

PGDM (International Business), Batch 2016-18  
Managerial Economics  
Subject Code IB 105  
Batch 2016-18

Trimester – I, End-Term Examination: September 2016

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	$3 \times 5 = 15$
B	2 out of 3 (Long Questions)	10 Marks each	$2 \times 10 = 20$
C	Compulsory Case Study	15 Marks	15
		<b>Total Marks</b>	<b>50</b>

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

1. With the help of graphs discuss what is meant by movement along the demand curve and shift of the demand curve
2. (a) Which of the following commodities has the most inelastic demand and why?  
(i) Soap (ii) Salt (iii) Cigarettes (iv) Ice cream  
(b) Distinguish between demand for normal goods and demand for inferior goods.
3. What is the Delphi method and Barometric method of demand forecasting
4. Which independent variables are relevant, in your opinion, for demand estimation by regression analysis for toothpastes and for petrol
5. What are the components of current account balance

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

1. What role does an indifference curve play in consumers analysis. What are the properties of indifference curve

2. What are the three kinds of price discrimination? Why do monopoly firms adopt price discrimination policy
3. Discuss the circular flow method of calculating GDP

**Section : C                      Case Study**

**(7.5 marks each)**

Mumbai has had taxis plying its road for over a century and there are already about 55,000 metered black-and-yellow taxis on the city's roads. Taxis in Mumbai are an integral part of the city's heritage, and ply throughout Mumbai and have monopoly from Bandra to Churchgate on the Western line and Sion to Chatrapati Shivaji Terminus on the Central line. Beyond Sion and Bandra, auto rickshaws are not allowed and one has to hire a taxi. However, between Sion to Thane and Bandra to Bhayandar, Taxis and auto rickshaws ply.

A mechanical meter decides the fare, proportional to the distance traveled. The taxi market has information asymmetries- which means that the seller knows more than the buyer. A consumer tends to sit in the first taxi that comes along and has little idea whether the fare quoted by the driver is worth accepting or whether to wait for another taxi, and yet another. The consumer cannot compare prices without high transaction costs. So, a government body fixes taxi fares.

Taxi operators in Mumbai, as in most other municipalities in India, require a permit to operate a taxi. Since such permit holders are limited in number, this confers a monopoly power (i.e., the ability to earn economics profit). When the taxi operators launched a new scheme of modern, air-conditioned taxi service in 2006, the state government decided that no new permits would be issued to them because there is no room to put more taxis on the city's roads unless some of the old ones are pulled out. No new taxi permits have been issued in Mumbai for a decade because the authorities reckoned that an adequate number had been provided to serve the city's needs. Instead, the new scheme was launched, with two new taxi operators in business and a third service for women launched recently, there are fewer than 500 new taxis on Mumbai's roads.

Taxi unions have resisted the change, fearing that the new scheme would, as it indeed does, take away the cab-owners' control of the trade by turning them from self-employed persons into company employees. Local taxi unions and associations, including the Mumbai Taxi Association, the Bombay Taximen's Union (BTU) and the Mumbai Pune Taxi Association, play a major role in the taxi industry. The unions have a very powerful influence on the operators. Recently, Mumbai's guardian minister had introduced the fleet taxi system as one of Mumbai's big 'makeover' projects. This turned into a weak starter because the taxi unions stoutly opposed the swanky new taxis in a bid to protect their monopoly.

- 1) On the basis of the above given case study, discuss the market structure that the Taxi industry in Mumbai is operating in. Give reasons for the same
- 2) Discuss the determination of equilibrium of a firm operating in the market structure given in the case study