

PGDM (2014-16)

MANAGERIAL ECONOMICS

Subject Code: DM 103

Trimester – 1, End-Term Examination: September 2014

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Roll No:

Instructions: Students are required to write their Roll No. on every page of the question paper, writing anything except the Roll No. will be treated as **Unfair Means**. For rough work, please use answer sheets.

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

1. Identify the relationship between Managerial Economics and (i) accounting, (ii) finance and (iii) marketing.
2. What do Isoquants refer to – the short run or the long run? Explain optimal input combination for minimizing costs?
3. Explain the concept of elasticity and its various types. Why do Business firms charge lower price for goods with low demand elasticity?
4. Why can a monopolist increase profits by segmenting its markets and charging different prices in each market?
5. What do you understand by Excess Capacity and Mark up? Is the long run outcome in monopolistically competitive market socially desirable?

Section B

1. The Market demand and supply function for pizza in Model town were $Q_d = 10000 - 1000P$ and $Q_s = -2000 + 1000P$. a) Determine algebraically the equilibrium price and quantity of pizza and b) plot the market demand curve and supply curve, label the equilibrium point E, and draw the demand curve faced by a single pizza shop in this market on the assumption that the market is perfectly competitive. Show the Marginal revenue of the firm and explain why it is shaped so?
2. Discuss consumer surveys and market experiments methods of demand forecasting. What are the major advantages of estimating demand by consumer surveys and Market experiments?

3. Suppose the production function as estimated by Cobb & Douglas(C-D) is $Q=1.02 L^{0.40} K^{0.60}$ or $\text{Log } Q = \log 1.02 + 0.40 \log L + 0.60 \log K$. The coefficient of determination (R^2) was found to be 0.9001.
- What does this linear homogeneous production function indicate and imply?
 - What are the properties of C-D production function & what are its Managerial uses?

Section C

Case study: An Advertising Game

In the breakfast cereal industry, which is highly concentrated, a firm by advertising its brand of cereal does not induce many consumers to eat cereal for lunch and dinner; instead it induces customers to switch to its brand from another brand. Now suppose Firm "N" competes against firm "K" for customers. Both firms know that their products will be obsolete at the end of the year and must simultaneously determine whether or not to advertise. Both understand that advertising will not increase total industry demand. Thus if both firms advertise, the two advertising campaigns will simply offset each other and they will each earn Rs 4 million in profits. If neither advertises, they will each earn Rs 10 million in profits. However, if one advertises and the other does not, the firm that advertises will earn Rs 20 million and the firm that does not advertise will earn Rs 1 million in profits.

- Write the Payoff matrix for the above advertising game? How much profit do you expect each firm to earn?
- What is Nash equilibrium? Describe the unique Nash equilibrium for the game.
- Would Collusion work in this case? Explain