

PGDM, Batch 2019-21
Managerial Economics
DM - 108

Trimester – I, End-Term Examination: September 2019

Time allowed: 2 Hrs 30 Min
 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**. All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered.	3*10	30
B	Compulsory Case Study	20	20
			50

Section A

CILO 1 [Knowledge]

1a [i]. What do you understand by the term Ceiling Price and Floor Price? Explain with the help of graph and examples (5 Marks)

1a [ii]. You manufacture Product X. You have recently read that the price of product Z is expected to increase by 15%. How will this affect the sale of your Product X (5 Marks)

	Cross Price Elasticity
Product X and Product Y	-0.05
Product X and Product Z	0.15
Product X and Product A	-0.018

OR

1b [i]. Explain why a situation of excess demand will result in an increase in the market price. Will a situation of excess supply result in a decrease in the market price (5 marks)

1b [ii]. Derive the law of demand with the help of the ordinal utility theory / indifference curves (5 marks)

Encl. 1

CILO 2 [Understanding]

2a [i]. [a] As a result of increased tensions in the Middle East, oil production is down by 1.21 million barrels per day – a 5% reduction in the world's supply of crude oil. Explain the likely impact of this event on the market for gasoline and the market for small cars with the help of demand and supply graphs (5 marks)

2a [ii]. Discuss the factors impacting elasticity of demand (5 marks)

OR

2b (i) List the following commodities in sequence of highly inelastic – elastic demand. Give your reasons?

Televisions, Sugar, Shampoo, Cars (5 marks)

2b. [ii]. Suppose a clothing manufacturer desires information about the impact of its pricing decisions on the demand for its jeans. To obtain this information, it engages in market research to determine how many pairs of jeans consumers would purchase each year at alternate prices. What would the results of the market research show? Other than price of jeans in your view do you think any other factors would impact demand for jeans? Discuss (5 marks).

CILO 3 [Application]

3 [a]. A chocolate manufacturing firm under the perfectly competitive market earns marginal revenue of Rs.50. The firm's marginal cost becomes equal to marginal revenue [MR=MC] at the level of 10 million pieces of chocolates as well as 30 million pieces of chocolates while the minimum possible MC is at the level of 20 million pieces of chocolates. If average cost of chocolate is Rs.40 per piece, what would be the total profit of this firm? [10 Marks]

OR

3 [b]. A bicycle manufacturing firm is required to sell its bicycle at a price of Rs.2500 per unit as decided by the industry. Its marginal cost happens to be Rs.2500 at the optimum output of 12 million bicycles. The average cost of manufacturing bicycle works out at Rs.2600. Examine the possibility of earning profit by the firm under short-run and also, analyze the likely scenario in the long-run.

Section B: Case Study [20 Marks] - CILO 3

Mahindra has launched a new model of car KUV100NXT. The automaker has stacked-up the micro-SUV with features and technology to ensure that it has fire power to compete against the established players in the segment. Let us have a look how the new version from Mahindra compares with the established brands in the segment. The starting price of Mahindra KUV100 is Rs.4.90 lack.

Maruti Suzuki Swift has been the undisputed leader in this segment. The earlier KUV was introduced with an SUV like approach but so far, it has not been very successful in

dislodging the Swift from its market place. But the new KUV comes in as a standard size six-seater in this segment which is currently unmatched by any other model. Maruti Suzuki Swift's price starts at Rs.5.15 lack.

Hyundai Grand i10 is the highest selling car from Hyundai. It has got an update recently and is capable of taking on the updated KUV100NXT. The Grand i10 features improved engine and four-speed automatic transmission. The KUV100 misses out on the automatic gear-box but makes up for it with six-seater configuration as standard. Hyundai Grand i10 start with a price of Rs.5.34 lack.

Ford Figo is the most powerful hatchback in this segment. The Figo gets two petrol engine options that can outturn KUV100 easily. There is a six-speed automatic transmission on offer as well. The Figo is a proper hatchback; it is practical, feature loaded and comfortable. It rides and handles well too and comes with six airbags. Figo starts with a price range of Rs.7.69 lack.

Honda Brio has updated hatchback recently. Brio's i-Vtech petrol engine and quality handling set a benchmark for the KUV100 to reckon with. The Brio does offer an automatic transmission; but not with diesel engine. Despite being updated not long ago, it has already started looking slightly out dated. Comparatively, KUV100's design looks afresh. Brio's starting price is Rs.6.81 lack.

Nissan Micra may not be volume seller; but the Japanese hatch comes with a CVT automatic transmission. Micra's styling is subjective but a dash of chrome all around the car adds a little character to the rounded hatch. The current Micra is in need of not just a cosmetic update but a generation change altogether. Micra starts with a price of Rs.5.15 lack.

During the last one year market share of Maruti Suzuki declined from 53% to 51% while Hyundai improved its market share from 16% to 18%. Honda's market share marginally declined from 4.9% to 4.6%; Ford from 2.9% to 2.6%; Nissan from 1.2% to 0.8%.

1. How do you describe the above market situation in terms of its characteristics?
2. How does a firm under the above market condition reach the equilibrium point wherein it could earn the maximum possible profits?
3. What do you make out about the strategy adopted by the Mahindra KUV100NXT?
4. What is the impact of entry of KUV100 on manufacturers of similar cars in terms of demand?