Code: 17E00103

MBA I Semester Regular Examinations December/January 2017/2018

MANAGERIAL ECONOMICS

(For students admitted in 2017 only)

Time: 3 hours Max. Marks: 60

SECTION – A

(Answer the following: (05 X 10 = 50 Marks)

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1 (a) Explain in detail the nature and scope of managerial economics.

(b) How micro economics differs from managerial economics?

OR

2 Discuss the Baumol's theory of sales revenue maximization and Marris growth maximization theory.

3 Discuss the main underlying determinants of demand for the following:

(a) Holiday resorts in Goa.

(b) A daily newspaper.

(c) Healthcare.

OR

4 Explain various quantitative demand forecasting methods.

5 What is Isoquant and Isocost line in production theory? Discuss two variable production functions.

OR

6 With the help of diagrams, explain cost-output relationship in the short run and long run.

7 Compare characteristics of monopoly, perfect competition and oligopoly.

OR

8 Discuss the short-run equilibrium and long-run equilibrium of a firm in perfect competition.

9 What is inflation? What are the various ways of overcoming the ill-effects of inflation?

OR

10 Discuss how the economic activities of a country behave at the various phases of a business cycle.

SECTION – B

(Compulsory question, 01 X 10 = 10 Marks)

11 **Case Study:**

Do R&D Expenditures Affect Drug Prices?

In August 1997, the Clinton administration announced that drug companies would be required to test whether the medicines they sell for adults are also safe and effective for children and to put the pediatric dosages on the labels. It was estimated that the new requirement would increase the cost of drug development by more than $200 million annually. A former official with the Food and Drug Administration (FDA), in an editorial in The Wall Street Journal, noted that this regulation would delay the introduction of new drugs and that "government regulation imposes enormous costs on drug development that must be passed along to consumers in higher prices."

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A well-known economist, in a follow-up letter to the WSJ, agreed that more stringent requirements increased costs of drug development would be passed along to consumers in higher prices. He pointed out, “nearly all pharmaceutical research and development costs are borne prior to FDA approval and before the first dose is ever sold.” Such costs would be fixed or sunk costs and would not affect a firm’s price or output decisions: “The value of a product depends would increase expected research costs per product introduction. However, he disagreed that on its acceptance in the marketplace and the costs of producing another unit of output, but not at all on whether it was discovered either after a long and arduous effort or fortuitously at the first attempt.”

According to the letter, price setting depends on anticipated future conditions and not on those in the past, even though expected research costs may affect research budgets and thereby the number of new products in the future. These costs would not influence prices charged for products already discovered.

Questions:

(a) Do you agree that the additional testing requirements will not influence the price of the drug?

(b) What will be the effect of the new testing policy on future drug research?

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