



I Semester M.B.A. Degree Examination, January/February 2015
(CBCS) (2014-15 & Onwards)

MANAGEMENT

Paper – 1.1 : Economics for Managers

Time : 3 Hours

Max. Marks : 70

Instruction: Calculators are allowed.

SECTION – A

Answer **any five** of the following questions. **Each** question carries **5** marks. Answer to **each** question should **not** exceed **250** words. (5×5=25)

1. Explain the concept of PPC and its linkage with opportunity cost.
2. How are cost relationships related to the principle of diminishing return ? Elucidate with special reference to the shape of cost curves.
3. What are the types of price discrimination ? Which among them is justifiable for frequent flyer scheme of airline industry ?
4. How is the modern theory of rent an improvement over Ricardo's theory ?
5. Briefly explain Cyert and March Behavioral theory of firm.
6. Distinguish between GNP and GDP.

7. A and B company Pvt Ltd. concludes the demand function for its X product is :

$$Q_x = 1000 - 0.2 P_x + 0.5 P_y + 0.04Y + 0.01A, \text{ where}$$

Q_x = Quantity demanded of its product

P_x = Price of x

P_y = Price of y (substitute to x)

Y = Consumers Income

A = Advertisement Expenditure

At present $P_x = 100$ Rs, $P_y = 120$ Rs, $y = 10,000$ Rs and $A = 6,000$ Rs

Calculate the following :

- a) Price elasticity
- b) Income elasticity
- c) Advertisement elasticity
- d) Cross elasticity

P.T.O.



SECTION – B

Answer **any three** of the following questions. **Each** question carries **10** marks. Answer to **each** question should **not** exceed **500** words. **(3×10=30)**

8. Show with the help of indifference curves how a consumer reaches equilibrium.
9. Price rigidity is an essential aspect of normal oligopolistic price strategy'. Discuss with the help of kinked demand curve.
10. Discuss the short and long run equilibrium of the firm under perfect competition with the help of suitable diagrams. Why do you think the firm is able to make only normal profit in the long run ?
11. A company has the following data :

| Year | Sales |
|------|-------|
| 1980 | 100 |
| 1981 | 107 |
| 1982 | 128 |
| 1983 | 140 |
| 1984 | 181 |
| 1985 | 192 |

Estimate sales for 1986

SECTION – C

12. **Case study (compulsory).** **(1×15=15)**

Indian Cement Industry : Riding the High Trade

India is the second largest producer of cement in the world, just behind China. Indian cement industry comprises of 130 large cement plants and 365 mini cement plants with installed capacity of 172 million tonnes per annum (mtpa); these plants are located in states like Gujarat, Rajasthan and Madhya Pradesh. The large cement plants account for over 94 percent of the total installed capacity. However two large groups, viz. the Aditya Birla Group and the Holcim Group; together control more than 40 per cent of total capacity. This apart, more than



25 per cent of total capacity is controlled by global majors. These include Lafarge of France, Holderbank of Switzerland and Cemex of Mexico. The Indian cement industry is characterised by takeovers and acquisitions, which contributes to gaining market power and thus enables companies to enjoy pricing power, which is typically oligopoly.

Cement : Output and Consumption

India accounts for 6.4% of global production of 2.22 billion tonnes of cement. Indian cement industry has grown in terms of installed capacity and production. Cement production increased by over 9 per cent in FY2007, reaching 154.74 mtpa, in comparison to 12.40 per cent in FY2006, 7.07 in FY2005 and 5.19 per cent in FY2004. Decade-wise, Indian cement production has increased at 8.2 per cent (CAGR) during FY 1996-2006, as compared to 6.9 per cent during 1986-1996.

Cement consumption in India has increased by more than 10.53% during FY 2007 to 148.41 mtpa compared to 134.27 in FY 2006. During the decade 1997-2007, the cement consumption has increased by 8% at 10 yearly compound annual growth rate (CAGR). The changing face of Indian demography, growth of nuclear families, higher disposable income, changing pattern of spending, easily available home loans, increased urbanisation and growth of metro and semi-metro cities are some of the vital factors behind a tremendous spurt in the housing sector. In order to keep pace with an optimistic rate of economic growth, there is a rising demand for commercial and retail space, IT Parks and SEZs. Another recent trend has been initiated by the Government, with increase in investment in infrastructure, like National Highway Development Projects. It is expected that a construction opportunity of over ₹ 7.6 trillion will be created over next five years.

Apart from meeting the entire domestic demand, the industry is also exporting cement and clinker. The export of cement during 2001-02 and 2003-04 was 5.14 million tonnes and 6.92 million tonnes respectively. Export during April-May, 2003 was 1.35 million tonnes. Major exporters were Gujarat Ambuja Cements Ltd. and L&T Ltd.

Pricing

Cement industry has been decontrolled from price and distribution on 1st March 1989 and de-licensed on 25th July 1991. During last four years (2003-2007) cement prices have gradually increased from around ₹ 150 per bag in 2003 to ₹ 230 per bag in 2007. Cement manufacturers control over market can be gauged by the fact that even 20-25% freight hike was straight passed on to



consumers. Average industry ROCE has reached more than 26% due to the recent burst in cement prices. Encouraged by such lucrative returns cement manufactures have decided to increase capacity by more than 97 million tonnes over next three years of which 43.7 million tonnes is likely to complete in FY 2009. Thus, the cement supply will increase by more than 11% in next three years.

Cement consumption growing at around 10% and production at 11% would naturally create a situation of over production. As per estimates, cement industry will face over capacity of 17.7 mtpa in 2008 and 37.7 in 2009. Therefore it is expected that capacity utilisation will fall significantly. Further new players are likely to join the industry with huge production capacities.

Questions :

- 1) Do you think cement industry in India presents a good explanation of oligopoly ? Which characteristics of oligopoly do you find in the above case ?
- 2) How has decontrolling of cement prices helped the growth of this industry ?
- 3) Do you see possibilities of cartel or implicit collusion in the above case ? How ?