CBCS SCHEME

USN | | | | | | | | | | |

MBA103

First Semester MBA Degree Examination, Dec.2024/Jan.2025
Economics for Decision Making

Time: 3 hrs. Max. Marks: 100

Notes: 1. Answer any FOUR full questions from Q.No. 1 to Q.No. 7
2. Question No. 8 is compulsory.
3. M:Marks, L:Bloom'slevel, C: Course outcomes.

			M	L	C
Q.1	a.	What is Break even analysis?	3	L2	CO1
	b.	Explain Baumol's sales Maximization Model	7	L3	CO2
	c.	Explain Scope of Managerial Economics.	10	L3	CO2
Q.2	a.	What is law of supply?	3	L2	CO2
	b.	Explain demand forecasting Techniques	7	L2	CO4
	c.	Explain classification of price, with relevant example.	10	L3	CO5
Q.3	a.	What is law of demand?	3	L2	CO2
	b.	Explain the laws of diminishing returns, with relevant examples.	7	L2	CO3
	c.	Explain types of cost.	10	L3	CO4
Q.4	a.	What is Oligopoly?	3	L2	CO2
	b.	Explain pricing under monopolistic competition.	7	L2	CO3
	c.	Explain Williamson's model of managerial discretion.	10	L3	CO2
Q.5	a.	What is loss leader pricing?	3	L2	CO2
	b.	Explain three main types of fiscal policy.	7	L3	CO3
	c.	Explain Production Linked Incentive (PLI).	10	L3	CO2
Q.6	a.	What is peak load pricing?	3	L2	CO2
	b.	Explain the measures to control inflation.	7	L3	CO5
	c.	Explain different types of Price Elasticity of Demand.	10	L2	CO4
Q.7	a.	What is neutral policy?	3	L2	CO2
	b.	Explain the characteristics of the Perfect competition market.	7	L3	CO3
	c.	Explain the key points of Atma Nirbhar Bharath Abhiyan.	10	L2	CO5
Compulsory Questions					
Q.8		A company manufactures and sells widgets. Fixed costs are Rs.500,000. The selling price per widget is Rs.50, and the variable cost per widget is Rs.30.			
	a	Calculate the break-even point in units and in rupees.	10	L3	CO4
	b	If the company wants to earn a profit of Rs.200,000. How many units must they sell to achieve this target profit?	10	L3	CO4

C.M.R. INSTITUTE OF TECHNOLOGY CMR BANGALORE - 37.
CMRIT LIBRARY
BANGALORE - 560 037

*****

CR - CR - CR - CR - VTU 04-2025 01:18:56pm 04:35:03pm

First Semester MBA Degree Examination, Dec. 2024/Jan. 2025
Economics for Decision Making (Questions & Solutions)

Question Number	Sub Question Numbers	Questions	Marks
1	A	What is break-even analysis?	3
	B	Explain Baumol's sales maximisation mode!.	7
	C	Explain the scope of managerial economics.	10
2	A	What is the law of supply?	3
	B	Explain demand forecasting techniques	7
	C	Explain the classification of price, with a relevant example.	10
3	A	What is the law of demand?	3
	B	Explain the laws of diminishing returns with relevant examples.	7
	C	Explain types of cost.	10
4	A	What is an oligopoly?	3
	B	Explain pricing under monopolistic competition.	7
	C	Explain Williamson's model of managerial discretion.	10
5	A	What is loss leader pricing?	3
	B	Explain three main types of fiscal policy	7
	C	Explain Production Linked Incentive (PLI).	10
6	A	What is peak load pricing?	3
	B	Explain the measures to control inflation.	7
	C	Explain the different types of price elasticity of demand.	10
7	A	What is neutral policy?	3
	B	Explain the characteristics of the Perfect competition market.	7
	C	Explain the key points of Atma Nirbhar Bharath Abhiyan.	10

8		**CASE STUDY :** A company manufactures and sells widgets. Fixed costs are Rs.500,000. The selling price per widget is Rs 50, and the variable cost per widget is Rs 30. **Questions :**	
	A	Calculate the break-even point in units and in rupees.	**10**
	B	If the company wants to earn a profit of Rs.200,000. How many units must they sell to achieve this target profit?	**10**

SOLUTIONS

Q1A. What is break-even analysis? (3 Marks)

Break-even analysis is a financial tool used to determine the point at which a business neither makes a profit nor incurs a loss. It calculates the number of units that must be sold to cover total fixed and variable costs.

