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MBM-007

MBA – INFORMATION TECHNOLOGY MANAGEMENT (MBAITM)

Term-End Examination

December, 2014

00014

MBM-007 : MANAGERIAL ECONOMICS

Time : 3 hours *Maximum Marks : 100*

Note :

*(i) Section I is **compulsory**.*

*(ii) In Section II, attempt any **five** questions.*

(iii) Assume suitable data wherever required.

(iv) Draw suitable sketches wherever required.

(v) Italicized figures to the right indicate maximum marks.

SECTION I

1. **Case Study :**

WAL-MART'S MARKETING STRATEGY

Rapid expansion during the 1980's (from 153 stores in 1976 to more than 2,600 in 1999) propelled Wal-Mart, the discount retail store chain started by Sam Walton in 1969, to become the nation's (and the world's) largest and most profitable retailer, at a time when most other retailers were making razor thin profits or incurring losses as a result of stiff competition. How did Wal-Mart do it ? By opening retail discount stores in small town across America and adopting an everyday low-price strategy. The conventional wisdom had been that a discount retail outlet required a population base of at least 1,00,000 people to be profitable. Sam Walton showed otherwise – by relying on size, low costs and high turnover, Wal-Mart earned high profits even in towns of only a few thousand people. Since a small town could support only one large discount store, Wal-Mart did not have to worry about competition from other national chains (which would drive prices and profit margins down). At the same time, Wal-Mart was able to easily undersell small local specialized stores out of existence (Wal-Mart has been labelled as the "Merchant of death" by local retailers), thereby establishing a virtual local retailing monopoly.

The success of Wal-Mart did not go unnoticed by other national discount retailers such as Kmart and Target, and so a frantic race started to open discount stores in rural America ahead of the competition. By adopting such an aggressive expansion or preemptive investment strategy, Wal-Mart has continued to expand at breathless speed and to beat the competition most of the time. Sales at Wal-Mart almost doubled from $80 billion in 1994 to more than $160 billion in 1999 and are projected to continue to rise rapidly in the future.

Since 1992, Wal-Mart has also expanded abroad, first in Canada and Mexico (where it is the largest retailer), then in Argentina, Brazil, China, Korea, and Puerto Rico, and more recently in Germany and England. In 1999, Wal-Mart had 955 stores abroad, which generated 17% of its total revenue. Regarded as one of the most successful and aggressive retailers in the United States, Wal-Mart is now also shaking up the industry abroad in the nations in which it is operating by its winning low-price strategy, long store hours, friendly service, private label brands, a super-efficient distribution system. For example, in building its German business, Wal-mart slashed prices on 1,500 items by an average 20%. During the next few years, Europe is likely to be the fiercest battle ground as Wal-Mart tries to expand across the continent and attempts to duplicate its American success. European retailers are responding by also consolidating. For example, in fall 1999, French retailers Carrefour and Promedes merged, creating Europes's biggest and the world's second largest retailer with annual sales of $79 billion and operating 8,800 stores in 26 countries.

Answer the following : *3×10=30*

(a) Discuss Wal-Mart's strategy for expanding his business.

(b) Has Wal-Mart used limit pricing strategy to oust competitors ? Justify.

(c) "Wal-Mart's strategy has damaged other competitors business." Analyse.

SECTION II

*Attempt any **five** questions.* *70*

2. "Elasticity of demand and supply are concepts based on which sales and pricing strategy can be drawn." Appraise. *14*

3. Explain cost-output relationship in the short run with suitable diagrams. *14*

4. "Monopolistic competition is characterized by huge advertising and cut-throat competition." Analyse. *14*

5. Compare and contrast monopoly vis-à-vis oligopolistic competition. *14*

6. Discuss the laws of returns relevant to the firm. *14*

7. "Externalities distort costs and cause imperfections in the market." Elucidate. *14*

8. Examine the conditions which lead to attainment of equilibrium for the firm. *14*
