PGDM, Batch 2017-19
Managerial Economics
Subject Code DM 104
Batch 2017-19
Trimester – I, End-Term Examination: September 2017

Time allowed: 2.5 Hours | Max Marks: 50

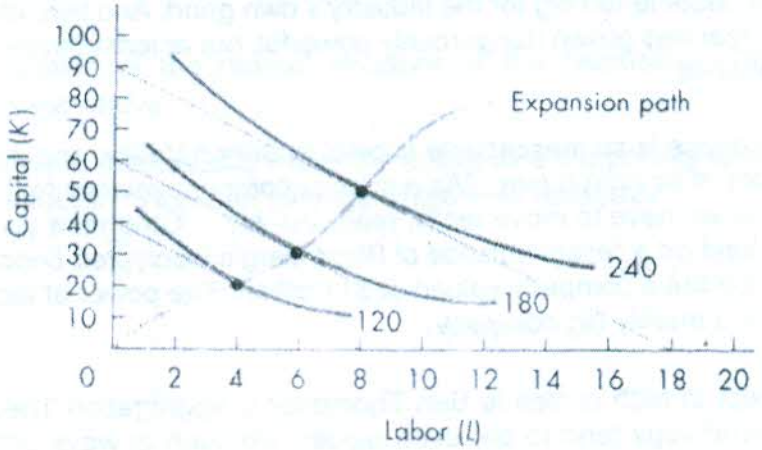
Roll No: ___________

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.** In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A: Please attempt any three out of the five given questions (5 marks each)

1) What would you expect to happen to spending on food at home and spending on food in restaurants during a decline in economic activity? How would income elasticity of demand help explain these changes?
2) Explain the difference between time series data and cross sectional data. Provide examples of each type of data.
3) The production engineers at Impact Industries have derived the expansion path shown in the following figure. The price of labor is $100 per unit.



a. What price does Impact Industries pay for capital?
b. If the manager at Impact decides to produce 180 units of output, how much labor and capital should be used in order to minimize total cost?

c. Impact Industries originally built the plant (i.e., purchased the amount of capital) designed to produce 180 units optimally. In the short-run with capital fixed, if the manager decides to expand production to 240 units, what is the amount of labor and capital that will be used?

d. Given your answer to part c, calculate average variable, average fixed, and average total cost in the short run.

4) How does a firm in monopolistic competition have characteristics similar to both monopoly and competition?

5) How is the shutdown rule different from the optimizing rule in perfect competition?

Section B: Please attempt any two out of the three given questions: (10 marks each)

1) With a fall in price the quantity demanded of a normal product increases. Do you agree? Discuss with the help of the income and substitution effect

2) Minimum Support Price is an example of Floor Price whilst prices fixed under the Public Distribution system is an example of Ceiling price. Do you agree? Explain with the help of graphs.

3) Why is economics known as the science of choice? Explain from the consumers and producers perspective

Section: C Case Study (7.5 marks each)

Silicon Valley behemoths raise monopoly concerns

Tech titans' dominance is an inescapable subject in Silicon Valley, and it seems no one is immune from fears of being run over.

New York: In the last week or two, I've read several thought-provoking pieces about giant technology companies that have grown into monopolies and perhaps should be broken up like the old AT&T. Cries of monopoly are not a new phenomenon for tech. Just ask Google. But this latest round of hand-wringing feels different.

For one, it's not just coming from the usual anti-corporate worrywarts; people from deep in the Silicon Valley hive mind are among those concerned about whether a handful of businesses have become too big for the industry's own good. And two, it's not a single tech titan that people fear has grown dangerously powerful, but at least three—Google, Facebook and Amazon—at once.

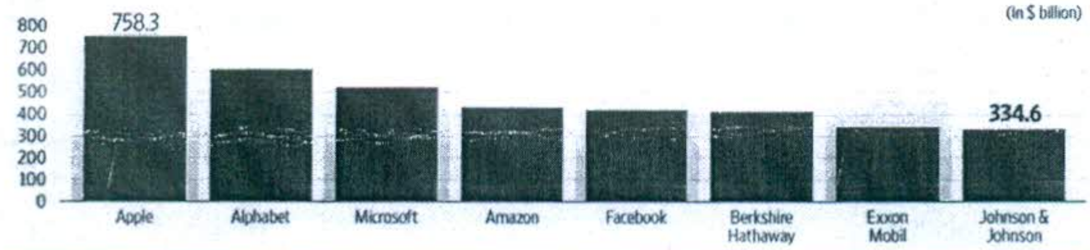
Tech titans' dominance is an inescapable subject in Silicon Valley, and it seems no one is immune from fears of being run over. "As a smaller company relative to the tech giants ... it's not negotiable that we have to move really, really quickly ... Otherwise you get eliminated," Pinterest's CEO said on a recent episode of Bloomberg's Decrypted podcast. And Pinterest is not a tiny start-up but a company valued at $11 billion. The power of technology giants is even too much for a merely big company.

A favourite concept in tech circles is Ben Thompson's Aggregation Theory, which lays out why the big in technology tend to get even bigger, although in ways different from a nasty monopolist that uses its power to force up prices. People don't pay Google parent company Alphabet Inc. and Facebook Inc. for anything, so there is no price extortion. Product prices at Amazon might go down, not up, and shopping there is convenient. People like using Google, Facebook and Amazon.com Inc. The tech giants have monopolies by popular choice. That doesn't mean their dominance can't take its toll. If you have a product and it is not for sale on

Amazon—or if it's not available for free shipping to Prime customers—it might as well not exist.

TECH RULES

The five biggest companies in the world by stock market value are all tech companies.



MONOPOLIZED

Google and Facebook combined take 22% of the worldwide spending on advertising. The entire newspaper industry is 10% of the market.

Sources: Google and Facebook reported ad revenue for 2016, and ad industry estimates from Magna Global

If you record a video and the algorithms at Google and Facebook don't give it prominence, it is invisible. Facebook is harnessing its nearly 2 billion users and army of developers to try to murder Snapchat. One of the most interesting pieces about technology I have read this year was from an unlikely source: the *Yale Law Journal*. The article in January argues that US legal doctrine became too narrowly focused on higher consumer prices as evidence of monopoly power and therefore is ill-equipped to deal with today's technology superpowers. The idea is that these network effects—the growing usefulness of an online service as it gains more users, consumer data and suppliers—can be just as damaging as jacking up supermarket prices.

Q.1. What is your opinion of the market structure of the technology firms industry as mentioned in the passage above.

Q.2. How does the firms in this industry make the output and the pricing decisions given the nature of the market structure. How can they maximise their revenues?