

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 7102

Roll No.

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M.B.A.

(SEM. I) ODD SEMESTER THEORY

EXAMINATION 2010-11

MANAGERIAL ECONOMICS

Time : 3 Hours

Total Marks : 100

- Note** :— (1) The question paper contains **three** parts.
(2) All questions are compulsory.
(3) Marks are indicated against questions.

PART—I

1. Choose the correct answer/Fill in the blank/State **true** or **false**, for the following objective questions :— (1×20=20)
- (a) Which of the following is not related to managerial economics ?
- Economic Theory
 - Econometrics and statistics
 - Mathematical economics
 - All are related
- (b) Which of the following is not a function of profits ?
- Signal the need for more or less resources
 - Reward salaried managers
 - Reward entrepreneurs
 - Provide compensation for risk taking

- (c) The theory of the firm assumes that the firm maximizes :
- (i) Short term profits
 - (ii) The present value of profits
 - (iii) Sales
 - (iv) Employment.
- (d) The objective of the firm is :
- (i) Revenue maximization
 - (ii) Profit maximization
 - (iii) Revenue maximization and cost minimization simultaneous
 - (iv) None of the above.
- (e) Owners of resources receive :
- (i) Interest payments
 - (ii) Rent
 - (iii) Wages
 - (iv) All of the above
- (f) Which of the following is incorrect ?
- (i) Demand is less elastic in the short run than in the long run.
 - (ii) The smaller the portion of income spent on a good, the more elastic the demand.
 - (iii) Goods with many substitutes tend to have elastic demand.
 - (iv) If demand is unitary elastic in the short run, it could be elastic in the long run.

- (g) A normal good is one for which :
- (i) The price elasticity exceeds zero
 - (ii) The price elasticity is less than minus one
 - (iii) The income elasticity exceeds unity
 - (iv) The income elasticity exceeds zero.
- (h) Analysis of demand is important in managerial economics because :
- (i) A firm could not survive if sufficient demand for its product did not exist or could not be created.
 - (ii) Demand analysis is necessary for pricing decisions.
 - (iii) It affects the choice of the firm's production techniques and plans for future expansion.
 - (iv) All of the above.
- (i) When demand is inelastic, an increase in price leads to :
- (i) an increase in total revenue
 - (ii) a decline in total revenue
 - (iii) no change in total revenue
 - (iv) a decrease in profit.
- (j) Which of the following statements is true ?
- (i) when demand is elastic, marginal revenue is negative
 - (ii) when demand is unitary elastic, marginal revenue is zero
 - (iii) when demand is inelastic, marginal revenue is positive
 - (iv) all of the above.

- (k) In production theory, the short run is :
- (i) a length of time in which all inputs are fixed
 - (ii) a length of time in which all inputs are variable
 - (iii) a length of time in which at least one input is fixed
 - (iv) a concept unrelated to time
- (l) Profit maximization requires that all inputs be hired until the :
- (i) Marginal revenue product of each input equals the cost of that input.
 - (ii) Marginal cost of each output equals the input price.
 - (iii) Marginal revenue of the output equals the marginal revenue product.
 - (iv) Firm's total revenue equals its total cost.
- (m) In the long run :
- (i) Fixed cost is zero
 - (ii) Total cost equals to variable cost
 - (iii) Total variable cost is less than total cost
 - (iv) Both (i) and (ii) are correct.
- (n) Profit maximization is the sole objective of all the firms. (True/False).
- (o) Pure profit is nil when opportunity cost equals actual earning (True/False).
- (p) Shut-down point lies where $AR = AC$. (True/False).

- (q) Opportunity costs include :
- (i) Explicit costs
 - (ii) Explicit and implicit costs
 - (iii) Implicit cost
 - (iv) None of the above.
- (r) Change in a firm's expenditures on inputs cause the Isocost line to :
- (i) shift parallel to other isocost lines
 - (ii) shift perpendicular to other isocost lines
 - (iii) rotate clockwise
 - (iv) rotate counter clockwise
- (s) Consider the two goods, margarine and butter. The cross elasticity should be :
- (i) positive
 - (ii) negative
 - (iii) zero
 - (iv) undefined
- (t) An important relationship between production and cost can be represented by which of the following statements :—
- (i) When average or marginal products are increasing, average or marginal costs are increasing
 - (ii) When average or marginal products are increasing, average or marginal costs are decreasing
 - (iii) When average or marginal products are decreasing, average or marginal products are decreasing.
 - (iv) There is no relationship between production and cost.

PART—II

2. Case Study :—

(30)

Gagan Pvt. Ltd. was established in 1995. The company started manufacturing of Water Geyser with a brand name of 'Ganga'. During initial 10 years, the company made good profits. But, its profits gradually declined due to competition from national brands. The promoters of the company had a committed team of workers who were constantly working on Research and Development. Finally, they came out in the year 2006, with an innovative product, named Maha Ganga which runs even at very low voltage and consumes less electricity. Thus, the company is monopoly manufacturer of 'Maha Ganga'. The company is currently supplying its products in geographically separated markets of Punjab and Haryana. The company is currently charging the same price in Punjab and Haryana. The Chief Economist of the company has informed the top management that price elasticity of demand at currently-charged price is 3 in Punjab and 5 in Haryana. The top management is planning to charge two different prices in Punjab and Haryana. In order to make more profits.

Questions :

- (1) Will it be possible for the company to charge two different prices in Punjab and Haryana ? If yes, under what conditions ? Explain.
- (2) Will it be profitable for the company to charge two different prices in Punjab and Haryana ? — Explain.
- (3) Given the volume of total production, supply will be transferred from Punjab to Haryana or from Haryana to Punjab. Why ?

(Assume that transport cost for supplying the product in Punjab and Haryana is the same for the company.)

PART—III

3. What are the functions of business managers ? How does economics helps business managers in performing their functions ? (12½)

OR

What are the major macroeconomic issues related directly to business decision-making ? What is their significance in business decisions ?

4. What is Delphi method ? What is the use of this method in demand forcecasting ? (12½)

OR

What is indifference curve ? What are the properties of indifference curves ? What role does it play in consumer analysis ?

5. What are the sources of monopoly of a firm ? Distinguish between a franchise monopoly and natural monopoly. (12½)

OR

Define Oligopoly. What is the basic difference between oligopoly and monopolistic competition ? In which of the two kinds of markets price and output are intermediate ?

6. What is inflation ? How does it affect economic growth and employment ? (12½)

OR

Examine critically profit maximization as the objective of business firms. Explain the first and second order conditions of profit maximization.