No. of Printed Pages : 5 **MS-9**

MANAGEMENT PROGRAMME

Term-End Examination

December, 2013

05776

MS-9 : MANAGERIAL ECONOMICS

Time : 3 hours *Maximum Marks :* ***100***

Note : *(i) There are two sections :* ***Section-A*** *and* ***Section-B****. Attempt* ***both*** *the sections.*

(ii) Attempt ***any three*** *questions from* ***Section-A****. All questions carry* ***20 marks*** *each.*

(iii) ***Section B*** *is compulsory and carries* ***40 marks****.*

SECTION - A

1. "There are four groups of problem in both decisions-making and forward planning which a managerial economist faces in formulating rational managerial decisions." Elaborate the this statement with the help of an example. **20**

2. (a) Describe the following marketing approach to demand measurement. **10**

(i) Expert opinion.

(ii) Survey.

(b) Explain any two Demand Forecasting Techniques. **10**

3. (a) What is Breakeven Output Level ? Explain. Calculate Breakeven Output when TFC=Rs. 600, Price=Rs. 6 and AVC=Rs. 5. **10**

(b) Explain various economies of Scale. **10**

4. (a) What are the characteristics of Perfect Competition ? **10**

   (b) How would a Perfectly Competitive Firm attain Profit maximising equilibrium in the Short Run ? Explain with the help of diagram. **10**

5. Write short notes on ***any four*** of the following : **20**

   (a) The Invisible Hand.

   (b) Arc Price Elasticity of Demand.

   (c) Economies of Scope.

   (d) Third Degree Price Descremination.

   (e) Law of Demand.

   (f) Kinked Demand Curve of Oligopoly.

SECTION - B

Read the case given below and answer the questions given at the end.

INDIAN CEMENT INDUSTRY : RIDING THE HIGH TIDE

India is the second largest producer of cement in the world, just behind China. Indian cement industry comprises of 130 large cement plants and 365 mini cement plants with installed capacity of 172 million tonnes per annum (mtpa); these plants are located in states like Gujarat, Rajasthan and Madhya Pradesh. The large cement plants account for over 94 percent of the total installed capacity. However two large groups, viz. the Aditya Birla Group and the Holcim Group; together control more than 40 per cent of total capacity. This apart, more than 25 per cent of total capacity is controlled by global majors. These include Lafarge of France, Holderbank of Switzerland and Cemex of Mexico. The Indian cement industry is characterised by takeovers and acquisitions, which contributes to gaining market power and thus enables companies to enjoy pricing power, which is typically oligopoly.

Cement : Output and Consumption

India accounts for 6.4% of global production of 2.22 billion tonnes of cement. Indian cement industry has grown in terms of installed capacity and production. Cement production increased by over 9 per cent in FY2007, reaching 154.74 mtpa, in comparison to 12.40 per cent in FY2006, 7.07 in FY2005 and 5.19 per cent in FY2004. Decade-wise, Indian cement production has increased at 8.2 per cent (CAGR) during FY1996-2006, as compared to 6.9 per cent during 1986-1996.

Cement consumption in India has increased by more than 10.53% during FY2007 to 148.41 mtpa compared to 134.27 in FY2006. During the decade 1997-2007, the cement consumption has increased by 8% at 10 yearly compound annual growth rate (CAGR). The changing face of Indian demography, growth of nuclear families, higher disposable income, changing pattern of spending, easily available home loans, increased urbanisation and growth of metro and semi-metro cities are some of the vital factors behind a tremendous spurt in the housing sector. In order to keep pace with an optimistic rate of economic growth, there is a rising demand for commercial and retail space, IT Parks and SEZs. Another recent trend has been initiated by the Government, with increase in investment in infrastructure, like National Highway Development Projects. It is expected that a construction opportunity of over Rs. 7.6 trillion will be created over next five years.

Apart from meeting the entire domestic demand, the industry is also exporting cement and clinker. The export of cement during 2001-02 and 2003-04 was 5.14 million tonnes and 6.92 million tonnes respectively. Export during April-May, 2003 was 1.35 million tonnes. Major exporters were Gujarat Ambuja Cements Ltd. and L & T Ltd.

Pricing

Cement industry has been decontrolled from price and distribution on 1st March 1989 and de-licensed on 25th July 1991. During last four years (2003-2007) cement prices have gradually increased from around Rs. 150 per bag in 2003 to Rs. 230 per bag in 2007. Cement manufacturers control over market can be gauged by the fact that even 20-25% freight hike was straight passed on to consumers. Average industry ROCE has reached more than 26% due to the recent burst in cement prices. Encouraged by such lucrative returns cement manufacturers have decided to increase capacity by more than 97 million tonnes over next three years of which 43.7 million tonnes is likely to complete in FY2009. Thus, the cement supply will increase by more than 11% in next three years.

Cement consumption growing at around 10% and production at 11% would naturally create a situation of over production. As per estimates, cement industry will face over capacity of 17.7 mtpa in 2008 and 37.7 in 2009. Therefore it is expected that capacity utilisation will fall significantly. Further new players are likely to join the industry with huge production capacities.

Posers **40**

1. Do you think cement industry in India presents a good explanation of oligopoly ? Justify.

2. Which characteristics of oligopoly do you find in the above case ?

3. How has decontrolling of cement prices helped the growth of this industry ?

4. Do you see possibilities of cartel or implicit collusion in the above case ? How ?