

Managerial Economics.

ME 01

Roll No.

Total No. of Printed Pages: 4

Total No. of Questions : 7

Maximum Marks : 60

Duration (hrs.) : 3 Hours

Note : Q1 is compulsory.

Q1. 20 marks

A. (10 marks)

Star enterprise limited manufactures and sells electric bulbs. It has estimated its monthly demand curve as

$$P = 500 - 2Q.$$

- i. What price should company charge for the electric bulb per unit if it wants to sell 200 bulbs in a month.
- ii. If company sells the bulb at Rs.50 per unit how many units will company sell?
- iii. Calculate price elasticity of demand for the electric bulb if the price is Rs.50.
- iv. Calculate the degree of advertising elasticity of demand if the demand curve is

$$Q = 500 - 10P + 0.5A$$

(A being advertising expenditure) and company spends Rs.10000 for advertising and price is Rs.50.

- v. What is price elasticity of demand?

B. Define Law of Demand. Briefly explain various determinants of demand and exceptions to Law of Demand. (10 marks)

Answer Any 4 Out of 6

Q.2. Answer any 2 out of 3

- a. What is Income Elasticity of demand? Explain degrees of Income Elasticity of demand? When are goods identified as Normal goods or Inferior goods? (5 marks)
- b. What is demand forecasting and explain short term and long term purposes of demand forecasting? (5marks)
- c. Briefly explain various types of returns to scale in the long run. How are decisions regarding plant size/size of operations are taken based on comparison between long run and short run cost? (5 marks)

Q.3. Answer any 2 out of 3

- a. Following is the input output schedule in the short run for XYZ ltd. Labour is the variable factor of production in this case. (5 marks)

Labour inputs	Total Output
1	100
2	200
3	350
5	450
7	300

- i. Calculate Average output and Marginal Output in the above case.
 - ii. Explain how 'Law of Variable Proportion' applies in the above example by illustrating which stages of Variable returns apply and at what level of output?
- b. Explain in brief what Price discrimination is. Describe various degrees of Price discrimination with an example of each. (5 marks)
 - c. If government allows foreign banks to enter in retail banking space what will be its impact on the banking sector at micro level and how will it impact economy in general. Explain with the help of economic reasoning. (5 marks)

Q.4. Answer any 2 out of 3

a. What is breakeven Analysis? Consider following scenario.

If Price of a product is Rs.70 per unit, fixed cost of production amounts to Rs.2000 and Average variable cost is Rs.50. Calculate how much output the firm must produce and sell in order to sustain in the business? (5 marks)

b. Checkers Enterprises produces customized software for supply chain companies. They control 35% of the supply chain market and Axon Ltd, Speedz Ltd. and Spice Ltd. control 50% of the market and there are various small players who control the rest of the market. Checkers enterprises has been a pioneer in this field and determines the price. The other players follow the going rate pricing policy. The licensing cost for software development is high and all these companies are public limited companies. Based on this information answer the following questions— (5 marks)

- i. What is the competition structure in the supply chain software market in your opinion and why?**
- ii. Which pricing model exists (e.g. pricing model under monopoly, pricing model under perfect competition, Cournot model or Stackelberg's model) in the above market based on the competition structure prevailing in the market and why?**

c. Which are different methods of Capital Budgeting? Explain any two methods in brief. (5 marks)

Q.5. Answer any 2 out of 3

a. Explain any two types of pricing strategies based on factors other than competition structure? (5 marks)

b. Explain any two subjective methods of demand forecasting? (5 marks)

c. If rupee value in terms of US dollar in January 2013 was \$1 = Rs.50 and it changes to \$1= Rs.45 in the month of May 2013 , then what would be its impact on inflation at a macro level and industry that relies heavily on imports from US at micro level?(5 marks)

Q.6. Answer any 2 out of 3

a. Explain the indices used for measuring market concentration in brief. (5 marks)

b. Explain in brief various reasons for diseconomies of scale. (5 marks)

c. What are various characteristics of Perfect competition? How does firm

operating perfect competition earn profit or break even and take pricing decisions? (5 marks)

Q.7. Answer any 2 out of 3

a. Briefly explain different types of costs relevant in short run and long run under production and cost analysis? (5 marks)

b. Consider following scenario. Price of product A increases from Rs.50 to Rs.60 and as a result demand for product B changes from 25 units to 20 units. What is the cross elasticity of demand in this case and how are these products related to each other? (5 marks)

c. What are different types of capital investment projects? Also briefly explain the process of Capital Budgeting. (5 marks)