

KJ SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
(Autonomous)
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MHRDM I SEM (2017-20 BATCH)
SUB: MANAGERIAL ECONOMICS
(End Term Exam.)

Max. Marks: 100

Duration: 3 Hrs.

November 23, 2017

Note:

- I. Answer ANY FIVE of the following questions. Answer each question in about 50 lines. Each question carries equal (20) marks.**
 - II. Space used for diagrams, tables, etc. would NOT form part of the space limit stated above. It is suggested, therefore, to draw diagrams neatly, wherever applicable.**
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1. What is the essence of *managerial economics* as a course? How did the course benefit you as a student of management programme? Explain with suitable examples.
 2. State and explain any five *principles of economics*. What are the four major economic problems and how are they addressed by the governments in different economic systems?
 3. Define the *law of demand*. What are the factors affecting the demand for a typical product? State and briefly discuss any 4 exceptions to the law of demand.
 4. What is the *law of variable proportions*? Explain the three stages in the production. Use a diagram to describe.
 5. What is *oligopoly* as a market structure? Discuss the salient conditions that exist in oligopoly market. Explain the *kinked demand curve* concept with the help of a diagram.
 6. What is a *monopoly* market? Explain a diagram how huge profits are earned by a monopoly. Why world over private monopolies are seriously discouraged by the government or regulators by passing special Acts?

7. Explain with suitable examples the concept of *public goods*. Why government intervention becomes necessary in the event of market failure? How can the government deal with the negative externalities?

8. Please read the following case let and answer the questions given at the end.

Do Firms Really Optimize?

Have you ever been at a sporting event when a particular athlete's play becomes the centre of attention, and wondered: "where did that woman study physics" or "Wow, who taught that guy physiology?" Nobody asks those questions. Discussion usually centres on the player's skill, finesse, or tenacity. Natural talent must be developed through long hours of dedicated training and intense competition before one can become an accomplished athlete. But if you think about it, successful athletes must also know a great deal about angles, speed, and acceleration.

While success in sports requires that one understands the basic principles of physics and physiology, most athletes develop their "feel" for their sports on the tennis court, golf course, baseball diamond, or gridiron. Similarly, some very successful businesses are run by people with little or no formal training in accounting, finance, management, or marketing. These executives' successes testify to their ability to develop a feel for business in much the same way that the successful athlete develops a feel for his or her sport.

Although the term optimization may be foreign to such individuals, the methodology of optimization is familiar to each of them in terms of their everyday business practice. Adjusting prices to avoid stock-out situations, increasing product quality to "meet the competition", and raising salaries to retain valued employees all involve a practical understanding of optimization concepts.

The behavior of both the successful athlete and the successful executive can be described as consistent with a process of optimization. The fact that some practitioners learn managerial economics through hands-on experience rather than in the classroom doesn't diminish the value of the formal educational experience. Useful theory describes and predicts actual business decisions. The old saw, "That may be okay in theory, but it doesn't work in practice", is plainly incorrect. Economic theory is useful for one simple reason- it works.

(adopted from Mark Hirschey (2009): Managerial Economics, Cengage, p. 39)

1. Do you have any "role model" or a successful executive can be described in your organization or industry? If so, without giving the identity, please give any four or five qualities that you are impressed with.
2. If you were to become a professional like the one you admire over next 3-4 years, what efforts

do you believe would take you there?

9. Please read the following case let and answer the questions given at the end.

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 Complian 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)

1. If you were a marketing professional in oligopoly market, would you follow such advertising

method by taking the names of your competitor/s?

2. If there are serious legal issues including penalties or verdicts to suddenly stop the advertisement, would it be a good move to go in for such method of popularizing your product/service?
3. Should the company recover part of the damages, if any, from the person or team responsible for such an idea of taking the names of the competitor firm? Justify your answer.
