PGDM (Retail Management), Batch 2013-15
Managerial Economics
Subject Code RM 105

Trimester – I, End-Term Examination: September 2013

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. Would you expect cross elasticity between the following pairs to be positive, negative or zero? Why
   i. Television sets and direct to home service provider
   ii. Breakfast cereal and men's shirts
   iii. Construction of residential housing and furniture
   iv. Wheat bread and multi grain bread
2. List the key nonprice factors that influence demand and supply alongwith examples.
3. Define returns to scale. Is this a short run or long run phenomenon. Why
4. Discuss the three kinds of price discrimination
5. Discuss the following terms
   i. Consumer clinics and market experiment
   ii. Barometric Forecasting

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

1. What are the key points in a short run production function that delineate the three stages of production? Explain the relationship between the law of diminishing returns and the three stages of production.
2. With a fall in the price of a normal good, the quantity demanded increases. Explain with the help of income and substitution effect for a normal good

3. What are the three rules of profit maximization in the context of a firm that is in a perfectly competitive market structure. Also, explain the importance of free entry and exit in the perfectly competitive market

<u>Section : C</u> **<u>Case Study</u>** **<u>(7.5 marks each)</u>**

Give your answers for the following case.

GLOBAL APPLICATION: THE WORD'S MARKET FOR BEER

The market for beer is a good example of how difficult it is to actually label a particular industry using any of the four basis types of economic markets. At the least, we can say that the market for beer is neither pure monopoly nor perfect competition. But to say it is monopolistic competition or oligopoly depends on whether we are looking at the market from the standpoint of a country, a region, a type (e.g., regular vs. light, mass market vs. craft-brewed, domestic vs. imported), or a brand. To complicate the issue further, as you know each beer company can produce or own and distribute many different brands. For example, a visit to the Web site of Anheuser Busch, the leading brewer in the United States, reveals that the company produces or distributes dozens of different brands including its top sellers Budweiser, Bud Light, and Michelob. A leading brewer of craft beer, the Boston Beer Company, produces many other types of beer in addition to its flag-ship Samuel Adams brand.

In the U.S. market, all of the beer brands and types produced by perennial market leader Anheuser Busch hold about 50 percent market share. The second two companies, SABMiller and Molsen Coors, have a combined market share of around 30 percent. The remaining share comprises second-tier brewers such as Stroh's Brewery, craft brewers such as the Boston Beer Company, and imports such as Corona (which in fact is 50 percent owned by Anheuser Busch). Leading imports include Heineken (based in the Netherlands) and Stella Artois (owned by the global giant InBev). So is the U.S. market an oligopoly? Just looking at the market share held by the top three companies, the answer would seem to be yes.

However, based on pricing power, the answer would seem to be more like monopolistic competition. This is because the U.S. market for beer is very much a mature one. The growth rate in recent year was less than 1 percent and demand for mass market regular beer has been falling about 2 percent per year. Only the increase in consumption of craft and imported beers has kept overall market sales from falling. And as a result of the fall in the demand for mass market brands, even the leading manufacturers such as Anheuser Busch have had to drop their prices. The only way that Anheuser Busch can offset this decline in prices is to try to sell more of the higher profit margin imports or craft-brewed beer. Another way that this U.S.-based company can offset the stagnating U.S. beer market is to expand globally. But in this respect, it has been outdone in recent years by tow leading global companies based in Europe, Heineken and InBev, and a third global player from South Africa, Breweries (SAB), now known as SABMiller.

The Heineken brand is probably well known to American consumer because it is one of the leading imported beers. InBev is the result of the merger of Interbrew, a Belgian company, and AmBev, a Brazilian company. Their popular brands include Stella Artois and Brahma. In 2003, SAB made the headlines by buying Miller Brewing from Philip Morris. At the time, Miller was the third largest beer Company in the United States. It still is. The fourth largest, Coors, recently merged with the Canadian company Molsen. The new company is now called Molsen Coors Brewing Company.

All of the leading global giants are trying to expand by acquisition. As they grow, they hope to use the increasing power of economics of scale and scope to reduce their unit cost of production. Also their expansions are typically in areas of the world such as Brazil, China, Russia, and Central Europe, where beer sales are still expanding at rates 3-4 percentage points above the mature markets in the United States and Western Europe.

In 2007, SABMiller and Molsen Coors Brewing merged their U.S. units and also bought Royal Grolsch, a Dutch company that is Heineken's closest rival in the Netherlands. In January 2008, Heinken and Carlsberg (a Danish company) announced that they had agreed to buy the largest brewery in the United Kingdom, Scottish & Newcastle, for $15.4 billion. The U.K. brewer is best known for brands such as Foster's and Kronenbourg 1664. Among the key reasons for this acquisition is that Heineken will gain access to Britain's cider market and Carlsberg will gain control of Scottish & Newcastle's holding of the Russia's beer market is expected to grow 5 percent in 2008.

There are still many hundreds of breweries around the world. So it is safe to say that the global market can still be considered monopolistically competitive. However, at the rate that global acquisitions and mergers are being carried out, perhaps even the global market may become more like an oligopoly.

1. Based on the above given case study, do you agree that the global market for beer is monopolistically competitive
2. Discuss the features of perfect competition and monopoly form of market structure.