THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS /PUBLIC ADMINISTRATION
FINAL EXAMINATION – DECEMBER 2007
MCP 2605 – MANAGERIAL ECONOMICS
DURATION : THREE (03) HOURS

Date : 09th December 2007	**Time : 9.30 a.m – 12.30 p.m**

*This Question Paper consists of (08) questions. Answer any **Four** (04) questions*

(1) (a) How will Asymmetric information affect managerial decisions? Explain with examples. (10 marks)

(b) Economists have advanced models like Profit Maximization, Sales Maximization to explain the behavior of business organizations.
  i) What are the limitations of Profit Maximization Model? (06 marks)
  ii) Do you consider Sales Maximization Model is probably the best known alternative to the Profit Maximization Model? Give reasons. (09 marks)

(2) (a) Comment on the Price Elasticity of a particular brand as against the Price Elasticity of the same product category (05 marks)

(b) Briefly explain how the concept of Elasticity helps a manager in decision making, with examples (20 marks)

(3) (a) "Sweezy Model holds that firms in an Oligopolistic market have an incentive not to change their pricing behavior". Explain, using the Kinked demand curve. (10 marks)

(b) (i) Explain how the collusion helps the firms in an Oligopolistic market, taking OPEC as an example. How will this affect the consumers? (10 marks)
  (ii) Can the firms that provide cellular phone service in Sri Lanka Co-operate in setting the price and quantity? Give reasons. (05 marks)

(4) (a) Explain why a Monopolist always operate in the region where the Elasticity of Demand is greater than one. (10 marks)
(b) Suppose Total Cost function of a Monopolist is given by,
$$TC = 400 + 20Q^2$$
The demand equation given by,
$$Q_d = 60 - 0.1P$$

  (i) Find the profit maximizing price and output (04 marks)
  (ii) Calculate the profit (04 marks)

(c) Why would the Monopolist engage in Multi-plant Operations? (07 marks)

(5) Write brief notes on the following
    (i) Cost Plus Pricing
    (ii) Economies of Scope
    (iii) Product Bundling
    (iv) Marginal Analysis
    (v) Break Even Analysis
                           (5marks × 5)

(6) (a) Suppose you are to open up a shoe store. Under what kind of a market will you have to function? Give reasons.
Explain how the product differentiation will help you to strengthen your business.   (12 marks)

(b) "In comparison to Perfect Competition, Monopolies tend to create a cost to the society" Do you agree? Explain with illustrations   (13 marks)

(7) (a) (i) How does a firm achieve optimum level of production in the long run?   (05 marks)

    (ii) If the price of one factor input, eg- Labour, drops, all else being constant, how will the profit maximizing firm react to this? Explain using illustrations   (05 marks)

    (iii) Suppose the economy slows down and the price of all factors of production, Capital and Labour declines by the same percentage, how would this change the above analysis?   (05 marks)

(b) Briefly explain how the total production changes when increasing quantity of variable factor (Labour) is added to the fixed factor (Capital)
At what stage would the rationale entrepreneur maintain his production? Give reasons.   (10 marks)

(8) (a) Explain how the Economies/Diseconomies of scale determine the shape of Long Run Average Cost Curve? Provide practical reasons for such scale economies?   (13 marks)

(b) The Total Cost function of a firm given as

$$TC = 400Q - 12\,Q^2 + 0.1Q^3$$

    (i) Is this a long or short run cost function? Give reasons.   (02 marks)

    (ii) Determine the Average Cost and rate of output that will minimize the Average Cost.   (03 marks)

    (iii) Determine the Marginal Cost and rate of output that will minimize the Marginal Cost.   (03 marks)

    (iv) At what rate of output does the Average Cost equals Marginal Cost   (04 marks)