

PGDM, Batch 2020-22
Managerial Economics
DM 104

Trimester – I, End-Term Examination: October 2020

Time allowed: 2 hrs. 30 Min
Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper; writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example)	3*10 Or 6*5	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			50

Section A

CILO 1

1.a Do you agree with the statement “Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses”? Discuss both from a consumer and producer perspectives. (10marks)

OR

1.b[i] What would be the effect of fashion changes for winter clothing on the equilibrium price and quantity of the apparel industry? (5 marks)

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1.b[ii] What do you think should be the important variables considered while estimating the demand for sugar and toys? (5 marks)

CILO 2

2.a[i] Demand for college education is generally considered to be highly inelastic. What does this suggest about tuition fee increases in the future? (5 marks)

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2.a.[ii]What do you understand by the concept of cross elasticity of demand? Why does cross elasticity vary between positive and negative infinity? Explain with the help of examples. (5 marks)

OR

2.b What are the conditions for a consumer's equilibrium? Can consumer's equilibrium be arrived at with the help of the concept of indifference curves? Discuss. (10marks)

CILO 3

3.[a] If revenue earned by each additional unit is Rs. 2000 with expansion of output from 10 to 15 units work out total revenue [TR], average revenue [AR] and price per unit. Analyze how individual firms function under this category of market. [10 Marks]

OR

3.[b]. Analyze how costs on account of using factors such as capital and land are accommodated along with other costs while estimating total costs under short run? What will be the position of average fixed cost and average variable cost? [10 Marks]

Section B: Case study [20 Marks]

The Organization of Petroleum Exporting Countries [OPEC] is an oil cartel formed by 14 oil exporting countries. The main objective of the cartel is to control the international oil market as the fourteen countries together possess oil reserves at 1189.80 billion barrels i.e. 79.4% of the World's total oil reserves while the non-OPEC countries have hardly 308.18 billion barrels. Among the 14 OPEC countries Venezuela controls 20.5 % while Saudi Arabia possesses 22.4% of the oil reserves. Naturally S. Arabia is the most influencing oil trading partner and hence its writ runs among the OPEC members.

- Of late there has been downward trend in prices of crude oil prices mainly due to fall in demand. Except China rest of the emerging economies- the main drivers of demand for oil- have cut down consumption of oil consequent upon Covid-19 hit economic activities. Even China is expected to slowdown in economic growth soon as per some experts.
- Demand for crude oil is expected to be at 95 million barrels per day [bpd] during the fourth quarter of 2020 which is down from the usual market consensus at around 97-98 million bpd.
- As on September 26, 2020 crude oil price of the OPEC basket was \$ 41.22 /barrel- though annual average price during 2020 [till September] stood at \$ 64.05 /barrel which is the same as in 2019. But lower as compared to the average price of \$ 69.78/barrel in 2018.
- S. Arabia the influencing OPEC leader requires to maintain crude oil price within a band of \$ 47.50 to \$ 50.00 per barrel to support its fiscal deficit target at 7%. Keeping that in view it managed OPEC group to cut down oil output by additional 1.5 million bpd in March 2020. This was over and above the cut in output from 37.56 million bpd in 2018 to 35.57 million bpd in 2019. The OPEC's measure in March 2020 was a major cut in production since 2008 when the cartel cut down production by 4.2 million bpd.

- 1. Analyze how the 14 oil exporting countries led by S. Arabia operate in a type of the market created by themselves to facilitate their business strategy in terms of price and output.**
- 2. Keeping in view the current crude oil price at around \$41.22 as well as the comfort price band expected by S. Arabia what is the likely scenario in the oil market in near future? You may keep in mind that fact that 90% of the countries are under recession due to Covid-19.**
- 3. What strategy is likely to be adopted by OPEC in the near future in terms of production of crude oil?**
- 4. Why do you think that OPEC strategy will be effective? Justify your argument with the support of appropriate economic theory.**

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