I Semester M.B.A. Degree Examination, February 2016
(2007-08 Scheme)
MANAGEMENT
Paper – 1.4 : Managerial Economics

Time : 3 Hours
Max. Marks : 75

SECTION – A

1. Answer **any six** questions :
(6×2=12)

   a) What is the central problem of an economy ?

   b) Distinguish between risk and uncertainty.

   c) List the causes of diminishing return.

   d) What is meant by production function ?

   e) What is marginal rate of technical substitution ?

   f) What do you understand by concept of Return to Scale ?

   g) Define economies of scope.

   h) What is welfare triangle ?

SECTION – B

Answer **any three** of the following :
(3×8=24)

2. Basically, perfectly competitive firms and monopolists use the same rule to determine the profit-maximising output. True or false ? Explain.

3. For each of the following equations, determine whether demand is elastic, inelastic or unitary elastic at the given price.

   a) Q = 100 – 4 P and P = Rs. 20

   b) Q = 1500 – 20 P and P = Rs. 5

   c) P = 50 – 0.1 Q and P = Rs. 20

4. Explain the Producer's equilibrium position with the help of isoquants.

5. Explain the law of variable proportion and provide an example of this phenomenon.

6. Define price discrimination. How is price determined under discriminating monopoly ? Is price discrimination always harmful ?

SECTION – C

Answer **any two** of the following : (2×12=24)

7. Why might oligopolists be more likely to match a price cut then a price increase by a competitor ? Explain price rigidity given by kinked demand model.

8. Determine the price output combination that will maximize the profits per monopoly firm. Illustrate your answer with a diagram.

9. An investigation into the demand for coolers in 5 towns are resulted in the following data :

Production of towns in lakhs	No. of coolers demand
(x)	(y)
5	45
7	65
8	55
11	75
14	95
45	335

Fit a linear regression of y and x and estimate the demand for coolers for a town with the population of 2000000.

SECTION – D

10. Case Study :

Read the following and answer the question given at the end. This is **compulsory**.   **15**

CASELET 13.2

Grocery Shop and Law of Production

Round the corner of a residential colony in Delhi, there is a very popular grocery shop. It stands apart from other shops, as it keeps all kinds of things, from rice, wheat and daal to the latest flavour in maggi soup and imported chocolates. The shopowner, who is a retired school teacher noticed that over the week ends, the number of buyers increased many folds. It is not surprising, as Saturday and Sunday mornings are most convenient days to shop for the working people. During the week days, the shopowner managed with his daughter. After seeing the considerable increase in the number of buyers over the week ends, this retired teacher actually studied the pattern of flow in the number of customers and got the following results.

	Forenoon	Afternoon	Evening
Week Days	40	36	30
Week Ends (Saturdays and Sundays)	175	50	20

Note : Figures indicate average number of buyers.

Based on the above figures indicating average number of buyers, the shopowner found out that on Saturdays and Sundays, the number of buyers increase almost 5 times. He and his daughter were just not able to meet the demand of each customer. There was chaos and confusion. To deal with this 'rush hour' problem, the shop keeper kept 5 assistants (as the increase in number of buyers is 5 times) only for the week ends. But, the chaos and crowd reduced only temporarily. Where could have the shop owner gone wrong ? Let us see the problem little more closely.

The size of the shop is fixed and there is only one billing machine. As a result, with five extra assistants, the space per person has further decreased. It was often witnessed that, some of the assistants were waiting idle, while the customers jostled to reach to the assistants. Sometimes, some customers needed help, while the assistants were idle. But, it was quite an effort for them to reach the customers.

Finally, with so many customers and one cash bill machine, assistants were seen to wait before they could reach the machine to insert the bill in the machine to give the customers the cash memo. On the whole, there were too many people compared to the floor space and machines available. In the law of production, this is precisely what is meant by diminishing returns. There is declining marginal productivity of labour. If the shopowner increases his floor space and buys more of billing machines, the five assistants can be productively used.

The shop owner has recently asked three of his assistants to leave. The crowd is as ever, and there is no idle assistant. The owner says that the three of the assistants were lazy. They did not work properly. So, shopowner has thrown them out. He says this without realising that it is not the fault of the assistants. It is simply the law of diminishing returns, which was working in the grocery shop.

Question :

Where do you think the shopowner has gone wrong in data collection ? What other kind of data collected could have given him the correct answer to the problem he was facing ?