

**X 1003**

M.B.A. DEGREE EXAMINATIONS – NOVEMBER/DECEMBER 2007.

FIRST TRIMESTER

MBA 013 — ECONOMIC ANALYSIS FOR BUSINESS DECISIONS

Time : Three hours

Maximum : 100 marks

PART A — (20 × 1 = 20 marks)

Answer ALL questions.

1. Supply and demand describe market as
  - (A) relations between prospective sellers and buyers of a product
  - (B) marketing model
  - (C) management system
  - (D) none of the above
  
2. A market
  - (A) higher the transaction costs of doing business.
  - (B) is any arrangement that brings buyers and sellers together to exchange goods or services
  - (C) is an institution used exclusively by capitalist nations
  - (D) both (A) and (B)
  
3. Which of the following would decrease the supply of wheat?
  - (A) a decrease in the price of pesticides
  - (B) an increase in the demand for wheat
  - (C) a rise in the price of wheat
  - (D) an increase in the price of corn

4. The coefficient of demand elasticity,  $E$ ,
- (A) describes how the firm's total cost changes as price changes
  - (B) measures the responsiveness of quantity demanded to changes in the price of the good
  - (C) is the percentage change in the price of the good divided by the percentage change in
  - (D) both (A) and (B)
5. A short-run production function assumes that
- (A) at least one input is fixed in supply
  - (B) the level of output is fixed
  - (C) all inputs are fixed in supply
  - (D) both (A) and (B)
6. Marginal cost
- (A) is less than average cost when average cost is decreasing
  - (B) measures how total cost changes when one more unit of output is produced
  - (C) measures how total cost changes when input prices change
  - (D) both (A) and (B)
7. Which of the following is a condition of perfect competition?
- (A) Products produced by rival firms are perfect substitutes
  - (B) Individual firms can affect market supply
  - (C) Industry sales are small
  - (D) Restricted entry and exit

8. Cost-plus pricing
- (A) does not take demand conditions into account
  - (B) sets price by adding a percentage markup to average total cost
  - (C) bases price on marginal, rather than average cost
  - (D) both (A) and (B)
9. In an oligopoly market, cooperation is achieved when...
- (A) each firm in the market decides not to cheat
  - (B) a majority of firms in the market decides not to cheat
  - (C) an explicit agreement not to cheat is reached by at least two firms in the market
  - (D) a pricing agreement is reached in which one firm in the market sets a price that the other firms match
10. In order to maximize profit, a firm that sells its output in two markets will allocate total output between the two markets so that
- (A) Marginal revenue for the firm is equal to the sum of the marginal costs
  - (B) Marginal revenue for the firm is equal to the sum of the marginal revenues
  - (C) Marginal revenue is equal in the two markets
  - (D) Both (A) and (B)
11. To maximize the value of the firm, managers should
- (A) pursue multi-period profit maximization
  - (B) pursue single-period profit maximization
  - (C) pursue value maximization instead of profit maximization
  - (D) all of the above

12. Balance of Payment
- (A) indicator of a country's status in international trade
  - (B) indicator of a financial performance of the organisation
  - (C) can not be measured
  - (D) none of the above
13. Which of the following is the best general definition of the study of economics?
- (A) Inflation and unemployment in a growing economy
  - (B) Business decision making under foreign competition
  - (C) Individual and social choice in the face of scarcity
  - (D) The best way to invest in the stock market
14. All of the following are determinants of demand except
- (A) tastes and preferences
  - (B) quantity supplied
  - (C) income
  - (D) price of related goods
15. If the price of Pepsi decreases relative to the price of Coke and 7-Up, the demand for
- (A) Coke will decrease
  - (B) 7-Up will decrease
  - (C) Coke and 7-Up will increase
  - (D) Coke and 7-Up will decrease
16. CPI
- (A) Common Price index
  - (B) Consumer Price index
  - (C) Consumer Point index
  - (D) None of the above
17. Microeconomics deals with economic behaviour of individual firms
- (A) True
  - (B) False

18. An oligopoly is a market form in which a market or industry is dominated by a small number of sellers
- (A) True (B) False
19. In Perfect competition market, no producer or consumer have the market power to influence prices
- (A) True (B) False
20. Economic growth is the decrease in value of the goods and services produced by an economy
- (A) True (B) False

PART B — (10 × 2 = 20 marks)

Answer any TEN questions.

21. Justify that managerial economics is <sup>-1</sup> economics applied in decision making.
22. State the Law of Demand. - 2
23. What is demand forecasting? - 2
24. Define Pure and Mixed strategy. - 2
25. What is monopoly market? - 4
26. What is elasticity of demand? - 2
27. What is Production function? - 2
28. What is skimming pricing? - 3
29. Distinguish between Inflation and Deflation. - 4
30. What is GDP? - 4
31. Define the term Balance of Payment. - 4
32. What is Purchasing power parity? - 4

PART C — (5 × 10 = 50 marks)

Answer any FIVE questions.

33. Discuss the nature and scope of managerial economics. - 1
34. Distinguish between the following :
- (a) Incremental cost and marginal cost. - 3
- (b) Economies of scale and returns to scale. - 2
- (c) Opportunity cost and explicit cost. - 3
35. State and explain the law of diminishing returns. What are its causes and effects? - 2
36. Discuss critically any four important methods of demand forecasting. - 2
37. Discuss briefly about the different forms of market structure. - 3
38. Discuss briefly about the concept of Price Discrimination. - 3
39. Explain the structure of Indian economy. - 4
40. Find the saddle point for the game having the following payoff table :

		Player 2			
		1	2	3	4
Player 1	1	3	-3	-2	-4
	2	-4	-2	-1	1
	3	1	-1	2	0

- 4

Use the minimax criterion to find the best strategy for each player. Does the game have a saddle point? Is it stable game?

PART D — (1 × 10 = 10 marks)

(COMPULSORY PART)

41. Case Study on Pricing Methods

Saran, a cricket player playing in International Tests, was employed with Lintas Shoes Corporation, Saran faced a personal problem when playing and practicing in the humid climate in India and some of the countries abroad – the sports shoes which he wore became sticky shortly after he 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 through, 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.

Saran 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 option expressed by Saran.

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 problem 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 consumers need for the 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, development 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 priced.

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 costs would come down.

Questions :

- (a) What kind of pricing technique was used while pricing?
- (b) Was there any indication of using penetration or skimming pricing in the pricing decision of Lintas?
- (c) What should the company do next regarding the price?

