GL BAJAJ Institute of Management & Research
Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Roll No...........

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) – 201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017 -19)

END TERM EXAMINATION (TERM -II)

Subject Name: **Managerial Economics**	Time: **02.00 hrs**
Subject Code: **PG-13**	Max Marks: **45**

Note:

1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.

2. All questions are compulsory in Section A, B & C. Section A carries 2 Case Studies of 20 marks each, Section B carries 2 questions of 20 marks each and Section C carries 5 questions of 4 marks each.

SECTION - A **20×02 = 40 Marks**

Q. 1: Case Study- Expanding the Volvo Way

Indian automobile industry is coming of age as the luxury car market is recovering gradually, thanks steady economic growth and infrastructure support. In fact, the market has seen total sales of 36,000 units in 2016. The market for luxury cars in India is dominated by German companies, with Mercedes Benz as the dominant player, while Audi and BMW have also emerged as strong rivals, along with Tata Jaguar Land Rover. Volvo, the Swedish carmaker owned by China's Geely, inspite of its presence in the country for more than a decade, has been on the peripheries of the luxury car market, and could manage to sell around 1600 units in last year. The company aims to achieve 10 percent share in the premium luxury car segment by 2020 from current 5 percent through new launches, dealership expansion and local assembly facilities. All its major rivals have their facilities in the country: while Mercedes assembles cars from a factory in Pune, BMW has a facility in Chennai and Audi assembles its cars in Aurangabad which is shared with its group company Skoda. Volvo Auto India is the only mainstream luxury car maker which does not have local manufacturing, or assembly base, here, on account of which, the company is losing heavily on hefty import duties, running up to a staggering 100- 180 percent for importing its vehicles as fully built units.

Volvo Auto India currently has 9 products on offer in India, and despite bringing them us CBU units, it manages to keep their pricing aggressive. Volvo's product portfolio in India is priced between 26 lakh for the V40 premium hatchback and 1.25 crore for the hybrid XC90 SUV (prices ex room Delhi). The company has launched the all-new S-60 Polestar in the country and later this year in plans to bring in the V-90 Cross Country, which is a crossover mix between estate and SUV sporting same ground clearance of the brand's flagship SUV XC90. After the launch of the V90 Cross Country in end of Q2 2017, Volvo also aims to launch XC60 in the domestic market, which would arrive sometime later this year or in early 2018. Also on the cards is the XC90 Cross Country. Overall, the Swedish brand targets to cater several segments in the country with its offerings like small sedans, sedans, small SUVs and big SUVs. With an eye on expansion in India, Volvo is planning to setup localized assembly operations so that it can have price-competitive products to counter the major rivals.

Tom von Bonsdorff, Managing Director of Volvo Auto India, says, "Our volumes may be low in India, but we have been growing. An assembly operation is being worked upon and may happen soon, once a final decision taken by the headquarters. For the local assembly unit it is exploring for an Indian partner, though Volvo is unwilling to reveal any details. Assembly operations would not only reduce the cost of production, but also help the company in expansion by producing larger volumes and increased sales in India.

Case Questions

a) Discuss expansion plans of Volvo with respect to advantages of localized operations.
b) Is Volvo looking at increasing returns to scale? Would it eventually face diminishing returns or can it avoid diminishing returns to scale?

Q-2: Case Study-Headline Inflation

For 2017 18, inflation is projected to average 4.5 percent in the first half of the year and 5 percent in the second half. A peek into expected developments within the country as well as on global screen may provide an insight into the future of inflation levels in India. First of all, the good news is that international crude prices have been declining recently, therefore, domestic prices of petroleum products should also reduce; this will definitely mitigate pressure on headline inflation. Secondly, the record production of food grains in the last fiscal will help to restore buffer stocks and alleviate food price pressure. However, this will be possible only if government is able to step-up procurement process.

At the same time, there are upside risks to the baseline projection for inflation. The foremost risk arises from uncertainty of south west monsoon and its repercussions on food inflation. Government will have to proactively manage supply of essential food grains to reduce the pressures on headline inflation. Another major change that has taken place is implementation of recommendations of seventh pay commission for Central Government employees; this would build pressure on state governments to follow suit. As per an estimate, increase in house rent allowance only would increase the baseline by an estimated 100-150 basis points over a period of 12 -18 months. This would not only have initial statistical impact on the CPI, but would also have second-order effects. Moreover, the fiscal deficit, which is high by international standards coupled with policies like farm loan waivers, is likely to be impacting inflation adversely. International developments are also likely to play spoilsport as they may boost commodity prices and thereby, influence domestic inflation.

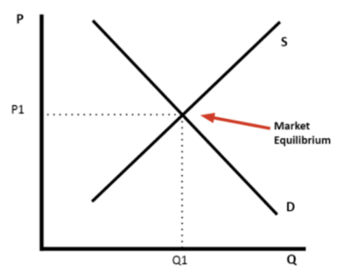
Case Questions

a) What factors are leading to inflationary pressure in this case?
b) Is it possible to contain the ill effects of the risk factors mentioned, with the help of fiscal measure?

<u>SECTION - B</u> **20×02 = 40 Marks**

Q. 3: Construct a new market equilibrium graph and explain what will happen to the equilibrium in the market for movie tickets in the following conditions. Initial market equilibrium is given in the graph for your reference.

Condition 1: Cable television operators begin offering pay per view movies
Condition 2: A nationwide chain INOX cuts its rental rates for its franchises by 25%



Q. 4: Why would a perfectly competitive firm earn only normal profit in the long run? Explain with suitable example and diagram.

SECTION - C **04×05 = 20 Marks**

Q. 5 (A): Which of the following company(s) can be identified to be in monopolistic competitions? Defend your answer with justification.

- Lafarge (Cement)
- Maruti Suzuki (Automobile)
- Dominos (Fast food)

Q. 5 (B): Classify the following examples of managerial economic decisions under the three fundamental economic problems i.e. what to produce, how to produce and for whom to produce.

a) Decision by an oil refinery to get into oil exploration.
b) Decision by a bank to computerized its operations

Q. 5 (C): Compute the marginal and average cost based on following total costs for each level of output.

No of Unit Produced (Output)	1	2	3	5	8
Total Cost (in INR100)	10	18	25	41	65

Q. 5 (D): In Oligopolistic market, price cuts are matched more often by oligopolists than price increase. Why?

Q. 5 (E): When an economy is growing at a high rate resulting in employment and increase in individual's income, which types of goods are likely to face reduction in demand?