K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077

Program: ***PGDM –A & B (Batch2016-18), Trim I***
Subject: Managerial Economics
(End Term Exam)

Maximum Marks: 50
Duration: 3 hours **Date: 26/09/2016**

QUESTION I: Numerical problems (Any Three) 15 Marks

1. Complete the following table:

Quantity	TC	TFC	TVC	AFC	AVC	AC	MC
0	200						
1	260						
2							50
3					50		
4						95	
5			230				
6							60
7					51.43		
8	640						
9		530					
10							100

2. RK Enterprises is a small firm in steel office chairs industry which is perfectly competitive. The market price of each chair is Rs. 640. The cost function is $TC = 240Q - 20Q^2 + Q^3$

   a. What is the profit maximizing output?
   b. What is the average cost at this output?
   c. What are the profits earned by RK Enterprises?
   d. If this firm is a typical one in the industry, is the industry in equilibrium? Why?

3. ‘Global Automobiles Ltd’, a multinational company is selling its cars in USA and Europe. Due to trade restrictions, a vehicle sold in one country cannot be sold in

the other. The demand functions of both the countries are as follows:

USA: P = 30,000 – 0.40Q
Europe: P = 20,000 - 0.20Q

TC = 10,000,000 + 12,000Q

Using the third degree price discrimination, what are the profit maximizing prices and quantities in each market? What will be the total profits?

4. Cine Max and Big Cinemas are the only two multiplex in a city. They need to choose advertising budgets which will have impact on their net profits. The payoff matrix for the net profits is as follows:

	Big Cinema's Action		
		High Ad budget	Low Ad budget
Cine Max's Action	High Ad Budget	CM BC 10 crs 5 crs	CM BC 15 crs 2 crs
	Low Ad Budget	CM BC 5 crs 7 crs	CM BC 12 crs 6 crs

a. Is the advertising budget decision facing Cine Max and Big cinema a prisoner's dilemma? Why or why not?
b. What will be the cooperative outcome?
c. What will be the dominant strategy for Cine Max and for Big Cinemas?
d. What will be the Nash equilibrium?

QUESTION II : Answer any three 15 Marks

a. True or False: "Price can be substituted for MR when firm's equilibrium has to be considered in Perfect Competition". Explain.

b. Explain the following terms with at-least one example of each.

   1. Natural monopoly

   2. Public and Private goods

c. Differentiate between the following with the help of an example

1. Economies of scale and economies of scope
2. Normal & Economic profit

d. Explain to which market structure following industry belong to along with their peculiar characteristics?

1. Oil companies
2. Management colleges within Mumbai city

QUESTION III: Answer any Two of the following: 10 Marks

a. What do you understand by Price and Non-price war? Why prices may remain sticky in Oligopoly and non-price war becomes more relevant?

b. Explain the concept of Price discrimination with the help of an example. What are the conditions necessary for price discrimination?

c. What is the Shut-down condition for the firm? Is it the same for all kinds of firms operating in the market?

QUESTION IV: Answer any one of the following 10 Marks

a. What are the similarities and differences in the long-term equilibriums of the firms operating in Perfectly competitive market and in Monopolistic Competition. Explain with the help of a graph.

b. What do you understand by the terms "Monopoly deadweight"? When can monopoly firm have socially desirable effects?

c. What are the various managerial applications of price, income and cross elasticity of demand?

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