# MANAGEMENT PROGRAMME

## Term-End Examination

## June, 2011

## MS-9 : MANAGERIAL ECONOMICS

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

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***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.*

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### SECTION-A

**1.** "The opportunity cost of anything is the return that can be had from the next best alternative use". Elucidate the statement with reference to the opportunity cost principle applied in agricultural sector. **20**

**2.** The demand function is written as Qd= F (Po, Pc, Ps, Yd, T, A, CR, R, E, N, O) Describe each of this variables separately giving examples. **20**

**3.** What do you understand by 'Price discrimination' and the various types of price discrimination ? How is the optimal quantity to be supplied in different markets determined ? Elucidate your answer with suitable examples. **20**

**4.** Write short notes on the following : **20**

(a) Kinked demand curve.

(b) Time Series Analysis of Demand Forecasting.

**5.** Define elasticity of demand. How are the price, income, cross elasticities measured ? Explain their role in business decisions. **20**

## SECTION-B

6. **Read the following case and answer the questions given at the end.** **40**

### TAKE THE BULL BY THE HORN

Through its relatively brief history, the Reliance group has specialised in taking gambles, sometimes huge ones. A pattern repeated time and again - such as when it set up capacities for Polyester Staple Fibre (PSF) which was the same size as the domestic market or when it put up a 27 million tonne refinery in Jamnagar, which is close to a third of India's demand for petroleum products.

There's no gamble quite so audacious as the one that's underway. The Rs. 25,000 crore Reliance Infocom project that's currently taking shape aims at no less than a complete remake of India's telecom landscape to emerge as India's number one telecommunications company, ahead of the state-owned behemoth Bharat Sanchar Nigam Ltd.

It's also an attempt to realign Reliance's revenues and profits - which today originate entirely from manufacturing - with India's economic profile, in which services account for over 40 per cent of GDP. "Reliance's revenues will have to become diversified with a larger proportion originating from services which would be in keeping with the changing structure of India's economy," says Mukesh Ambani, vice chairman of Reliance Industries.

Rs. 8000 crore will be invested over a three - year period. As of now, it's full steam ahead for Reliance's Infocom plans. As it had done earlier in oil and gas. Reliance plans to emerge as an integrated player, focusing on the entire range of telecom services ranging from high - speed internet access for business and consumers, call centres, data centres, cellular phone services and domestic and international long distance telephony. Apart from the gamut of telecom services, Reliance's integration plans are in one respect unique in the telecom industry. If senior group officials are to be believed, the company has plans to assemble cellular phones and set-top boxes.

At the core of the Infocom project is a 115,000 km fibre optic backbone covering 115 cities across 12 States, accounting for over 50 per of India's GDP.

The company plans to become what the industry jargon refers to as a *carriers' carrier*, where it hires out infrastructure to other telecom operations. Here Reliance, along with the Bharti group, has obtained a licence for providing domestic long-distance services. In fact, these are the only two companies to do so. The total domestic long-distance market is worth Rs. 6,000 crore. Of this, the market available to the long distance operator is likely to be Rs. 2,400 crore, according to a December 2000 Merrill Lynch report. This is based on a 30 : 40 : 30 revenue share between the originator, the carrier and the last-mile access provider. However, Reliance would hope for a larger share since it plans to fill all the three roles. Merrill Lynch estimates that the domestic long-distance revenues accruing to the carrier would amount to Rs. 2760 crore in 2002 - 03, of which Reliance is expected to garner 20 per cent - or Rs. 620 crore.

As part of its plans to enter international long-distance telecommunication, Reliance has already submitted an expression of interest for international long-distance operator VSNL. The total international long-distance market in India right now is Rs. 4,900 crore.

Reliance's own estimates for revenue and profitability have not been made publicly available. However, internal estimates reportedly project revenues of Rs. 30,000 crore, which is roughly a third of the total telecommunication market of around Rs. 1,00,000 crore estimated for fiscal year 2004 - 05. The annual total telecommunications market is around Rs. 42,000 crore. These estimates are of course based on the assumptions of a rapid take-off in traffic, particularly data traffic. Check out some figures: out of the 30 million households that have an income over Rs. 4000, an estimated 20 million are in the urban market and 10 million in the rural market. Out of the urban people, 13 million already have fixed-line connections. And out of the 10 million rural customers, 6.5 million already have fixed lines.

In the light of the above: "what kind of growth can one really expect" for the telecommunication sector in India as such and Reliance Infocom in particular ?

**Questions :**

(a) Is there such a market in India for all the huge plans that they have ?

(b) Can you support it as a case of economies of scope ?

(c) Does it not lend to monopolistic conditions ? Give reasons.