

M.B.A DEGREE EXAMINATIONS – NOVEMBER / DECEMBER 2008

First Trimester

P07BA 113 ECONOMICS FOR MANAGERS**Time: Three Hours****Maximum Marks: 100****Answer ALL Questions:-****Part – A (1 x 20 = 20 Marks)****1. Case Study**

Tata Motors Ltd is going to hit the small car market with its Rs.1 lakh car "Nano" in the near future. Maruthi Suzuki, Hyundai Santro, Tata Indica are already competing in the small car segment of Indian automobile market. The entire small car segment is led by Maruthi with 54 percent market share, Hyundai with 27 per cent and Tata Indica has a share of 17 percent. Matiz, floated by the Korean car manufacturer Daewoo Motors is withdrawn its small car and has been acquired by General Motors and floats its small car with a brand name of "SPARK" which is growing aggressively in the market. Meanwhile the Small car segment is undergoing a transformation as "Compact Car" which is more or less small in size but rolling with luxuries of mid size cars.

Ford Motors, the US giant in the automobile industry wants to penetrate into this compact car segment and currently in design phase and is expected to hit the market during 2009. The Ford Motors has already located its plant near Chennai and selling mid size cars with a countrywide dealer network. The Ford Motors is hesitant to enter into the market with a lower price tag but wish to enter using its established brand value and wish to float its new car with add on luxuries of mid size car in the compact car segment.

The Ford Motors has two proposals to manufacture its compact car. The first proposal is to locate the plant along with Chennai Plant, such that its initial manufacturing cost as well as marketing costs may be minimized by 20 percent. The second proposal is to locate the plant in China, where the manufacturing cost is estimated to be reduced by 35 percent, but the marketing cost may go up by 20 per cent. But Ford Motors wants to penetrate the Indian Market at first.

1. Analyze the market structure of compact car segment in the Indian Automobile Industry.
2. On what basis, the Ford Motors estimates its manufacturing cost and marketing cost to be lower in China than India?
3. What will be the entry strategy to penetrate into the Indian Market?
4. What will be your suggested pricing policy to its new compact car?

Part – B (10 x 2 = 20 Marks)

2. State the different steps of decision making process in business.
3. Distinguish between the law of demand and elasticity of demand.
4. Explain the concept of “Veblen effect” of consumption.
5. A production function having the relationship between labour and capital is $Q = 2L + K$. Prove that it is a linear homogenous production function.
6. Comment upon the shape of a “learning curve”.
7. State the characteristics of an oligopolistic market.
8. Distinguish between GDP and GNP at market prices and at factor cost.
9. State the features of “Stagflation”.
10. What is Repo rate and reverse Repo rate?
11. Will “devaluation” correct the deficit in the balance of payment? If so, how?

Part – C (4 x 15 = 60 Marks)

12. a) “Maximising profits necessitates higher prices but not maximizes sales and maximizing sales necessitates lower prices but not maximizes the profits” – Elucidate the statement to take a decision on sales and profit.

(OR)

b) National Panasonic, a leading consumer electronics company, wants to enter into Air conditioner market in Tamil Nadu region. A management consultant has estimated the following demand function.

$$Q = 8000 - 0.5P + 0.0002Y + 0.0006A + 0.05 P_s + 0.0003N$$

Where Q = estimated demand for Panasonic air conditioners

P = Price of the Panasonic Air conditioner

Y = estimated monthly disposable income of the targeted household.

A = Advertisement expenditure on sales promotion by the company.

P_s = Average price of substitutable brands of the air conditioners.

N = Population of Tamil Nadu.

Estimate the demand for National Panasonic airconditioners in Tamil Nadu using the above demand function.

The following informations are available:

Proposed price of the National Panasonic Air Conditioners (P)	= Rs. 28,000
Estimated monthly disposable income of the targeted family (Y)	= Rs. 20,000
Advertisement and sales promotion expenses of the company (A)	= Rs. 2 Crore
Average price of the substitutable brands (P_s)	= Rs. 25,000
Population of Tamil Nadu	= 6 Crores.

If price is increased from Rs. 28,000 to Rs. 32,000, will the demand fall while all other informations remain constant?

13. a) (i) Explain the concept of break even point of sales.

(ii) The following details are given of a business firm:

Selling price per unit	: Rs. 20
Variable cost per unit	: Rs. 4
Fixed cost per annum	: Rs. 80,000
Estimated sales per annum	: Rs. 2,00,000

Calculate the Break even sales in terms of volume, value and the margin of safety.

(OR)

b) Examine the characteristics of a monopolistically competitive market structure.

How do we determine the prices with "heroic assumptions"?

14. a) (i) Explain the concepts of different phases of a business cycle.

(ii) Given the current Indian economic scenario of recessionary trends in the Indian manufacturing sector, the expansionary monetary policy of RBI to reduce Repo rates, cash reserve ratio, statutory liquidity ratio to inject additional liquidity in the economy and expected fiscal liberal measures in the forthcoming budget, give your arguments that the current crisis scenario can be overcome in the near future in Indian business sector.

(OR)

b) (i) Examine the different components of India's balance of payment accounts.

(ii) How does India adjust the deficits in the current account through capital account transactions?

15. a) Analyse the current financial crisis of USA, Europe and other western economies and assess its impact on India's international business prospects.

(OR)

b) Examine the concept of money supply as defined by RBI. What are its components? Is it the excess supply of money that always leads to inflation in India?