Formula: Break even analysis = Fixed Cost / (Selling price - Variable cost per unit)

Importance:

- Determines minimum output required to avoid losses
- Helps in pricing strategy and cost control
- Assists in financial planning and decision-making

Q1B. Explain Baumol's Sales Maximisation Model (7 Marks)

Baumol's model argues that managers aim to maximise sales revenue rather than profit, subject to a minimum profit constraint. It focuses on managerial motives such as job security, salary, and prestige.

Key Features:

- Sales maximisation increases market share and revenue.
- Managers prioritise sales over profits to maximise their utility.
- The minimum profit level is maintained to satisfy shareholders.

Implications:

- Advertising and output decisions focus on maximizing revenue.
- Sales maximization occurs when marginal revenue (MR) = 0.

Q1C. Scope of Managerial Economics (10 Marks)

Managerial economics bridges economic theory and business practice. It helps in rational decision-making and forward planning.

Scope includes:

- **Demand Analysis and Forecasting**: Understanding Consumer Behavior.
- **Cost and Production Analysis**: Cost estimation and optimization.
- **Pricing Decisions**: Setting competitive and profitable prices.
- **Profit Management**: Strategies to Maximize Profit.
- **Capital Budgeting**: Investment appraisal and risk analysis.
- **Market Structure Analysis**: Study of competition and strategy.

Q2A. What is the Law of Supply? (3 Marks)

The law of supply states that, all other factors being equal, the quantity of goods supplied increases as the market price increases, and vice versa.

Reasons:

- Higher prices lead to higher potential revenue.
- Encourages firms to increase production.

Q2B. Demand Forecasting Techniques (7 Marks)

Qualitative Methods:

- **Expert Opinion**: Gaining insights from experienced professionals.
- **Delphi Method**: Iterative consensus forecasting among experts.

Quantitative Methods:

- **Time Series Analysis**: Examining historical data trends.
- **Regression Analysis**: Statistical relationship between demand and variables.
- **Moving Averages**: Smoothing data to identify trends.

Q2C. Classification of Price with Examples (10 Marks)

1. **Administered Price**: Set by the government (e.g., Minimum Support Price for crops)
2. **Market Price**: Determined by supply and demand in a free market.
3. **Normal Price**: Long-term equilibrium price.
4. **Shadow Price**: Estimated price used in cost-benefit analysis.
5. **Monopoly Price**: Set by a monopolist without competition.

Q3A. What is the Law of Demand? (3 Marks)

The law of demand states that, ceteris paribus, the quantity demanded of a good decreases when its price increases and increases when the price decreases.

Key Assumptions:

- No change in income, taste, or prices of related goods.

Q3B. Law of Diminishing Returns with Examples (7 Marks)

It states that as additional units of a variable input are added to a fixed input, the marginal product of the variable input eventually decreases.

Example: Adding more workers to a fixed-size factory may initially increase output, but eventually, overcrowding reduces efficiency.

Q3C. Types of Cost (10 Marks)

1. **Fixed Cost**: Do not change with output (e.g., rent).
2. **Variable Cost**: Change with output (e.g., raw materials).
3. **Total Cost** = Fixed Cost + Variable Cost
4. **Average Cost** = Total Cost / Output

5. **Marginal Cost**: Cost of producing one extra unit.
6. **Opportunity Cost**: Cost of the next best alternative.
7. **Sunk Cost**: Past costs that are irrecoverable.

