

I Semester M.B.A. Examination, January 2008
(2007-08 Scheme)
BUSINESS ADMINISTRATION
Paper – 1.4 : Managerial Economics

Time : 3 Hours

Max. Marks : 75

SECTION – A

Answer **any six** questions. Each question carries **two** marks.

(6×2=12)

1. A) What is managerial economics ?
- B) Define production function.
- C) What is income elasticity of demand ?
- D) Define duopoly.
- E) What is meant by loss leader ?
- F) What is profit ?
- G) Define fixed and variable costs.
- H) What is opportunity cost ?

SECTION – B

Answer **any three** questions. Each question carries **eight** marks.

(3×8=24)

2. Draw and describe kinky demand curve.
3. Explain the scope of managerial economics.
4. Distinguish between (i) demand function and demand schedule, (ii) individual demand and market demand and (iii) demand for normal goods and inferior goods.
5. State and illustrate the Cobb-Douglas Production Function.
6. When MC changes AC changes (a) at the same rate, (b) at a higher rate, or (c) at a lower rate ? Illustrate your answer through diagram.

P.T.O.

SECTION - C

Answer **any two** questions. **Each** question carries **twelve** marks. (2×12=24)

7. Give an account of the factors involved in demand forecasting.
8. What are the different techniques of survey method ? Under what conditions complete enumeration and sample survey methods are chosen ?
9. Show how the firm's equilibrium, price and output of a monopoly firm are simultaneously determined in the long run.

SECTION - D

This question is **compulsory**. It carries **fifteen** marks. (1×15=15)

10. Analyse the case and answer the questions given at the end.

COAL INDIA LIMITED closed 1984-85 with provisionally estimated profit of Rs. 20 crores after fully discharging its depreciation and loan repayment obligations. The company had to initiate a series of stringent measures to achieve the profit, the thrust being on controlling costs.

Four specific areas chosen included (i) salary and wages (ii) administrative expenditure (iii) store and (iv) realisation of dues. In 1983-84, the incidence of salary and wages being what it was, the cost of manpower per tonne of coal worked to Rs. 97.04. In 1984-85, the rise was contained at 88 paise and the cost of manpower per tonne came to Rs. 97.92. This was despite the fact that there was a rise of 51 points in the consumer price index. And then there was the usual outgo on account of annual increments. Together, these factors would have justified an increase of Rs. 6.44 in the cost of manpower per tonne of coal but it was contained at 88 paise.

Firstly, the CIL Chairman pointed out that a major effort was made to ensure gainful redeployment of manpower through persuasion and motivation and at times even by force. Empowered teams of senior executives were sent to interview people and persuade them to accept jobs that would suit them. Local redeployment was insisted upon although in some places non-availability of residential accommodation posed a problem. Secondly, increase in manpower was controlled

very strictly, instructions were issued to subsidiary companies that no new appointment was to be made without Director (Finance) and the Chairman approving it. Thirdly, a drastic reduction was made in overtime allowance and for achieving this objective even threats of sacking had to be administered.

In the sphere of administrative expenditure, the thrust was on cutting down the outgo on account of travelling allowance. Further, on account of the introduction of the system of fortress checks, there resulted in straight saving of Rs. 30 crores in 1984-85. All these resulted in the profit of about Rs. 20 crores.

Answer the questions listed below :

Questions :

- 1) Under what drive the measures taken by CIL come ?
 - 2) What are the approaches to cost reduction ? Substantiate.
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