I Semester M.B.A. (Day) Examination, January 2009
(2007– 08 Scheme)
1.4 : MANAGERIAL ECONOMICS

Time : 3 Hours Max. Marks : 75

SECTION – A

Answer **any six** : **(6×2=12)**

1. a) What is Peak-Load pricing ?

   b) What is Cobb-Dougals production function ?

   c) What is Welfare Triangle ?

   d) Distinguish between Risk and Uncertainty ?

   e) What is Implicit cost ?

   f) What are the Economies of scale ?

   g) Define Marginal cost.

   h) What is Economic Profit ?

SECTION – B

Answer **any three** questions : **(3×8=24)**

2. How does Marris defines the balanced growth of the firm ? Briefly explain Marris-Growth Maximisation model.

3. Distinguish between Monopolistic and Perfect competition.

4. Using a map of ISO quants and ISO cost, how least cost combination is determined ?

P.T.O.

5. What is meant by production possibility curve ? How can the central problem of an economy be explained by it ?

6. a) What do you mean by elasticity of demand ?

b) A consumer purchased 10 units of a commodity when its price was Rs. 5 per unit. He purchased 12 units of the commodity when its price falls to Rs. 4 per unit. What is the price elasticity of demand for the commodity at that price ?

SECTION – C

Answer **any two** questions : **(2×12=24)**

7. Distinguish between laws of return to variable proportions and laws of return to scale. Explain the factors which cause increasing return to scale and diminishing return to scale.

8. State the characteristics of monopoly and explain how the price and output are determined under Monopoly.

9. Forecast the demand for the years 2003, 2004 and 2005 from the following data.

Years	1997	1998	1999	2000	2001	2002
Sales (Rs. in crores)	90	100	110	130	150	160

SECTION – D

10. Read the case carefully and answer the questions : **(1×15=15)**

CASE STUDY : LINTAS IN A HORNET'S NEST

Karmakar, a cricket player playing in International Tests, was employed with Lintas Shoes Corporation. Karmakar faced a personal problem when playing and practising in the humid climate in India and some of the countries abroad- the sports shoes which he wore became stickly shortly after the took to the field, and by lunch time they started smelling badly. He enquired of his fellow players whether this was common or his unique problem. He came to know that this was a common problem though, of course, varying in intensity and the timing of sweating. He also came to know that, like him, the other fellow players had also experimented with all kinds of shoes available in the market, but with hardly any success.

Karmakar brought this problem to the notice of his company and was persuasive enough to make the company interested in his problem. The company wanted to understand

- Was there a real consumer need for a highly improved kind of shoe for the purpose ?
- Had the company necessary technological facilities and scientific ability to develop the product ?
- Was the size of the market for this product large enough to make the new product commercially viable ?

To confirm for itself, the company undertook market research in various forms like personal interviews, questionnaires, etc. The market research confirmed the opinion expressed by Karmakar.

The company ascertained that since it was already in shoe business it had necessary scientific and technological infrastructure to take up the project. The basic problems were, however, the justification of crores of rupees which would go in for research, development and mass production of shoes, will the likely demand be adequate enough to justify this investment, and, above all, the profitability of the venture. The company found, through the surveys, that besides the consumer need for the product and the technical capacity of the firm to undertake the production of such a product, there was a large enough potential market for the product it produced at a mass scale.

After the product development was accomplished, a pilot test was conducted by supplying a small quantity of these unnamed shoes and given free to some players. However, the results were not encouraging because the shoes were too thin to protect the feet from damage during play. So, the product was back to the product development department. After a year's efforts, the company came out with a revolutionary design of shoes, which were thick enough to protect the feet but thin and light enough to prevent sweating of the feet in humid climates.

The accountants kept the record of costs at each stage of the product development. The accountants, with the help of the advertising group, developed a price based on estimates of how many of these new shoes could sell in terms of total potential market (50 lakh shoes every year) and how many players would take to the new shoes.

The company test marketed the product in the states of Maharashtra, Karnataka, Delhi and West Bengal. The product was named Keep Fresh and priced at Rs. 350 in the test market. The response was quite discouraging. The consumers liked the new shoes but not its price.

The company again got stuck with a problem. Is the company charging more than what it should charge ? Are the consumers poor enough not to pay the price ? Such kinds of questions were raised in the company meetings. There was, however, an opinion expressed during the discussions that the price of Rs. 350 was fixed on the basis of production for test marketing, but when shoes would be mass produced, the production costs would come down.

Questions :

1) What kind of pricing technique was used while pricing ?
2) Was there any indication of using penetration or skimming pricing in the pricing decision of Lintas ?
3) What should the company do next regarding the price ?
