K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077
Program: ***PGDM-A&B (Batch2017-19), TRI-I***
Subject: Managerial Economics
(End Term Examination)

Maximum Marks: 50 **Date: 3rd Oct 2017** **Duration: 3 hrs**

Instructions

Attempt **any five** of the following
All questions carry equal marks

1. Explain diagrammatically the Hicksian Substitution effect consequent upon a price change.
2. What is meant by efficient or optimum factor combination in production? Explain with the help of isoquants and iso –costs lines how a producer achieves this combination of factors.
3. An operator of a miniature golf course in a summer resort community often faces a situation where revenue varies substantially from season to season and the firm must decide when to open and when to close. Explain diagrammatically the factors to be taken under consideration before arriving at such a critical decision.
4. How does a monopolist's quantity of output compare to the quantity of output that maximizes total surplus? How does this difference relate to the concept of deadweight loss?
5. The monopolistically competitive industry produces differentiated products, which apparently give consumers a wider choice of options .These industries are characterized by too many firms each of which produces too little. They are also said to be economically inefficient? Explain diagrammatically each of these statements.

6. Suppose a discriminating monopolist is selling a product in two separate markets in which demand function are

$P_1 = 12 – Q_1$

$P2 = 20 – Q_2$

Total Cost function of a monopolist

$TC = 3 + 2Q$

i) Determine the prices to be charged in the two markets and the amount of output to be sold in each market so that profits are maximized.

ii) Also calculate the total profits to be made from the strategy of price discrimination

iii) A firm supplies its product in two markets, demand being more elastic in one than in the other Assuming that the firm aims to maximize its profits, show how the price and output in each market are determined.

7) OPEC is the economist's favorite cartel to study, partly because it had such a spectacular short-run success and partly because oligopoly theory could be used to predict how OPEC pricing actually evolved. Many of the OPEC countries are less developed and need oil revenues to help diversify their economies. If the underdevelopment or slow growth continues while the rest of the world continues to grow, there will be an incentive for such countries to boost production and attempt to improve their economies. The larger the number of firms in the cartel, the more difficult it is to reach a consensus on the allocation of output among members. As the size of the cartel increases, motivation to cheat increases and it becomes more difficult to track each member's output. To pay their loans expeditiously, such countries may resort to increased production and sales, thus cheating on the quotas. Each member expects that other members will cheat, and therefore cheats also.

i) Examine the price and output determination by a cartel in order to maximize joint profits

ii) How relevant are the factors mentioned above in affecting the difficulty of maintaining a cartel?

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