



Institute of Human Resource Advancement (IHRA)

University of Colombo, Sri Lanka

Masters Degree in Business Management

Course - No 04 - 3rd Semester Examination

(Held in April 2017)

MBM/ 19 –Managerial Economics

Instructions to the Candidates

1. Total number of questions is Seven (07)
2. Answer Four (04) questions. All Questions carry equal marks.
3. Time allocated for the examination is Three (03) hours.
4. Total number of pages Four (04).
5. If a page or a part of this question paper is not printed properly, please
Inform it to the Supervisor immediately.
6. Write your index number on all pages of the answer script.

- (1) The importance of a good market analysis will help to identify many different factors that can have an impact on any business or its clients.
- Explain the possible advantages of conducting a market analysis of business operation.
 - What are the key areas you should consider when conducting a market analysis of any selected business operation of your choice?
 - Briefly discuss these areas by using the information gathered from your take-home assignment focused on a particular business operation or event.
- (2) In order to encourage more value added to Sri Lankan economy, to improve the health standards of the people and also to protect the natural environment, the present government of Sri Lanka has reduced the subsidies applicable on the imported fertilizers of agricultural products of the country.
- Explain the nature of agricultural market, in general, by using the following concepts in microeconomics:
 - Demand Determinants
 - Supply Determinants
 - Price Elasticity
 - Income Elasticity and
 - Cross-Price Elasticity.
 - How do you explain the following statement by using above concepts? *"The industry as a whole suffers from economic protection in the form of large-scale subsidies (Sri Lanka's fertilizer and water are state subsidized), and protectionist taxation policies. A more market-driven, competitive agriculture sector is needed, and deregulation is a must if the industry is to succeed"*
 - Explain the possible cumulative impact of the rupee depreciation on the agriculture market in Sri Lanka.
 - What is meant by "Elasticity Pessimism" and how do you apply this concept for traditional agricultural export in Sri Lanka?

- (3) Assume that a business organization is expecting to sell smart phones. They have estimated the market demand for and market supply of these smart phones respectively as below:

$$Q_D = 50,000 - 2P \text{ and } Q_S = -10,000 + 8P$$

- a). What are the equilibrium price and equilibrium quantity of these smart phones in this market?
- b). What are the value of consumer surplus and producer surplus of these smart phones at this equilibrium price?

Suppose that as a result of customers' increasing popularity, an additional 100 units of these smart phones are demanded at every price. However, there is no any change in the market supply.

- c). Calculate the new equilibrium price and equilibrium quantity of these smart phones in this market.
- d). Calculate the new value of consumer surplus and producer surplus along with this change in this market.

Assume that the government has imposed Rs. 100 unit tax on each of these smart phones.

- e). What is the expected revenue by the government from this tax?
- f). What is the actual revenue gained by the government from this tax?
- g). Calculate the amount of tax burden taken by supplier and consumer separately.
- h). Explain what factors determining this tax burden distributed among the supplier and consumer.
- i). Calculate the possible dead-weight lost occurred due to this tax.
- j). What are factors determining the degree of this tax burden to consumer and supplier differently?

- (4) a) Explain following concepts with the support of suitable examples from current business operation:
- (i) Increasing and Decreasing Opportunity Costs
 - (ii) Technical Efficiency and Economic Efficiency
 - (iii) Minimum Efficient Scale and U-Shape Cost Curves
- b) Differentiate between Economies of Scales and Economies of Scopes

- c) Separately explain the factors determining the Economies of Scales and Economies of Scopes
 - d) What is meant by Learning Curve?
 - e) Explain the factors designing the learning curve and its different shapes.
 - f) Discuss the possible impact of learning curve on the production of a firm.
- (5) A car manufacturer sells cars in two separable markets. The marginal cost of each car sale is US\$2.
- For the first market, demand is given by
- $$Q_1 = 20 - 5P_1$$
- The demand equation for the second market is
- $$Q_2 = 20 - 2P_2$$
- (a). If this firm uses third-degree price discrimination, what will be the profit-maximizing price and the quantity in each market?
 - (b) How much economic profit will the firm earn?
 - (c) Explain why the different price and quantity is determined for each market.
 - (d) If the firm charges the same price in both markets, what will be the profit-maximizing price and the consequent total quantity? How much economic profit will the firm earn?
 - (e) Applying practical situations, discuss the possible advantages and disadvantages of having a monopoly market in operation.
- (6) Assuming that all firms aim to maximize their individual profit.
- a) What are the major assumptions underlying with the market structures of Perfectly Competition, Monopoly, Monopolistic Competition and Oligopoly?
 - b) Compare and contrast the equilibrium levels between perfectly competitive firm, monopoly firm and monopolistic competitive firm under following circumstances:
 - (i) A production with abnormal profit level
 - (ii) A production with loss making situation
 - (iii) A production at the efficient resource allocation and consumer wellbeing

- c) What is the possible relationship between the “Excess Capacity” and “Social-Desirability” of a monopolistic competitive market?
- d) Explain the Kinked-Demand Curve in an oligopoly market structure and discuss the possible reasons to create this Kinked-Demand Curve.

- (7) a) What is meant by pricing strategies of a firm?
- b) How do you differentiate between the price and non-price competition? Explain your answer with the support of suitable examples.
 - c) Discuss the major objectives of pricing strategies of a firm.
 - d) Explain the major factors that can decide the successfulness of pricing strategies of a firm.
 - e) Explain any Four (4) of following with the support of suitable examples and curves:
 - A. Cost Plus Pricing
 - B. Price Leadership
 - C. Product Line Pricing
 - D. Bundle Pricing
 - E. Life Cycle Pricing
