



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.A. DEGREE EXAMINATION – ECONOMICS

FIFTH SEMESTER – NOVEMBER 2016

EC 5402 - MANAGERIAL ECONOMICS

Date: 11-11-2016
Time: 09:00-12:00

Dept. No.

Max. : 100 Marks

PART- A

Answer any FIVE questions in about 75 words each.

(5 X 4 =20 marks)

1. Define Managerial Economics.
2. Explain the fundamental principles used in business decision- making.
3. Distinguish between short-term and long- term demand forecasting.
4. Write a brief note on: a) Administered pricing b) Loss leader pricing.
5. Explain the concept of sunk cost? Give a suitable illustration.
6. Define BEP. Explain the managerial applications of Break- Even concepts.
7. What are the factors affecting capital investment decisions of a business firm?

PART- B

Answer any FOUR questions in about 300 words each.

(4 X 10 = 40marks)

8. Briefly explain the significance of Managerial Economics.
9. Examine Baumol's sales maximization model with the help of a diagram.
10. (a) The sales department of a firm is planning to increase sales to Rs.10 lakhs .The consultant to the sales department points out that in the past this firm's sales proceeds and advertisement expenditure have a very high correlation of +0.75.The past data revealed that the firm's average sales per year has been Rs.4 lakhs with a variance of Rs.30,000 and its average annual advertisement expense has been Rs.1 lakh with a variance of Rs.10,000. Estimate how much advertising expenditure, this firm must incur to achieve its sales target.

(b) If a firm has Rs.20,000 of fixed costs and the variable costs grow at 60% ,with the increase in the volume, find the profits it expects to get on the sale value of Rs. 90,000.

11. From the following information relating to Quick Std. Ltd., you are required to find out:

- | | |
|---------------------|---|
| a) Contribution | b) Break-even point in units |
| c) Margin of safety | d) Sales Volume to earn a profit of Rs. 6,000 |

Total fixed cost	Rs. 4, 500
Total variable costs	Rs. 7, 500
Total sales	Rs.15,000
Units sold	5,000

12. Explain the various concepts of costs used in managerial economics.
13. Discuss briefly the competition oriented price formulation in actual business situations.
14. Calculate the payback periods of the following projects each requiring a cash outlay of Rs.1, 00,000. Suggest which of the projects would be chosen.

Year	cash flow	
	Project A (Rs.)	project B (Rs.)
1	20,000	10,000
2	20,000	30,000
3	20,000	40,000
4	20,000	60,000
5	20,000	40,000

PART- C

Answer any TWO questions in about 900 words each.

(2X 20 = 40marks)

15. Explain in detail the Trend Projection Methods and Collective Opinion Method of demand forecasting.
16. Discuss the graphical and algebraic methods of Break - Even Analysis in profit forecasting. Outline its limitations.
17. (a) The annual sales of XYZ Co., are as follows. Estimate sales for the years 2009 and 2010.

Year	2001	2002	2003	2004	2005
Sales('000)	45	56	58	46	75

(b) Write short notes on the following pricing strategies.

1. Skimming pricing
2. Limit pricing

18. (a) A choice is to be made between two competing projects which require an equal investment of Rs.60,000. They are expected to generate net cash flows as under:

Year	Project x	Project y
1	30,000	14,000
2	20,000	16,000
3	15,000	22,000
4	----	29,000
5	17,000	12,000
6	11,000	8,000

The cost of capital of the company is 10%. Using Net Present Value method recommend which proposal is to be preferred.

(b) Explain the merits and demerits of Net Present Value method.
