PGDM (Retail Management), Batch 2018-20
Managerial Economics for Retailers
Subject Code RM 205
Batch 2018-20

Trimester – II, End-Term Examination: December 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 (6 marks each)

1) What do you understand by absolute advantage and comparative advantage
2) X Corporation produces a good (called X) that is a normal good. Its competitor, Y Corp., makes a substitute good that it markets under the name Y. Good Y is an inferior good.
   a. How will the demand for good X change if consumer incomes decrease?
   b. How will the demand for good X change if the price of good Y increases?
3) What do you understand by total surplus
4) What do Production Isoquants denote. Are they operable in the short run or long run
5) Discuss the characteristics of a monopolistic market structure

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

1) A. As a result of increased tensions in the Middle East, oil production is down by 1.21 million barrels per day – leading to a reduction in the world's supply of crude oil. Explain the likely impact of this event on the market price for gasoline and the market for small cars.

   B. Discuss the factors that impact supply in the market

2) Apply the marginal principle to determine the profit maximizing price and output for a monopoly market structure

3) What does the law of diminishing returns state. Why is this law considered a short run phenomenon

Section : C **Case Study** **(7.5 marks each)**

At the close of the last century, increase in the price of gasoline led to decreases in demand for products that are complements for gasoline, such as automobiles. The reason was that higher gasoline prices moved consumers to substitute toward public transportation, bicycling, and walking. An econometric study by Patrick McCarthy provides quantitative information about eh impact of fuel costs on the demand for automobiles. One of the more important determinants of the demand for automobiles is the fuel operating cost, defined as the cost of fuel per mile drive. The study reveals that for each 1 percent increase in fuel costs, the demand for automobiles will decrease by 0.214 percent. A 10 percent increase in the price of gasoline increases the cost of fuel per mile driven by 10 percent and thus reduces the demand for a given car by 2.14 percent.

What did automakers do during this period to mitigate the negative impact of rising gasoline prices on the demand for new automobiles? They made cars more fuel efficient. The results just summarized imply that for every 10 percent increase in fuel efficiency (measured by the increase in miles per gallon), the demand for automobiles increases by 2.14 percent. Auto manufacturers could completely offset the negative impact of higher gasoline prices by increasing the fuel efficiency of new cars by the same percentage as the increase in gasoline prices. In fact, by increasing fuel efficiency by a greater percentage than the increase in gasoline prices, they would actually increase the demand for new automobiles.

1. With reference to the above given case study, please discuss the concept of cross elasticity of demand.
2. What do you understand by income elasticity of demand and price elasticity of demand? Discuss with the help of examples