MANAGEMENT PROGRAMME

Term-End Examination

15294

December, 2010

MS-9 : MANAGERIAL ECONOMICS

Time : 3 hours | *Maximum Marks : 100*
(Weightage 70%)

Note :

(i) There are two Sections : Section - A and Section - B.

(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. (a) Discuss the relation between the average product, marginal product and total product in the short run. **10**

(b) How do these support the application of the law of variable proportion to the firm ? Give example. **10**

2. (a) Why is the long run average cost curve called an "envelope curve" ? **10**

(b) Business Managers say that the firm plans in the long run and operates in the short run. Elucidate. **10**

3. (a) Identify the differences between price elasticity and income elasticity. Illustrate with the help of examples. **10**

(b) Discuss the determinants of price elasticity. Give examples. **10**

4. Write notes on *any four* of the following : **5x4=20**

(a) Opportunity cost

(b) Incremental concept

(c) Barriers to entry

(d) Effect of advertisement on demand of a product

(e) Delphi technique

5. Write five important characteristics of perfect competition. Establish the profit maximising output of a perfectly competitive firm in the short run. **20**

SECTION - B

6. State True or False and give reasons : **4x5=20**

   (a) If total profit is at a maximum, marginal profit is zero.

   (b) If a good is normal, then both the substitution effect and the income effect cause quantity demanded to change in the same direction.

   (c) If price elasticity of demand for a firm's output becomes more elastic, then the firm's marginal revenue will increase.

   (d) If the price elasticity of demand for a firm's output is inelastic then the firm could increase its revenue by reducing price.

   (e) Economies of scale is a short run concept.

7. Read the case and answer the questions that follow : **20**

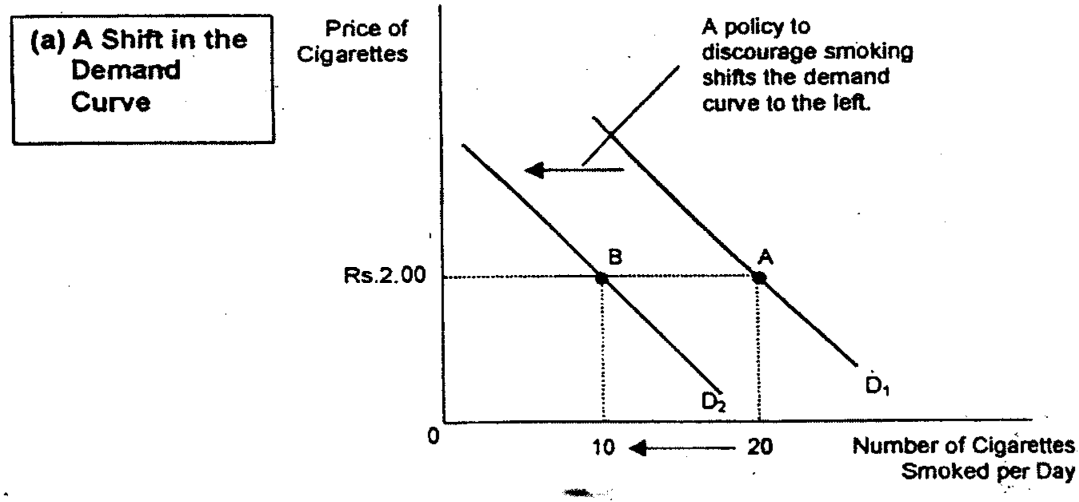
CASE : TWO WAYS TO REDUCE THE QUANTITY OF SMOKING DEMANDED

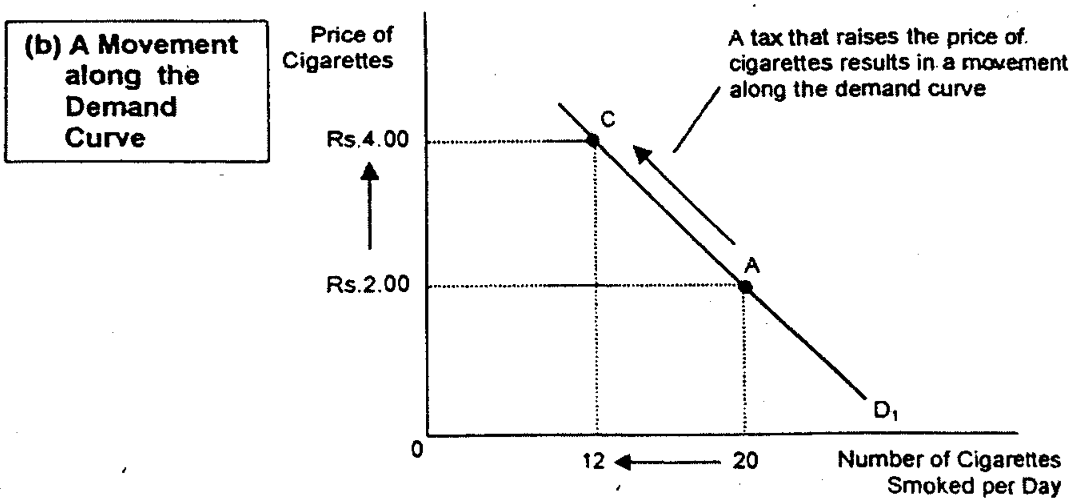
Public policymakers often want to reduce the amount that people smoke. There are two ways that policy can attempt to achieve this goal.

One way to reduce smoking is to shift the demand curve for cigarettes and other tobacco products. Public service announcements, mandatory health warnings on cigarette packages, and the prohibition of cigarette advertising on television are all policies aimed at reducing the quantity of cigarettes demanded at any given price. If successful, these policies shift the demand curve for cigarettes to the left, as in panel (a).

Alternatively, policymakers can try to raise the price of cigarettes. If the government taxes the manufacture of cigarettes, for example, cigarette companies pass much of this tax on to consumers in the form of higher prices. A higher price encourages smokers to reduce the amount of cigarettes they smoke. In this case, the reduced amount of smoking does not represent a shift in the demand curve. instead, it represents a movement along the same demand curve to a point with a higher price and lower quantity, as in panel (b).

How much does the amount of smoking respond to changes in the price of cigarettes ? Economists have attempted to answer this question by studying what happens when the tax on cigarettes changes. They have found that a 10 percent increase in the price causes a 4 percent reduction in the quantity demanded. Teenagers are found to be especially sensitive to the price of cigarettes. A 10 percent increase in the price causes a 12 percent drop in teenage smoking.





(a) What is the difference in a shift in the demand curve and a movement along the demand curve ?

(b) Discuss factors which cause the demand curve to shift upwards ?

(c) Price is an important factor in determining demand of cigarettes. What would be the effect of "income" on the demand of cigarette ? Why ?

(d) Will "price" and "income" have a similar effect on demand of vegetables ? Explain.