

K.J. Somaiya Institute of Management Studies & Research
Course: PGDM –RM 2016-18 Trim I End Term Exam
Sub : Managerial Economics

Date of Exam: 26/09/2016

Time : 2 Hours 30 mins

Marks : 50

Note : 1. Question No. 1 is compulsory and carries 20 marks

2. Attempt any 3 questions from the remaining.

Q. 1 The motor vehicle repair and servicing industry

The typical small garage is stereotyped as untidy, messy, cluttered with hoists and equipment, with a few overall-clad figures working to the clatter of tools and blaring radio. This picture is quite different from that of the early years of the automobile. In those days, work on the car was the domain of the chauffeur or blacksmith, or the manufacturer if repairs were beyond both.

This was to change following the Second World War. As the volume of cars grew so the motor repair sector began to expand, giving employment to the many mechanically trained ex-servicemen. The market grew so quickly that there was little chance of erecting entry barriers. For example, although there were moves to introduce specific (City and Guilds) qualifications for mechanics and thereby impose a degree of restricted entry on the industry, this was never fully established. The result is to be seen today.

The motor vehicle repair industry has developed into a good example of a monopolistically competitive industry.

In 2001, it was estimated that the MVR industry in the UK employed just over 170,000 people in about 44,000 businesses. The statistics also show that the industry is still dominated by small and medium-sized businesses (SMEs) with over half the workforce (~58%) employed in either zero-employee enterprises e.g. sole traders or partnerships, or businesses employing less than 10 people. Companies with less than 50 people accounted for approx. 83% of the workforce.

The vehicle repair and servicing industry is diverse, being made up of general repairers, specialist repairers (i.e. bodywork, electrics), dealers and petrol stations. With so many garages, the industry has remained a highly competitive one. However, specialism and locality enable the various garages to maintain a fairly constant degree of control over their price.

Questions

1. What are the specific features of the motor vehicle repair industry that have restricted the growth of large-scale operations?
2. What other industries can you think of that exhibit similar characteristics?

Q.2 Portland Fluid Control, INC (PFC) is a major supplier of reverse osmosis and ultra filtration equipment, which helps industrial and commercial customers achieve improved production process and a cleaner work environment. Relevant costs and revenue functions are given as $TR = \$300Q - 0.001Q^2$ and $TC = \$9,000,000 + \$20Q + \$ 0.0004Q^2$.

- a) Determine the rate of output that results in minimum AVC.
- b) Compute PFC's optimum price-output combination.
- c) Compute profits at profit maximizing activity level.

Q. 3 Monopolist is price maker and hence can charge any price. Discuss

Q.4 a) Explain the concept economies of scale, diseconomies of scale and economies of scope.

b) Find the cross elasticity between hot dogs (X) and hamburgers (Y) and between hot dogs (X) and mustard (Z) for the data given below.

Commodity	Price (Before)	Quantity (Before)	Price (After)	Quantity (After)
Hot dogs (X)	\$1.00	15	\$1.00	10
Hamburgers (Y)	\$3.00	30	\$2.00	40
Mustard jar (Z)	\$1.50	10	\$2.00	12

Q.5 When do you think a firm under perfect competition exit the market? Explain with a help of suitable example and diagram.