

Jagan Institute of Management Studies
End-Term Examination, September, 2016
Trimester I – PGDM 2016-18

Managerial Economics
ET_PG_ME_2109

Time: 3 Hrs.

M. Marks: 70

INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q7 which are compulsory.

- Q 1** Answer briefly any **FIVE** of the following:
- a) In context of pricing of medicines, Union Minister Ananth Kumar said, “Affordability should not come at the cost of patient safety.” With reference to this statement state the implied choice of the minister, the trade-off and opportunity cost.
 - b) An expert on residential properties in Delhi recently commented that - Market demand is not picking up. Rather the sentiments are adverse. People have taken debts and they wish to liquidate their land holdings to repay debt or use it elsewhere. Thus with limited buyers, the land prices will decline. Use the given information for a graphical presentation of the market situation of land in Delhi.
 - c) A new venture, Farm Tigers manufactures clay based toy animals for 3-10 year olds. The toy animals are made with a fixed cost of Rs. 1200, the variable cost per unit is Rs. 15 and the revenue per unit is Rs.40. What is the break even level of output for toy animals at Farm Tigers?
 - d) AirAsia India is a joint venture in which Malaysia based AirAsia Berhad holds 49%, Tata Sons Ltd 41% and Arun Bhatia of Telestra Tradeplace Pvt. Ltd the rest. AirAsia India is yet to make profits. Given the peculiarities of the industry, what would be a more viable option to induce flow of profits - increasing revenue or lowering cost? Why?
 - e) Patanjali Ayurved Limited claims to offer its products at prices lower than its competitors and also indulges in heavy advertising. What does this tell about the behavior of the potential customers of Patanjali Ayurved Limited?
 - f) Ten cement companies have been fined Rs. 6700 crore by the Competition Commission of India on charges of cartelization in the sector. What harm can be caused by a cartel?
 - g) Air pollution due to industrial effluents and vehicular emissions is a serious health-harming externality. Suggest two incentives, one each to curb these two prime reasons underlying air pollution in Delhi.

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- Q 2** By the third week of August, 2016, Airtel had cut 4G tariffs by up-to 80% for pre-paid customers. This is how the company has been preparing itself for the launch of Reliance Jio. On September 1, 2016 Reliance Jio was launched with an offer to free voice calls and provide very cheap 4G data services. It is feared that if the other telecom players do not lower their rates, their customers will fly away.
- Comment on the price elasticity of demand for 4G data usage?
 - Will price reduction help Airtel and other players safeguard their data revenue?
 - Suggest the role of non-price factors in influencing the demand for data usage. **10**
- Q 3** A popular eatery in the neighborhood experienced really busy summer months. It wished to serve more customers and therefore hired more workers during that time. But, even when it doubled the number of workers, the number of customers served did not double. At times some disappointed customers left after a long wait.
- Why didn't hiring of extra workers help? Name the underlying principle.
 - If the output elasticity of labour is 0.7, what is the effect of labor enhancement by 20% on the number of customers served?
 - What changes would you suggest to the eatery owner so that all the visiting customers are served well and on time? **10**
- Q 4** Big Bazaar is a well-known hypermarket and it caters to almost every family need. It is able to offer impressive discounts on a variety of items for most days of the week. This is not so in case of the neighbourhood retail outlet/ kirana store. Explain the reasons underlying the contrast. **10**
- Q 5** As a consequence of consecutive droughts in the last two years, the production of pulses fell and prices spiked. This year the area sown with pulses is 39% more than what is usual by this time of the year.
- Comment on the price elasticity of supply for pulses.
 - What change in prices is expected when the sown pulses eventually reach the market?
 - Discuss at least two ways in which supply of pulses can be further increased? **10**
- Q 6** Auto makers in India and elsewhere indulge in intensive demand forecasting.
- What are the relevant external factors for the industry that are significant in making long run sales forecast?
 - Does the industry experience short-term fluctuations? Explain.

- c) Which method/s is/are most suited to forecast the demand for automobiles?

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Q 7 Devi is an astrologer and faces the market demand, $P = 50 - 0.5Q$ for her services. As she is the only astrology service provider in the town, she enjoys a monopoly position and the total costs borne by her for providing the services are $TC = 10Q$. Recently, Devi lost three legal cases after prolonged deliberations in the consumer court and was penalized 700 rupees to be paid each year for next five years. This has increased her expenses and now, $TC = 10Q + 700$. Also she is hearing rumors of another astrologer setting up his office in the outskirts of the town.

- a) Find the equilibrium level of clients served (output) for Devi.
b) Calculate the price elasticity of demand for astrology services at the equilibrium level of output.
c) Calculate the profit for Devi before and after the imposition of penal charges.
d) Show a graphical presentation of the equilibrium position of Devi using cost and revenue curves.
e) A friend suggested Devi to practice price discrimination. On what basis can this be done? How will it help her?
f) How can Devi prevent the new astrologer from making a foothold in the town?

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