PGDM (International Business), Batch 2018-20
Managerial Economics
Subject Code IB 105
Batch 2018-20
Trimester – I, End-Term Examination: September 2018

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) Discuss the relative price elasticity for:
i) Cigerattes
ii) A specific brand of mayonnaise
2) What would be the set of variables used in a regression model for the demand for carbonated drinks and why?
3) Explain why the P=MC rule is the same as the MR=MC rule for perfectly competitive firms?
4) Explain the importance of free entry and exit in the perfectly competitive market. That is, if free entry and exit did not exist, what impact would this have on the allocation of resources and on the ability of firms to earn above profits over time?
5) Is minimum support price an example of floor price. Discuss. What do you understand by the concept of ceiling price.?

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

1) What is the distinguishing characteristic of oligopolistic competition in relation to the other forms of market organization? In which sector of the Indian

economy is oligopolistic competition prevalent? Why? Discuss the kinked demand curve model of oligopoly.

2) Which stage of the short run production function should a firm operate in and why?
3) From GDP at market prices, how do you arrive at NNP at market prices. What do you understand by the Value added method and Income method of calculating GDP?

Section : C Case Study (7.5 marks each)

Coffee houses may seem new to many because of the boom in this business over the last decade. However, they probably started in the 17th century. Today the number of coffee houses is growing rapidly, with forecasts putting the number at close to 10, 000 by the end of the decade. This growth reflects strong consumer demand.

The price of coffee beans is determined by global supply and demand conditions. In the summer of 1994, there was a price surge of 150% due to a frost in Brazil, a major supplier of coffee beans. Coffee prices subsequently fell and Colombia, the world's largest producer of premium grade coffees, considered imposing a control on the prices of coffee (a price floor) that was $0.20 above the current market price.

Due to higher prices of coffee beans, the price of a cup of coffee to consumers also tends to rise as well. At Gratzi Café in Ann Arbor, Michigan, the price of a large coffee increased by 25%. The manager posted articles in the shop window about the increased cost of coffee beans to try to convince customers that the increase was justified.

When consumer prices for a cup of coffee change, do you think consumer change their consumption by very much? Not if Tim Nemec is representative of coffee drinkers. He was quoted as saying: "If they doubled the price, we'd still drink. Coffee-loving is not something you give up for price. "(USA Today, p.2A). This certainly suggests that, at least for some consumers, demand is relatively price-inelastic. Thus, a decrease in supply may result in substantial price increases to consumers, but with relatively little change in the quantity demanded.

1) On the basis of the above given case study, in your opinion is the demand for coffee price-inelastic. State reasons for the same. What do you understand by the concept of income elasticity and cross elasticity of demand?
2) What are the factors that influence the demand for a product? Discuss with reference to movement and shift in demand curve.