



UNIVERSITY OF COLOMBO, SRI LANKA

Faculty of Management and Finance

Postgraduate and Mid-career Development Unit

Master of Business Administration in International Business 2016/2018 Programme

Trimester I Examination – November, 2016

MBAIB 5102 Managerial Economics

Three (03) Hours

Answer any **Five (05)** Questions

Use two separate answer books for **Part I** and **Part II**

Use of calculators is permitted

Part I

1. i. Explain the concept of financial literacy and how it is useful for a manager.
(05 Marks)
 - ii. “Decision making process of a profit seeking firm and a non-profit seeking firm is similar”.
Do you agree with this statement? Justify your answer.
(06 Marks)
 - iii. Why economists must consider the concept of opportunity cost when calculating economic profit of a firm?
(05 Marks)
 - iv. Distinguish between positive economics and normative economics.
(04 Marks)
- (Total 20 marks)**

2. i. Identify main determinants of demand and show them in a demand equation. Explain expected sign of each parameter of the above equation.

(07 Marks)

ii. If quantity demand (Q_d) and quantity supply (Q_s) equations given respectively as $Q_d = 200 - 10P$ and $Q_s = 20 + 10P$. Calculate market equilibrium price and the quantity.

(05 Marks)

iii. If government imposes Rs. 5 tax on the above market given in part (ii) above, explain expected economic consequences on the firm, consumers and government.

(05 Marks)

iv. Explain the law of supply and its usefulness for a manager.

(03 Marks)

(Total 20 marks)

3. i. Define momentary run, short run, long run and very long run with respect to production process.

(05 Marks)

ii. Calculate the Marginal Product of labour (MPL), Average Product of labour (APL), and graphically present their behavior with the help of data given in the following table.

Labour units	0	1	2	3	4	5	6	7	8	9	10
Total Production	0	100	138	150	160	165	160	150	130	120	100

(05 Marks)

iii. Calculate elasticity of production at 4 units of production as shown in the above table and determine which stage of production this firm is in.

(05 Marks)

iv. Explain three stages of production in short-run and why these stages are useful for a manager.

(05 Marks)

(Total 20 marks)

Part II

4. i. "Although the industry expands, firms in the industry are not growing in size. Instead, the number of firms increases".

Which market structure does this statement refer to? Using a diagram, explain how it happens.

(05 Marks)

- ii. Show how each of the following can act as entry barriers:

- a. Consumer lock-in
- b. Absolute cost advantages

(06 Marks)

- iii. Explain how a monopoly can suffer losses.

(04 Marks)

- iv. Explain how the government can attempt to make monopolies competitive.

(05 Marks)

(Total 20 marks)

5. i. What is meant by excess capacity? Explain why excess capacity can be seen in some industries.

(06 Marks)

- ii. Show how price rigidity can come into existence in oligopolistic markets.

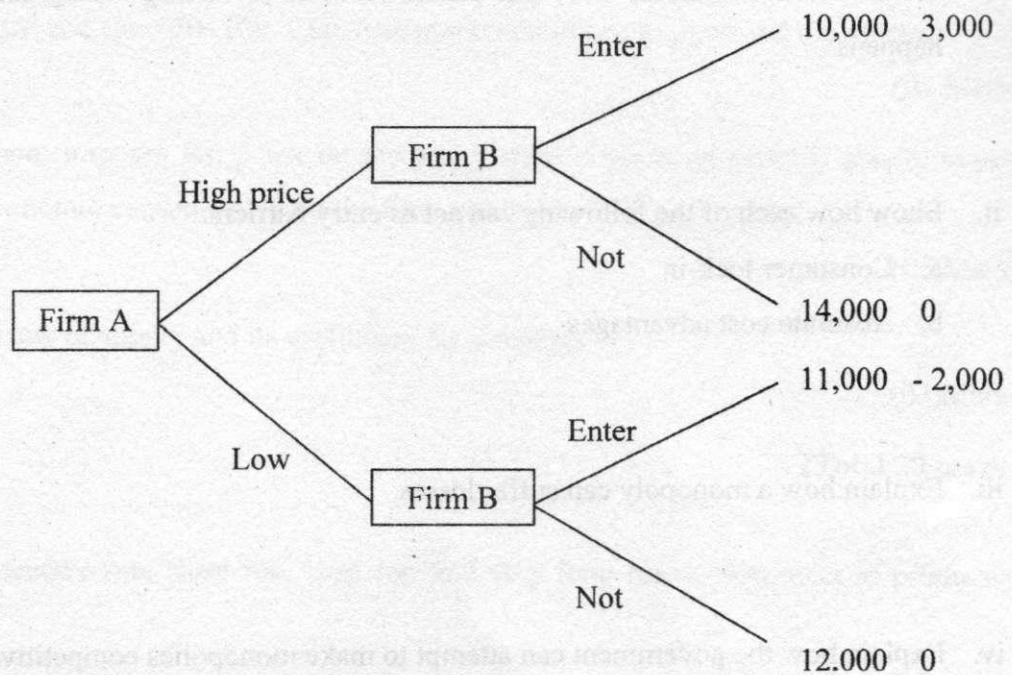
(06 Marks)

- iii. Using examples, explain how various real factors can be used in product differentiation.

(08 Marks)

(Total 20 marks)

6. i. Consider the following sequential game where firm A has to decide whether to charge a higher price or lower price and firm B has to decide upon whether to enter into the market or not. Payoffs are indicated in thousands of rupees.



Using the roll back method, find the likely outcome. You are expected to show all the details associated with the decisions of both players.

(04 Marks)

- ii. Suppose that the sequence of the game indicated in part i above has been reversed so that firm B moves first and firm A moves subsequently. Using the roll back method, find the likely outcome. You are expected to show all the details associated with the decisions of both players.

(05 Marks)

- iii. Suppose that firms A and B will move simultaneously converting this into a simultaneous game. Find the likely outcome.

(05 Marks)

iv. Why is it argued that a strategic move matters only if it is credible?

(03 Marks)

v. Explain how a player can make a commitment credible.

(03 Marks)

(Total 20 marks)

7. i. "Lemons problem is not limited to the lemons market".

Explain the nature of the lemons problem appearing in the bond market.

(06 Marks)

ii. What is meant by screening? Explain how screening can solve the lemons problem.

(06 Marks)

iii. Examine various signaling mechanisms that can be used to solve adverse selection.

(08 Marks)

(Total 20 marks)

8. i. Explain how second degree price discrimination is different from first degree price discrimination.

(04 Marks)

ii. Assume a firm which sells the identical product at two different prices in two markets with different demand elasticities. Show how the firm will make the following decisions:

- Total quantity to be produced
- Quantities to be sold in two markets
- Prices at which the product is sold in two markets

(07 Marks)

iii. Assume a firm which produces a product on two plants at different costs of production.

Show how the following decisions are made:

- Total quantity to be produced
- Quantities to be produced on each plant
- Price at which the product is sold

(06 Marks)

iv. Explain the disadvantages of cost plus pricing.

(03 Marks)

(Total 20 marks)

.....