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**P.E.S. College of Engineering, Mandya - 571 401**  
 (An Autonomous Institution affiliated to VTU, Belgaum)  
**First Semester, Master of Business Administration (M.B.A)**  
**Semester End Examination – Jan / Feb-2016**  
**Business Economics**

Time: 3 hrs

Max. Marks: 100

**Note:** Answer any **FOUR** full questions from **PART - A** and **PART - B** (Case study) is compulsory

**PART - A**

- 1 a. Define managerial Economics. Discuss its nature. 10  
 b. 'Managerial Economics is applied microeconomics'. Elucidate. 10

**OR**

- 2 a. Examine critically profit maximization as the objective of business firm. 10  
 b. Write short notes on : i) Equi-marginal principle ii) Opportunity cost. 10  
 3 a. Define demand and explain its determinants with suitable example. 10  
 b. Explain the law of Supply. Give the following demand and supply function, find the equilibrium price and quantity in the market; Demand  $Q_D=100-P$ , Supply:  $P=10+2Q_s$ . 10

**OR**

- 4 a. Define isoquants. Discuss its characteristic features. 10  
 b. Explain the following: i) Implicit cost and Explicit cost, ii) Fixed costs and Variable costs. 10  
 5 a. Discuss the characteristic features of Perfect competition. 10  
 b. Explain the methods of measuring Monopoly power. 10

**OR**

- 6 a. Explain the following: i) Pricing in Life cycle of product 10  
 ii) Pricing in relation to Established product.  
 b. Evaluate Break even analysis as a tool of profit planning. From the following data find out  
 i) PV ratio and ii) BEP  
 Selling price ` 50 10  
 Cost Price ` 40  
 Fixed cost ` 5000/-

- 7 a. Illustrate graphically the circular flow of product and Money in a four-sector model and explain. 10  
 b. Explain the determinants of Economic Growth in an Economy. 10

**OR**

- 8 a. Explain the instruments that are used as monetary policy. 10  
 b. Explain the different types of policy measures to control inflation. 10

9.

**PART - B****Case Study:**

## Culling Cullinan

Richard Burton probably knew nothing of the small South African town of Culling when he bought yet another chunky diamond for Elizabeth Taylor in 1969. But the rock, still known as the Taylor Burton, was found there, together with a quarter of the world's diamonds over 400 carats. The Cullinan mine has also produced what is still the largest rough gem in the world, the whopping 3.106-carat Cullinan Diamond part of which adorn England's Crown Jewels. Now the mine itself, like so many of the diamonds unearthed there, is about to change hands. On 22 November De Beers, the diamond gaint that has owned the mine since 1930 said it was selling it to a consortium led by Petra Diamonds, one of South Petra reckons the mine still has another 20 years of production in it and plans to extract at least 1 m carats a year. The unexploited 'Centenary Cut' deposits, which lies under the existing mine, could yield a lot more.

Petra is a relatively small outfit, listed on London's Alternative Investment Market that specialises in buying mines that bigger companies see as marginal. The trick is to extract better returns by rationalising production and processing, and keeping operating costs and overheads down. It has already bought two of De beers, African mines, both of which are not profitable, and is finalising the 78.5 m rand acquisition of the group's underground operation in Kimberley which stopped working in 2005.

It already operates four mines in South Africa and has promising exploration in Angola (a joint venture with BHP Billiton) Sierra Leone and Botswana. Petra expects to produce over 1m carats by 2010; quite a jump from 180,474 carats in the year to June. The company has yet to make a profit, but expects to be making money by the middle of next year.

In the 1990s De Beers decided that it was no longer a good idea to try to monopolise the diamond market. It started focusing on higher returns rather than market share, and has been revamping mine portfolio, selling off mines that are no longer profitable and investing in more enticing operations, such as its mine off the west coast of south Africa, its Voorspoed operations in the Free State province, and two new mines in Canada.

**Questions:**

- i. Explain the meaning of the term "marginal" in the statement "Petra specialises in buying mine that bigger companies see as marginal"
- ii. According to the extract De Beers is 'focusing on higher returns rather than market share'.  
With the aid of the data evaluate the alternate objectives that De Beers could pursue.
- iii. Examine three reasons that explain why firms seek to grow larger.
- iv. Evaluate the methods that firms might adopt in order to grow.

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