

<PGDM IB, 2020-22>
<Managerial Economics>
<IB- 105>

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	3*10	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			50

Section A

QA1 a(CILO-1) Assume that a manufacturing company produces 1000 units and selling them at a price of \$5 each. The Average Cost (AC) is \$7,000 with a fixed cost (FC) of \$4000 and a variable cost (VC) of \$3,000 for all units. Do you think the company should shut down or continue producing? Throw light on the shutdown point in the above example with a suitable diagram

Or

QA1b (CILO-1) Retail sales increased 0.8% in December and 2017 sales jumped 6.2%, the strongest annual gain in four years. Sales of durable goods rose 1.7% last month. Based on your knowledge of business cycle facts, does the pattern of total retail sales and durables sales for December 2017 make sense? What could account for this pattern? Explain the various phase of business cycle with the help of suitable diagram and comment on the phase the economy is facing in the above example.

Turn Over

QA2a (CILO-2) You might have heard of the proverb: ‘Too many cooks spoil the broth’. The law of diminishing returns discusses this in the context of production. What happens when we keep on adding inputs (variable factor) and what happens when it exceeds the quantity required for optimum production in the short term? Explain the same with a suitable diagram

Or

QA2b(CILO-2) Assume that two interior design companies, Alistair and Baine, are competing for customers and if they both advertise, they would each earn \$30 million in profits. If neither advertises, they each earn \$50 million in profits. If one advertises and the other does not, the firm that advertises earns \$40 million in profit while the other earns \$20 million in profit.

- a. Use a payoff matrix (prisoners Dilemma) to depict this problem.
- b. What is the cooperative solution to this game? What is the likely outcome?

QA3a(CILO-3) The following data relates to the market for jars of coffee in the UK.

PRICE PER JAR	DEMAND	SUPPLY
5.00	60	150
4.50	65	140
4.00	70	130
3.50	75	120
3.00	80	100
2.50	85	190
2.00	90	90
1.50	95	80
1.00	100	70

- a) Find put the equilibrium price & quantity with the help of a suitable diagram.
- b) Explain and show with the help of a diagram what would happen if the jars were priced at £3 each. & £1.50 each.

Or

QA3b(CILO-3.) The accompanying table shows the price and yearly quantity sold of souvenir T-shirts in the town of Crystal Lake according to the average income of the tourists visiting.

Price of T-shirt	Quantity of T-shirts demanded when the average tourist income is \$20,000	Quantity of T-shirts demanded when the average tourist income is \$30, 000
\$4	3,000	5,000
\$5	2,400	4,200
\$6	1,600	3,000
\$7	800	1,800

Turn Over

- a) Using the midpoint method, calculate the price elasticity of demand when the price of a T-shirt rises from \$5 to \$6 and the average tourist income is \$20,000. Also calculate it when the average tourist income is \$30,000.
- b). Using the midpoint method, calculate the income elasticity of demand when the price of a T-shirt is \$4 and the average tourist income increases from \$20,000 to \$30,000. Also calculate it when the price is \$7.

Section B

CASE STUDY :HOW DID OPEC FAIL TO KEEP THE PRICE OF OIL HIGH?

Many of the most disruptive events for the world's economies over the past several decades have originated in the world market for oil. In the 1970s, members of the Organization of Petroleum Exporting Countries (OPEC) decided to raise the world price of oil to increase their incomes. These countries accomplished this goal by jointly reducing the amount of oil they supplied. From 1973 to 1974, the price of oil (adjusted for overall inflation) rose more than 50 percent. Then, a few years later, OPEC did the same thing again from 1979 to 1981, the price of oil approximately doubled. Measured in 2004 dollars, the price of crude oil reached \$91 per barrel, and the price of gasoline was \$3 per gallon.

Yet OPEC found it difficult to maintain a high price. From 1982 to 1985, the price of oil steadily declined about 10 percent per year. Dissatisfaction and disarray soon prevailed among the OPEC countries. In 1986, cooperation among OPEC members completely broke down, and the price of oil plunged 45 percent. In 1990, the price of oil (adjusted for overall inflation) was back to where it began in 1970, and it stayed at that low level throughout most of the 1990s. In the early 2000s, the price of oil rose again, driven in part by increased demand from a large and rapidly growing Chinese economy. but it did not approach the levels reached in 1981.

This OPEC episode of the 1970s and 1980s shows how supply and demand can behave differently in the short run and in the long run. In the short run, both the supply and demand for oil are relatively inelastic. Supply is inelastic because the quantity of known oil reserves and the capacity for oil extraction cannot be changed quickly. Demand is inelastic because buying habits do not respond immediately to changes in price. Thus, the short run supply and demand curves are steep. When the supply of oil shifts from S_1 to S_2 , the price increase from P_1 to P_2 is large. The situation is very different in the long run. Over long periods of time, producers of oil outside OPEC respond to high prices by increasing oil exploration and by building new extraction capacity. Consumers respond with greater conservation, for instance by replacing old inefficient cars with newer efficient ones.

Questions

B1(CILO1) Explain how OPEC succeeded in maintaining a high price of oil only in the short run?

B2(CILO2) What happened to oil prices and the supply of oil in the long run?