KJ SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

MFM II SEM (2017-20 BATCH)

MANAGERIAL ECONOMICS

(End Semester Examination)

14/4/2018 Duration: 3 Hrs Marks: 50

Attempt any **FIVE** of the following. All questions carry equal marks. Please write about 50 lines per answer.

1. What is the essence of *managerial economics*? State and briefly explain any four principles of economics that have a bearing on the performance of a company.

2. What are the factors that affect *demand* for a product like a car? What is the meaning of variation and shift in demand? Use a diagram to explain your answer.

3. State and explain various *cost* concepts. Draw cost curve and explain their relevance to a business firm in making some vital business decisions.

4. What is a *perfectly competitive* industry? Explain possibilities of profits/ losses in short run in such a market. Why is it that all firms in competitive market makes just a normal profit?

5. Why there is a kinked demand curve in *oligopoly* market? What is a collusion and how it differs from cartel?

6. What is a *public good*/ service and how it differs from a private good/ service? Why regulation becomes a must in some cases? What are the factors that help achieve a sound regulation of an industry?

7. Please read the following case study and answer the question.

The Ethics of Greed versus Self-Interest

Capitalism is based on voluntary exchange between self-interested parties. Market-based exchange is voluntary; both parties must perceive benefits, or profit, for market transactions to take place. If only one party were to benefit from a given transaction, there would be no incentive for the other party to cooperate and no voluntary exchange would take place. A self-interested capitalist must also have in mind the interest of others. In contrast, a truly selfish individual is only concerned with himself or herself, without regard for the well-being of others. Self-interested behavior leads to profits and success under capitalism; selfish behavior does not.

Management guru Peter Drucker has written that the purpose of business is to create a customer-someone who will want to do business with you and your company on a regular basis. In a business deal, *both* parties must benefit. If not, there will be no ongoing business relationship.

The only way this can be done is to make sure that you continually take care of the customer's perspective. Can customer demand be met better, cheaper, or faster? Don't wait for customers to complain or seek alternate suppliers, seek out ways of helping before they become obvious. When customers benefit, so do you and your company. Take the customer's perspective, always. Similarly, it is best to see every business transaction from the standpoint of the person on the other side of the table.

In dealing with employees, it is best to be honest and forthright. If you make a mistake, admit it and go on. When management accepts responsibility for its failures, they gain the trust of employees and their help in finding solutions for the inevitable problems that always arise. In a job interview, for example, strive to see how you can create value for a potential employer. It is natural to see things from one's own viewpoint; it is typically much more beneficial to see things from the perspective of the person sitting on the other side of the table.

(adopted from Mark Hirschey (2009): Managerial Economics, Cengage, p. 35)

- Take an example of one industry you are familiar with and evaluate the role of ethics and/ or greed having significant impact on its business.

8. Please read the following case study and answer the questions.

How the Internet affects Demand and Supply

From an economic perspective, the Internet is the enemy of high profit margins. By greatly expanding the scope of the market, the Internet effectively eliminates geographic boundaries, especially for easily transported goods and services. This greatly increases the elasticity of demand and supply.

For example, in the pre-Internet era, anyone looking for a good deal on a high-quality vacuum cleaner might have gone to the local Wal-Mart, Target, or a specialty shop to look for the best bargain available. With the Internet, consumers can log onto Google.com, or your favourate Internet search engine, do a search on vacuum cleaners, and get data on hundreds of high-quality vacuums at extremely attractive prices. For example, with $15- $20 for shopping via Federal Express or UPS, it's possible to have vacuums delivered in Lawrence, Kansas, from http://www.vacdepot.com/ in Houston, Texas, at prices far below those offered by the local vacuum cleaner shop.

Successful Internet retailers offer bargain prices, a broad assortment of attractive products, and speedy delivery. They also effectively handle returns and basic customer service. Of course, traditional retailers cannot standby idly, as Internet-based retailers drive them out of business. They must fight back with competitive prices, high-quality products and an enticing in-store shopping experience. Borders is a good example of a bookseller that has effectively distinguished itself from Amazon.com and other Internet retailers by offering an appealing in-store shopping experience.

When considering the economic potential of Internet-based commerce, it's important to keep in mind that successful firms use Internet technology to maintain significant competitive advantages. The Internet, by itself, seldom confers long-lasting competitive advantages. The Internet is a marvelous communications device that greatly improves access to information about product quality, prices, and performance. The Internet broadens the market, and makes demand and supply much more sensitive to changing economic conditions.

(adopted from Mark Hirschey (2009): Managerial Economics, Cengage, p. 81)

1. Does this case study imply and infer that the era of high profits margins has become a passé today with the Internet?
2. How can firms still strive to maintain high demand and earn more than normal profits in oligopoly or monopolistic competitions? Take an example to explain your answer.

9. Please read the following case study and answer the questions.

Advertisers are Taking on Competitors by Name…. and Being Sued

Way back, many decades ago, one remembers a slat ad which took on its competitors by demonstrating its free flowing ability, while the salt from the competitive pack (with only the brand name blurred) fell out of the pack in untidy lumps, distinctly unpourable. That was perhaps, one of the first popular instances of competitive advertising.

Comparative advertising has always existed, and continues to exist. Showing your competitor in a poorer light than yourself might be the easiest way to get your advantages across to the paying public in advertising, but doing this in a way that actually shows the competitive packaging (even if the name is blurred out) is considered downright déclassé within the ad community. Having said that one needs to remember that all advertising is intrinsically competitive, with the purpose of advertising being to show a product in a more positive light when compared with a competitor. It is easy to pull down a competitive product or service, but more difficult to constantly upgrade your offering and deliver more value to the consumer, and communicate that in the right way.

However, there are some brands which survive by taking potshots at each other- the cola wars are famous in advertising. Perhaps the earliest instances of comparative advertising in India was when Lalitaji told us that 'Surf ki kharidari mein hi samajhdari hai' in an oblique reference to the 'sasta' Nirma. In more recent times, Maruti Udyog Ltd served a legal notice on arch rival Hyundai Motor India Ltd stating that the latter had printed incorrect information about its latest car Swift in an advertising brochure. Rin openly showed the Tide package in a comparative ad, raising ethical hackles all around in the advertising community. In a shock, the ad actually showed the comparative product without bothering to blur the brand name as it is the norm in comparative advertising, and had as a disclaimer a flash and go line which said that this had been confirmed by an independent laboratory testing. The claim in Rin ad is simply that of a whiter wash- 'Tide se kahin behatar safedi de Rin' which is rather what every detergent manufacturer does. The shock factor here is the showing of the rival product, packaging, logo, et al. Tide went to court and got the Rin ad withdrawn. Sometimes, comparing a rival product unfairly can result in a legal case, as did happen with Complan versus Horlicks. The advertising and counter advertising between these two brands got so confusing that at the end of the day it was unclear which brand had which differentiator. Although such actions are less sportsmanlike and may result in legal suits, advertisers have been willing to take on competitors by name because the technique seems effective.

(adopted from Dominik Salvatore and SK Rastogi (2016) Managerial Economics, OUP, pp 384-385)

As a sales manager of an oligopoly firm, if you have a target to achieve in the short run, would you follow this approach? Why or why not?

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