**MAY 2011** **P/ID 77604/PBE1D**

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. What is managerial economics? How does it differ from Traditional Economics?

2. Explain the effect of short run output on cost structure.

3. Explain the concept of Market Mechanism.

4. What are Restrictive Trade practices?

5. Explain the theory of income determination.

6. Describe how you will estimate the parameters of Cobb-Douglas Production Function.

7. Explain the technique of differential pricing.

8. Explain the technique of product line pricing.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. "Managerial Economics is economics applied in decision making." Explain.

10. How would you attempt demand forecasting for a consumer durable like an automatic washing machine?

11. Describe the methods of determining total advertising budget.

12. What is capital budgeting? Discuss the need and significance of capital budgeting.

13. Describe the factors determining consumption function.

14. How do you get economies of scale? Explain the different types of economies of scale.

15. Briefly explain various pricing methods and approaches.

16. How do you classify market on the basis of competition?

PART C — (1 × 20 = 20 marks)

(Compulsory)

17. Keerthi opened a petrol pump cum retail store on Delhi-Agra Highway about two hour drives from Delhi. His store sells typical items needed by highway travellers like fast food, cool drink, chocolates, hot coffee, children's toy etc. He charges higher price compared to the sellers in Delhi. Yet he is able to maintain brisk sales particularly of 'Yours Special Pack' (YSP) consisting of soft drink in a disposable plastic bottle and a packet of light snacks. The highway travellers prefer to stop at his store because, while their cars wait for petrol refilling, they in the mean time can enjoy YSP (and in some cases would help themselves with some other items in the store). Each year he could substantially enhance his sales by providing special summer price on YSP which I almost half of its regular price.

    Last year, while returning from Delhi, Keerthi found that a new, big and modern grocery shop has come up 15 Kms from Delhi on the National Highway. It has affected his sales but only marginally. But last month another large convenience store was opened just 5 Km away from his store. He knows that the challenge has come to the doorsteps and he expects to be adversely affected by the existence of these two stores. He needs to meet the challenge and decide to use the pricing strategy which he has been using quite effectively till recently. He now permanently reduces the price of YSP to half of its existing price. But at the end of the year Keerthi find that his sales in general and of YSP in particular had declined by 20 per cent.

Questions :

(a) Where has Keerthi gone wrong?

(b) If Keerthi was a managerial economist, how do you think he would have handled the situation?