

MIB / I Sem.

A

Course 513 – ECONOMICS FOR MANAGERS

(Admissions of 2004 and onwards)

Time : 3 hours

Maximum Marks : 70

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt five questions in all. All questions carry equal marks.

1.a Discuss the nature and scope of managerial economics.

b. "A modern business firm has a multiplicity of objectives." Do you agree? Explain giving reasons for your answer.

OR

1.a. The monthly demand for a motor vehicle in the Indian market is given by the following equation:

$$\log Q = 1.00 - 1.50 \log P + 3.00 \log I \quad R^2 = 0.21$$

(1.20) (-2.50) (0.02)

where P is price and I is income per capita in thousands. The t- statistics are shown in parentheses and logarithms to the base 10 were used to transform the equation. Assuming that the estimates are generated by a sample of 400 observations

- i) Rewrite the equation as a multiplicative demand equation.
 - ii) Based on the equation is the product an inferior good, a necessity or a luxury good?
 - iii) Is the equation likely to be useful in predicting the demand for the motor vehicle? Why or why not?
- b. What is the significance of the concepts of price elasticity, income elasticity and cross elasticity of demand in managerial decision making?

2. a. What do you understand by the laws of Return? Distinguish between returns to a factor and returns to scale.

b. Do the following production functions exhibit increasing, diminishing or constant returns to scale? Also check if the marginal product functions are increasing, decreasing or constant.

- (i) $Q(L,K) = K^2/L^2$
- (ii) $Q(L,K) = 4\sqrt{K}\sqrt{L}$

OR

2.a. Write short notes on any two:

- i) Peak load pricing
- ii) Price discrimination
- iii) Transfer pricing

b. Why is the long run cost curve often referred to as the 'planning horizon' while the short run cost curve is called the 'operational period'? Explain the significance of the two for managerial decision making.

III. a. What do you understand by monopoly power? What are the different sources of monopoly power?

b. A software manufacturer has a monopoly in the market, but distinguishes between students and professionals as different market segments. Explain with the help of a diagram how he prices his products in the two markets.

OR

III. a. What is a cartel? How is equilibrium of the cartel determined? Also explain the impact of "cheating" by a member of the cartel.

b. What is the dominant price leadership model? Explain clearly how an equilibrium in the market is established under this market situation?

IV. a. Explain the need for macroeconomic analysis in business decision making? What are the key macroeconomic indicators that managers of MNCs need to track and why?

b. What is the marginal propensity to consume? What are its determinants? Explain the relationship between marginal propensity to consume and the national income.

OR

a. What is investment? What are the different forms of investment? Distinguish between Marginal Efficiency of Investment (MEI) and Marginal Efficiency of Capital (MEC).

b. What is growth? How is it different from development? Enumerate the essential elements for economic development.

V. a. What is Inflation? How is it related to the employment level of the economy?

b. What are business cycles? Explain the policy measures that helped India cope with the recent recession caused by the global financial crisis.

OR

a. Explain why monetary policies become less effective when an economy adopts capital account convertibility. Enumerate measures to increase the effectiveness of these policies.

b. The last couple have witnessed the emergence of India and China as the growth leaders of Asia. Compare the experiences of the two countries in this context