

MANAGEMENT PROGRAMME

Term-End Examination

December, 2016

01145

MS-009 : MANAGERIAL ECONOMICS

Time : 3 hours

Maximum Marks : 100

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- Note :** (i) *There are two sections : Section-A and Section-B.*
(ii) *Attempt any three questions from Section-A, which carries 20 marks each.*
(iii) *Section-B is compulsory and carries 40 marks.*
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SECTION - A

1. What is Production Possibility Curve (PPC) ? Explain how it reflects the opportunity cost principle.
2. Define elasticity of demand. How are the income and cross elasticities measured ? Explain their role in business decisions with examples.
3. In a factory Marginal Product of Labour $MP_L = 20$, Marginal Product of Capital $MP_K = 40$, Price of Labour $P_L = 10$ and Price of Capital $P_K = 200$.
 - (a) What would you say about the efficiency of the firm on the basis of this information ?
 - (b) What the firm should do to become efficient ?

4. Explain Pure bundling, Mixed-bundling and Tying. How does bundling practices help sellers in their selling strategies.

5. Write short notes on **any four** of the following :
 - (a) Equi-marginal Principle
 - (b) Demand Function
 - (c) Diseconomies of Scale
 - (d) Monopoly Power
 - (e) Planning Curve
 - (f) Oligopoly

SECTION - B

6. Read the case given below and answer the questions given at the end :

Karmarkar, a cricket player playing in International Tests, was employed with Lintas Shoes Corporation. Karmarkar faced a personal problem when playing and practising in the humid climate in India and some of the countries abroad - the sports shoes which he wore became sticky shortly after he has taken to the field, and by the lunch time they started smelling badly. He enquired of his fellow players whether this is a common or his unique problem. He came to know that this is a common problem - though, of course, varying in intensity and the timing of sweating. He also came to know that, like him, the other fellow - players have also experimented with all kinds of shoes available in the market but hardly met with any success.

Karmarkar brought his problem to the notice of his company and was persuasive enough to make the company interested in his problem. The company wanted to understand :

- (1) Was there a real consumer need for a highly improved kind of shoe for the purpose ?
- (2) Has the company necessary technological facilities and scientific ability to develop the product ?
- (3) Is the size of the market for this product large enough to make the new product commercially viable ?

To confirm for itself, the company undertook market research in various forms, like personal interviews, questionnaires, etc. The market research confirmed the opinion expressed by Karmarkar.

The company ascertained that since it is already in shoe business it has necessary scientific and technological infrastructure to take up the project. The basic problems were, however, the justification of crores of rupees which would go in for the research, development and mass production of shoes, the likely demand being adequate enough or not to justify this investment and, above all, the profitability of the venture. The company found, through the surveys, that besides the consumer need for the product and the technical capacity of the firm to undertake the production of such a product, there was a large enough potential market for the product when produced at a mass scale.

After the product development was accomplished, a pilot test was conducted by supplying a small quantity of these unnamed shoes and given free to some players. However, the results were not encouraging because the shoes were too thin to protect the feet from damage during play. So, the product was back to the product development department. After a year's efforts, the company came out with a revolutionary design of shoes, which were thick enough to protect the feet but thin and light enough to prevent sweating of the feet in humid climates.

The accountants kept the record of costs at each stage of the product development. The accountants with the help of the advertising group developed a price based on estimates of how many of these new shoes could sell in terms of total potential market (50 lakh shoes every year) and how many players would take to the new shoes.

The company test marketed the product in the States of Maharashtra, Karnataka, Delhi and West Bengal. The product was named *Keep Fresh* and priced at ₹ 350 in the test market. The response was quite discouraging. The consumers liked the new shoes but not its price.

The company again got stuck with a problem. Is the company charging more than what it should charge? Are the consumers poor enough not to pay the price? Such kinds of questions were raised in the company meetings. There was, however, an opinion expressed during the discussions that the price of ₹ 350 was fixed on the basis of production for test marketing, but when shoes are mass produced the production costs will come down.

- (a) What kind of pricing technique was used while pricing ?
 - (b) Was there any indication of using penetration or skimming pricing in the pricing decision of Lintas ?
 - (c) What should the company do next regarding the price ?
7. (a) Explain Returns to scale with examples.
- (b) Considering any firm of your choice, make a list of relevant cost concepts from an economist point of view. Explain them briefly.
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