Roll No

End Semester Examination

Program: M.B.A.- I | **Name of Course: Managerial Economics** | **Course code: MB-108**

Time: 3 Hours | MM: 100

Note:

This question Paper contains two sections-Section A and B.

Both sections are Compulsory

Answer any two sub-questions among a, b and c in each main question of Sec A. Each question carries 10 marks each.

Section B consisting of Case study is compulsory. Section B is of 20 Marks.

Section –A

Q 1. **(2x10=20 Marks)**

a. What is "managerial economics"? How does it differ from economics? Also, discuss the nature and scope of managerial economics. **(CO1)**

b. What do you mean by opportunity cost? Describe the relevance of opportunity cost in business. **(CO1)**

c. Discuss 'production possibility curve' and its relevance in a firmwith suitable examples. **(CO1)**

Q 2. **(2x10=20 Marks)**

a. Determine the three stages of production. Why is it that the second stage of production is to be considered the most relevant stage for factor use in production? **(CO2)**

b. Distinguish normal goods, substitute goods, complementary goods, and giffen goods with examples. Also list out the reasons/conditions, why demand curve slop downward? **(CO2)**

c. What is increasing returns to scale, decreasing returns to scale and constant returns to scale? Explore these terms with suitable examples. **(CO2)**

Q3. **(2x10=20 Marks)**

a. What is Demand Forecasting? Explain different methods used to determine future demand of a firm / industry. **(CO3)**

b. Is monopoly always socially undesirable? Take any real-life example of monopoly in India and build your logic in favour of or against this. **(CO3)**

c. There are two fast food outlets in the city of Dehradun. Experience tells that they have tried to engage in price war to win more customers but have not gained substantially in terms of profits. Can these outlets collude to increase profits? **(CO3)**

Q4. **(2x10=20 Marks)**

a. Compare the long run price quantity combinations in monopolistic competition with that of monopoly. **(CO4)**

b. Compare the characteristics of an oligopoly with those of a perfect competition, monopoly, and monopolistic competition. **(CO4)**

c. Explain economies of scale and economies of scope in reference to a personal care products manufacturing firm. **(CO4)**

Section –B

Case-Study (20 Marks)

Microsoft – increasing or diminishing returns?

In some industries, securing the adoption of anindustry standard that is favorable to one's ownproduct is an enormous advantage. It can involvemarketing efforts that grow more productive thelarger the product's market share. Microsoft'sWindows is an excellent example. The morecustomers adopt Windows, the more applicationsare introduced by independent software developers,and the more applications that are introduced thegreater the chance for further adoptions. With otherproducts, the market can quickly exhibit diminishingreturns to promotional expenditure, as it becomessaturated. However, with the adoption of newindustry standards, or a new technology, increasingreturns can persist. Microsoft is therefore willing tospend huge amounts on promotion and marketing togain this advantage and dominate the industry. Manywould claim that this is a restrictive practice, and thatthis has justified the recent anti-trust suit against thecompany.

Microsoft introduced Office 2000, a program thatincludes Word, Excel, PowerPoint and Access, togeneral retail customers in December 1999. Itrepresented a considerable advance over theprevious package, Office 97, by allowing much moreinteraction with the Internet. It also allows easiercollaborative work for firms using an intranet. Thus,many larger firms have been willing to buy upgradesand pay the price of around $230.

However, there is limited scope for users to takeadvantage of these improvements. Office 97 was already so full of features that most customers couldnot begin to exhaust its possibilities. It has beenestimated that with Word 97 even adventurous userswere unlikely to use more than a quarter of all itscapabilities. In this respect, Microsoft is a victim of thelaw of diminishing returns. Smaller businesses andhome users may not be too impressed with thefurther capabilities of Office 2000. Given theenormous costs of developing upgrades to thepackage, the question is where Microsoft goesfrom here. It is speculated that the next version, Office 2003, may incorporate a speech-recognitionprogram, making keyboard and mouse redundant. Atthe moment, such programs require a considerableinvestment in time and effort from the user to trainthe computer to interpret their commandsaccurately, as well as the considerable investment bythe software producer in developing the package.

Questions: (CO5)

a. Is it possible for a firm to experience both increasing and diminishing returns at the same time? Comment.

b. Are there any ways in which Microsoft can reduce the undesirable effects of the law of diminishing returns?