

KJ SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

MHRDM: 2019-22

SEMESTER-I

MANAGERIAL ECONOMICS

(End term Examination)

Date 21/11/2019

Duration: 3 Hrs

Marks : 50

Answer **any FIVE** of the following. Restrict each answer to 45-50 lines. Space used for diagram/ table, etc. will not be counted as part of the space limit. Let your answers be legible and to the point. Each answer carries equal (TEN) marks.

1.
 - a) "The purpose of Managerial Economics is to show how economic analysis can be used in formulating business policies"- Joel Deans. Elucidate the statement.
 - b) How do you take decisions at workplace with the help of the understanding of managerial economics?
2. State any four principles of managerial economics put forth by N. Gregory Mankiw and justify with one example each about the applicability of these principles in the real world.
3. What are the reasons for the downward sloping for a typical demand curve? Discuss any four situations in which the law of demand is violated.
4. What are the assumptions of the law of variable proportions in production analysis? With the help of a suitable table and diagram, explain the best phase in which the production is most efficient.

5. What are various types of costs? Why the long run cost curve is U-shaped? Discuss the economies and diseconomies of scale for a typical manufacturing firm.
6. What conditions facilitate emergence of a monopoly market? Discuss the profits and losses under monopoly market using suitable diagrams.
7. What are the characteristics, merits and limitations of a perfectly competitive market? Use a diagram to show supernormal profits in this market. What are huge profits possible in competitive market?
8. Discuss the following case let

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 centre's 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.

- Do you justify some of the pay packages that are extremely high in select Indian corporate firms? Why their respective Boards approve such high compensation to select corporate leaders?

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

9. Discuss the following case let

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.

- Did you come across managements accepting their mistakes in decision-making? How, according to you, such practice would help the subordinates?

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

10. Discuss the following case let.

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.

- If you were the chief marketing manager of your firm, would you permit your firm to use rival firm's names in your advertisements?

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