

04724

MANAGEMENT PROGRAMME

Term-End Examination

June, 2016

MS-9 : MANAGERIAL ECONOMICS

Time : 3 hours

Maximum Marks : 100

- 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.*

SECTION - A

1. Distinguish between the two objectives of a firm, namely profit maximisation and value maximisation. Explain giving examples.
2. Why is market demand curve described as summation of individual demand curves ? Differentiate between individual and market demand curves using graphs.
3. A retailer plans to sell a toy at a local fair. His Average Variable Cost of this toy is ₹ 9 per piece. The booth rent at the fair is ₹ 3,500 payable in advance. The selling price of the toy is fixed at ₹ 16 per piece.
 - (a) Find out the number of toys which must be sold to break - even.
 - (b) Calculate the required profit (πR) when the selling price of the toy is ₹ 25 per piece.

4. Explain whether it is possible for only one store in a town selling TV sets to practice price discrimination. What are the necessary conditions for three types of Price Discrimination ?
5. Write short notes on **any four** of the following :
 - (a) The Invisible Hand
 - (b) Barometric Forecasting
 - (c) Operating leverage
 - (d) Isoquants Curve
 - (e) Kinked Demand Curve
 - (f) Cost Function

SECTION - B

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

Due to resource crunch, the public funding of educational institutions was gradually falling. The principal of a college, reputed for its business and economics courses, believed that a number of career searching young persons, both employed and unemployed, would have interest in some part-time management courses. After a detailed discussion a report was prepared which suggested that :

 - (1) Since the college is not statutorily allowed to run an MBA course, it can run part-time post-graduate diploma in management. For all practical purposes the job market would treat this diploma as equivalent to MBA if the curriculum and faculty is at least as competent as in any of the good business schools.

(2) Though the faculty of the college is highly competent, they would need to be paid for taking classes in the evening when the unused classroom space is available in the college.

(3) Looking at the fee structure elsewhere for business courses, it is believed that the college should charge ₹ 20,000 per annum at which about 50 students would enrol themselves. After paying ₹ 3,00,000, to the participating faculty, the college could be left with ₹ 2,00,000, as other direct costs like payments for water, electricity, space, etc. would be small enough to ignore.

The principal was convinced and recommended this programme to the board of governors of the college. The chairman of the board sent it back saying that the proposal is not viable.

Principal's comment. Since this programme is going to use college facilities throughout the year, its contribution must be matched to the likely contribution from alternative uses of these facilities. If other programme gives us less than ₹ 2,00,000 we must go ahead with this programme. We need not bother about fixed overheads as these are incurred irrespective of whether this programme is run or not.

Chairman's response to Principal's letter. If we ignore fixed overheads and such other costs, we would not be meeting our fixed costs. Now, if we allow one programme on this basis many other programmes will be proposed to be run on the basis of

incremental cost. When majority of the programmes are run at less than full cost, then how will we recover the fixed overheads ?

- (a) If you are asked to give the final judgement after listening to both the Principal and Chairman, how will you argue the case ?
- (b) What are the elements of Fixed Costs and Incremental Cost in the above case ? List them and briefly discuss.

7. "Although all companies strive to develop one form of competitive advantage or another, relatively few are persistently successful over long periods. A barrier to entry exists when new firms cannot enter a market. There are many types of barriers, which become sources of market power for firms."

With reference to above statement explain Strategic Entry Barrier.
