

MAY 2011

P/ID 37505/PBAE

Time : Three hours

Maximum : 80 marks

PART A — (5 × 5 = 25 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Define managerial economics and discuss its scope.
2. How optimization techniques are associated with business?
3. “The purpose of managerial economics is to show how economic analysis can be used in formulating business policies”. — Joel Dean. Amplify this statement.
4. Enumerate the factors involved in demand forecasting. State the purpose of forecasting, both short-term and long-term.
5. Discuss the various economies of scale. Also discuss Sergeant Florence’s principles in this regard.

6. “The purely competitive entrepreneur provides a very effective service in helping to allocate resources consistently with consumers’ preference and with the interest of resource owners”. Elucidate.
7. What is meant by cost of capital? Explain how it is calculated.
8. What are the different methods of determining total advertising budget?

PART B — (4 × 10 = 40 marks)

Answer any FOUR questions.

All questions carry equal marks.

9. “Managerial economics is the integration of economic theory with business practice for the purpose of facilitating decision-making and forward planning by management”. Explain.
10. Examine the role of price, income, prices of related goods and advertising as factors determining demand.
11. “Management is vitally concerned with future costs for the simple reason that they are the only costs over which managers can exercise any control. Hence, historical costs are of no interest to management except as bases for evaluating past operation”. Do you agree with the above statement?

12. The shorter the period, the greater the influence of demand on price. The longer the period, the greater the influence of supply on price. Elaborate it with illustration and diagram.
13. What would be your pricing strategy (a) if you are faced with an increased excise duty on your product, (b) if you are able to reach economies scale, and (c) there is a fall in the price of your major raw materials?
14. Discuss the various issues concerning the national income analysis.

PART C — (15 marks)

15. Case study :

Your firm has introduced a new product in the market which never been marketed before. As a marketing manager, you have to advise on the price strategy to be followed and you are assumed to be aware of Product Life Cycle and also to be maximizing long-run profits and not immediate profits. Your exclusive patent on the product expires in three years and technology matures and small firms can enter in seven years from the date product is launched.

- (a) How will you formulate your pricing strategy?
 - (b) Suppose the demand is expected to be 15,000 units in the fourth year and by the end of third year your firm expects to produce 12,000 units in three equal-sized plants operating at minimum efficient scale of production. Will the pricing strategy change? Give reasons for your answer.
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