

1M6114

Roll No. _____

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MBA I - Sem. (Main / Back) Exam., Dec. 2019

M-104 Managerial Economics

Time: 3 Hours

Maximum Marks: 70
Min. Passing Marks: 28

Instructions to Candidates:

- (i) *The question paper is divided in two sections.*
- (ii) *There are sections A & B. Section A contains 6 questions out of which the candidate is required to attempt any 4 questions. Section B contains short case study / application based question which is compulsory.*
- (iii) *All questions carry equal marks.*

1. NIL

2. NIL

SECTION - A

Q.1 "Managerial Economics is the integration of economic theory with business practice for the purpose of facilitating decision-making and forward planning by management."

Elaborate the statement with the help of suitable examples. [14]

Q.2 Write short notes on the following. (Any two)- [7+7=14]

- (a) Economies of scale
- (b) Break Even Analysis
- (c) Laws of returns to scale

Q.3 Why would a perfectly competitive firm earn only normal profit in the long run? Explain in brief with the help of suitable example and diagrams. [14]

- Q.4 (a) If the price of milk increases, what do you think will happen to the demand for cornflakes? [7]
- (b) What are the factors that cause supply curve to shift? Illustrate graphically. [7]
- Q.5 “National income does not necessarily refer to income produced within the borders of a country”. In the context of this statement, explain the difference between GNP and GDP. [14]
- Q.6 (a) Distinguish the long-run from the short run and explain the distinction to cost analysis. [7]
- (b) Explain the construction and conceptual sense of long-run average total cost curve. Why does its shape matter? [7]

SECTION - B

Case Study

Q.7 Read the case carefully and answer the following questions-

India is the second largest producer of cement in the world and cement industry is a vital part of Indian economy, providing, employment to more than a million people, either directly or indirectly. The industry is dominated by a few companies, with the top 20 accounting for almost 70 percent of total cement production of the country. Cement capacity in India may register a growth of eight percent, increasing from 366 MT in 2016 to 421 MT by the end of 2017. Around 188 large cement plants together account for 97 percent of the total installed capacity, while rest is distributed among some 365 small plants. Of these large plants, 77 are located in the States of Andhra Pradesh, Rajasthan and Tamil Nadu.

Even since it was deregulated in the year 1982, the cement industry has attracted huge investments, both from Indian and foreign sources. Aided by suitable government policies, several foreign players like Lafarge-Holcim, Heidelberg Cement and Vicat have invested in the industry. Housing sector is the biggest demand driver of cement, accounting for about 67 percent of total cement consumption. Other major consumers include infrastructure at 13 percent, commercial construction at 11 percent and industrial construction at 9 percent.

Factors which have been pushing the growth of this industry include ready availability of raw materials for making cement (such as limestone and coal), development in infrastructure and construction sectors, and recent major government initiatives such as development of smart cities. Power and fuel have a major impact on the operating expenditure of any cement company, as coal is used to fire the kiln: diesel, coal, pet coke and lignite are used to grind the clinker in the kiln and energy consumption of a cement plant is almost 60-70 kWh of power per pound of clinker produced. Thereby, price of cement comprises approximately 30 percent of cost of power and fuel. At the same time, raw materials account for 30-40 percent of the cost of sales. The primary raw material is limestone, others include fly ash, slag and gypsum.

Cement is a high-volume commodity, therefore, transporting it to the end-user accounts for a significant portion of the cost. It is not surprising that cement plants are generally located near limestone quarries because limestone cannot be transported up to long distances. This constraint increases the distance of cement with the end-user. As a result, cement has to travel a considerable distance to reach the end-users. Almost 90 percent of the total product is transported either by rail or road. On an average transportation; cost account for more than 10 percent of the cost of sale. Other expenses including employee costs, administration expenses, and repair and maintenance charges account for 15-20 percent of the cost of sales.

Another characteristic is that cement companies cannot do much regarding such cost structure because margins are less. Companies having access to a cheaper power source, a quality limestone reserve or proximity to bigger markets are at a cost advantage. Further, the Indian cement industry is controlled by regulatory norms due to stringent environment issues. This adds to companies' costs.

Questions-

- (a) What are the types of cost discussed in the case? Categorise them under various heads. [7]
- (b) Since price of the product (cement) is given, how can companies increase their profit margin? Discuss. [7]