Q4A. What is an oligopoly? (3 Marks)

An oligopoly is a market structure dominated by a few large firms. Firms are interdependent, and decisions by one affect others.

Characteristics:

- Few sellers
- Barriers to entry
- Non-price competition
- Possibility of collusion

Q4B. Pricing under Monopolistic Competition (7 Marks)

Firms sell differentiated products and have some price-setting power.

Short-run:

- Supernormal profits possible

Long run:

- Entry of new firms leads to normal profits due to competition

Pricing considers both product differentiation and cost.

Q4C. Williamson's Model of Managerial Discretion (10 Marks)

This model suggests that managers seek to maximize their own utility (job security, perks, staff expenditure), not just profit.

Utility function includes:

- Staff expenditure
- Managerial perks
- Discretionary investments

The firm aims for a minimum profit level acceptable to shareholders.

Q5A. What is loss leader pricing? (3 Marks)

A pricing strategy where a product is sold below cost to attract customers who may purchase other profitable items.

Example: Supermarkets selling milk at low prices.

Q5B. Three Main Types of Fiscal Policy (7 Marks)

1. **Expansionary Fiscal Policy**: Increases spending or cuts taxes to boost economic activity.

2. **Contractionary Fiscal Policy**: Reduces spending or increases taxes to control inflation.

3. **Neutral Fiscal Policy**: Keeps spending and revenue constant.

Q5C. Production Linked Incentive (PLI) Scheme (10 Marks)

A government initiative to boost domestic manufacturing and exports by offering incentives based on incremental output.

Objectives:

- Encourage local production

- Create jobs

- Reduce import dependence

- Enhance global competitiveness

Sectors Covered: Electronics, pharma, automotive, etc.

Q6A. What is peak load pricing? (3 Marks)

Peak load pricing involves charging higher prices during peak demand times and lower prices during off-peak periods.

Example: Electricity tariffs or telecom charges.

Q6B. Measures to Control Inflation (7 Marks)

1. **Monetary Policy**: Increasing interest rates to reduce money supply.

2. **Fiscal Policy**: Reducing government spending.
3. **Supply-side Measures**: Improving production and removing bottlenecks.
4. **Price Controls**: Temporary control over essential items.

Q6C. Types of Price Elasticity of Demand (10 Marks)

1. **Perfectly Elastic**: Infinite responsiveness
2. **Perfectly Inelastic**: Zero responsiveness
3. **Relatively Elastic**: Greater than one
4. **Relatively Inelastic**: Less than one
5. **Unitary Elastic**: Equals one

Formula: Elasticity = % Change in Quantity Demanded / % Change in Price

Q7A. What is neutral policy? (3 Marks)

Neutral policy refers to a fiscal stance where government spending equals revenue, causing no net effect on the economy.

Q7B. Characteristics of Perfect Competition (7 Marks)

- Many buyers and sellers
- Homogeneous product
- Free entry and exit
- Perfect knowledge
- Price takers
- No transportation costs

Q7C. Key Points of Atma Nirbhar Bharat Abhiyan (10 Marks)

- Self-reliant India initiative
- Support to MSMEs

- Focus on local manufacturing
- PLI schemes
- Infrastructure development
- Economic stimulus packages

Q8A. CASE STUDY: Break-even Point Calculation (10 Marks)

- Fixed Costs (FC) = Rs. 5,00,000
- Selling Price per unit (SP) = Rs. 50
- Variable Cost per Unit (VC P.U) = Rs. 30
- Contribution per unit (C P.U) = SP - VC P.U = RS. 20

  BEP = FC / C P.U = 5,00,000 / 20 = 25,000 units

  BEP in RS = BEP * SP = 25,000 * 50 = RS. 12,50,000

Q8B. Target Profit Calculation (10 Marks)

Total Desired Profit = RS. 2,00,000

Required Units = Sales / C P.U

Sales = FC + Profit = 5,00,000 + 2,00,000 = RS. 7,00,000

Required Units = 7,00,000 / 20 = RS. 35,000 units