M.A. DEGREE EXAMINATION,APRIL 2020
I Year II Semester
Managerial Economics

Time : 3 Hours **Max.marks :75**

Section A $(10 \times 2 = 20)$ Marks

Answer any **TEN** questions

1. Define Managerial Economics.
2. Give any two features of business economics.
3. What is price demand?
4. Give any two points of theoretical importance of the Law of Demand.
5. State the Law of Variable Proportions.
6. What do you mean by Pecuniary Economies?
7. What is an Opportunity Cost?
8. Give the relationship of total, fixed and variable costs.
9. What is full cost method of pricing policy?
10. What is monopoly?
11. State the features of oligopoly.
12. What is cost of capital?

Section B $(5 \times 5 = 25)$ Marks

Answer any **FIVE** questions

13. What is Utility? State the features of Law of Diminishing Marginal Utility.
14. Explain the scope of managerial briefly economics.
15. Distinguish between
    (a) Extension and Contraction in Demand
    (b) Increase and Decrease in Demand
16. Explain the relation between LAC and SAC curves.
17. Give the various stages of pricing in the cycle of a product.
18. State the meaning and explain the need for capital budgeting.
19. 'Perfect Competition is a myth'. Discuss. Give your opinion in support of your answer.

Section C $(3 \times 10 = 30)$ Marks

PART - A - Case Study - Compulsory Question

20. An Overview of the Starbucks Pricing Strategy

The Right Customers and the Right Market

While cutting prices is widely accepted as the best way to keep customers during tough times, the practice is rarely based on a deeper analysis or testing of an actual customer base. In Starbucks' case, price increases throughout the compan's history have already deterred the most price sensitive customers, leaving a loyal, higher-income consumer base that perceives these coffee beverages as an affordable luxury. In order to compensate for the customers lost to cheaper alternatives like Dunkin Donuts, Starbucks raises prices to maximize profits from these price insensitive customers who now depend on their strong gourmet coffee.

Rather than trying to compete with cheaper chains like Dunkin, Starbucks uses price hikes to separate itself from the pack and reinforce the premium image of their brand and products. Since their loyal following isn't especially price sensitive, Starbucks coffee maintains a fairly inelastic demand curve, and a small price increase can have a huge positive impact on their margins without decreasing demand for beverages. In addition, only certain regions are targeted for each price increase, and prices vary across the U.S. depending on the current markets in those areas (the most recent hike affects the Northeast and Sunbelt regions, but Florida and California prices remain the same).

Product Versioning & Price Communication

They also apply price increases to specific drinks and sizes rather than the whole lot. By raising the price of the tall size brewed coffee exclusively, Starbucks is able to capture consumer surplus from the customers who find more value in upgrading to grande after witnessing the price of a small drip with tax climb over the $2 mark. By versioning the product in this way, the company can enjoy a slightly higher margin from these customers who were persuaded by the price hike to purchase larger sizes. Starbucks also expertly communicates their price increases to manipulate consumer perception. The price hike might be based on an analysis of the customer's willingness to pay, but they associate the increase with what appears to be a fair reason. Using increased commodity costs to justify the price as well as statements that aim to make the hike look insignificant (less than a third of beverages will be affected, for example) help foster an attitude of acceptance.

1. What can you learn from Starbucks Business?

PART - B

Answer any **TWO** questions

21. Explain the role of a Managerial Economist.
22. State the various methods of forecasting demand for new products.
23. Distinguish between external and internal economies of scale.
24. Discuss the nature and determination of the size of capital budget.

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