes from 200 dollars to \$600. A survey conducted later suggested that over the year, the quantity demanded of marijuana decreased from 2,000 kgs per day to just 800 kgs. Calculate the cross elasticity of demand and tell why the policy has proved so effective.	
	b.	Comment on the following statement “ Average cost include both fixed cost and variable cost whereas Marginal cost includes only Variable Cost Therefore Marginal Cost is never greater than Average Cost.	
	c.	What is production Function? How does Long run production function differ from short run production function?	
Q. 4		Answer **Any two** from the following.	**5x2 = 10**
	a.	The demand for petrol rises from 500 to 600 barrels when the price of a particular scooter is reduced from Rs. 50000 to 30000 find out the cross elasticity of demand for the two. What is the nature of their relationship?	
	b.	Compare and Contrast giffen goods and normal goods.	
	c.	What is Capital Budgeting? Explain the process of capital budgeting.	
Q. 5		Answer **Any two** from the following.	**5x2 = 10**
	a.	Discuss advantages and disadvantages of survey methods and test marketing	
	b.	Elaborate the concept and use of law of demand. Examine the role of demand function in managerial decision making.	
	c.	How Marginal Revenue (MR) is is related to elasticity of demand? Explain with the help of a diagram.	
Q. 6		Answer **Any two** from the following.	**5x2 = 10**
	a.	What is meant by a firm’s equilibrium? What are the profit maximization conditions? Show diagrammatically.	
	b.	A fast food restaurant has following cost schedule :	

Quantity	0	10	20	30	40	50	60	70

Variable Cost	0	400	700	900	1200	1500	2000	3000
Fixed Cost	1000	1400	1700	1900	2200	2500	3000	4000

Calculate the Fixed Cost, Average Variable Cost, Average Total Cost and Marginal Cost.

	c.	Explain the indeterminateness of the demand curve under Oligopoly market conditions.	
Q. 7		Write short note on **Any two** from the following	**5x2 = 10**
	a.	Prisoner's Dilemma	
	b.	Shut down point of a firm	
	c.	Transfer Pricing	
	d.	Capital Rationing.	