

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,

Vidyavihar, Mumbai- 400077

Program: PGDM-Core A& B(Batch2018-20), TRIM-I

Subject: Managerial Economics

End Term Paper

Time :3 hrs

Total Marks: 50

Date: 24th Sept, 2018

Attempt any five of the following.

All questions carry equal marks

1a) Explain why a consumer will choose a market basket so that marginal rate of technical substitution is equal to the price ratio of the goods.

b) What is compensating variation in income? Using this concept explain the Hicksian substitution effect of a fall in the price of a commodity with the help of indifference curves technique.

2. Show that maximisation of output subject to a given cost constraint and minimisation of cost subject to a given output yield identical results.

3a) A cycle manufacturer sells cycles in a perfectly competitive market. The cost function is:

$$TC = 5000 + 150Q - 20Q^2 + Q^3$$

What is the price below which the manufacturer should shut down his operations?

b) What are the conditions under which a firm can continue to operate despite making losses?

4. Demand curve of a monopolist is given by

$$P = 110 - 4Q$$

$$MC = 10$$

a) What are the profit maximising price and output in the case of monopoly? If the industry is perfectly competitive, what would be the price and output?

b) Identify the differences in monopoly equilibrium as compared to equilibrium attained in a perfectly competitive market.

5a) Explain diagrammatically how a monopolist causes misallocation of resources and thereby causes loss of social welfare.

b) Examine the strategy of price discrimination with examples and identify the conditions

under which price discrimination is possible and profitable.

6. Monopolistically competitive industries are characterised by too many firms each of which produces too little” –Comment. Examine diagrammatically the concept of excess capacity in the light of this market structure.

7a) Read the case given below and answer the following questions:

RIL Chairman Mukesh Ambani’s new venture Reliance Jio launched its tariff plans on 1st sept 2016. It offered free voice and data services for its users till 31 Dec 2016, in order to capture the market. Immediately Bharati Airtel INR 12,000 crore in market capitalisation eroded and Idea Cellular LTD. lost its market value by INR 2800 Crore. Jio continued to surprise the market beyond its ‘Welcome Offer’. The next one was Happy New Year, from Jan 1st till March 2017, extending the services of free domestic voice calls and data. Bharati Airtel moved fair trade regulator CCI (Competition Commission of India) with the allegation that Jio is indulging in ‘Predatory Pricing’ by way of providing free services.

- a) In such Oligopolistic Markets, when companies enter into price wars, the consumer is the ultimate gainer. Discuss this statement in the light of the telecom industry Price wars. Why is there no unique solution to the problem of determination of price and output under this market structure?
- b) Explain how a cartel determines price and output of a product to maximise joint profits?
