**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FIRST TRIMESTER (Batch 2020-22)**

**END TERM IMPROVEMENT EXAMINATION, DEC-2020**

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| Course Name | **Managerial Economics** | Course Code | **ECO101** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS: All the question are compulsory to attempt.**

**Q: 1** Quote the examples of explicit and implicit costs referring the organisation you have studied and also explain the concept of Economic and Accounting profit quoting some numerical values from your own understanding. What if Economic Profit is zero for any business? **[10 Marks]**

**Q: 2** Ajanta Aluminium is a major producer of aluminium. The management estimates the demand for company’s aluminium as per the following equation:

Qda = 5000 – 1000Pa + 0.1M + 100 Ps

Where Qa is the demand in thousands of tons per year; Pa: Price of aluminium in Rs. per kg; M is income per capita; Ps is price of steel in Rs./kg.

Initially the price Pa of aluminium (Pa) is 30 Rs. per kg; M is Rs. 20,000 and price of steel (Ps) = 40 Rs. per kg.

1. Assess how much aluminium shall be demanded in initial prices and income?
2. Assess the impact of raise in prices of aluminium on the quantity demanded of steel. How did you find the market? Elastic or inelastic? Also comment on the impact of raise in prices of aluminium on total revenue.
3. Steel and Aluminium in the demand function are complimentary goods or substitutes? Whether the demand of aluminium is cross price elastic or inelastic?
4. Examine the impact of raise in per capita income over demand of aluminium. Is demand income elastic or inelastic? Also comment if the good is normal / inferior / luxury good?

**[2.5 \* 4 = 10 Marks]**

**Q:3** Comment on the pricing strategies in following cases with a detailed explanation and citing more examples.

1. Ola and Uber
2. Tata Nano
3. When a vendor quotes lower prices for higher volumes
4. Apple iPhone
5. Reliance Jio

**[2.0 \* 5 = 10 Marks]**

**Q:4** Refer the following news article:

**Strengthening competition in telecom is key to realising India’s digital ambitions**

Excerpts from Opinion, Indian Express; September 16, 2020

There was a time in India’s vaunted telecom sector when the number of unique service providers in lucrative geographical locations such as Delhi, Mumbai, Gujarat, Tamil Nadu and Karnataka were in excess of a dozen. In 2009, for example, Delhi supported 13 operators in a hyper-competitive market in which the dominant policy narrative revolved around the need for consolidation. Fragmentation of spectrum and subscribers, it was argued, increased costs to operators because the benefits of scale were denied without any added advantage by way of competitive outcomes for the subscriber. What 13 operators could produce for competition and market outcomes could be generated by less than half the number, said scholars working on competition issues in the telecom sector. Three or four effective rivals could produce outcomes in favour of the consumer, they argued.

In the decade since, that wish has been granted. Consolidation has occurred, mergers have materialised and exits have taken place. But it appears that the pendulum has swung far too much in the other direction. The dominant narrative in telecom today is how to preserve competition in the market by way of numbers. The threat of monopolisation is real and palpable as incumbent private operators, Airtel and Vodafone Idea (Vi), struggle to keep pace.

So what if another exit takes place and the market is effectively left as a duopoly with Jio and Airtel. The theory of contestable markets suggests that as long as there is a real threat of entry, even monopolies will be compelled to behave as if they are operating in a competitive market place. In other words, competition for the market will discipline a price setting monopolist. We doubt whether this idea will find much resonance with policymakers today and frankly, neither are we persuaded by threats of contestability in correcting markets. These work in the real world only when entry occurs at least once in a while. Who would wish to invest in Indian telecom today when the entry barriers in the form of spectrum acquisition costs, the licence fee burden as a percentage of the Adjusted Gross Revenue (AGR), infrastructure requirements and the policy uncertainty combine to produce an entry deterrence that any strategist would be proud of. It is far-fetched to expect a new entrant to come in and demolish a potential monopoly. The top three operators by market share Jio, Airtel and Vi, together account for 90 per cent of the subscriber base. The public sector is fourth and largely irrelevant to the process of competition, serving captive markets or where the private sector is unable or unwilling to deliver. From a policy perspective, strengthening existing competition will be key to realising India’s digital ambitions.

**A.** Comment on the evolution of telecom industry citing pointers from the article. How has the market structure transformed over the period?

**B.** Examine the key characteristics of the current market structure. How analysis of market power can better explain the points?

**[5 \* 2 = 10 Marks]**

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