Subject Code: MB912

MBA I Semester [R09] Regular Examinations, February 2011

Managerial Economics

Time: 3 Hours **Max Marks: 60**

Answer any FIVE questions All questions carry EQUAL marks,

Question No:8 is compulsory (Case study)

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1. Define managerial Economics and describe its relationship with other sciences.
2. What is Oligopoly ? Explain price rigidity under oligopoly with the help of kinked demand curve analysis.
3. (a) Explain the difference between opportunity cost and incremental cost.

   (b) How you differentiate marginalism and Equi-marginalism
4. Explain the Price elasticity of demand. How can it be measured? How can it be measured? What are the business uses of Price elasticity?
5. Diagrammatically represent the cost-output relationships at different situations.
6. "Break-even analysis is a useful device of profit planning". Do you agree? Discuss.
7. Explain the reasons for NPV and IRR giving conflicting results. Which of the two methods should be preferred in such a case? Discuss.

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8. Discuss the following case:

On April 23, 1985, the Coca-Cola Company announced that it was changing its 99-year-old recipe for Coke. Coke is the leading soft drink in the world, and the company took an unusual risk in tampering with its highly successful product. The Coca-Cola Company felt that changing its recipe was a necessary strategy to ward off the challenge from Pepsi-Cola, which had been chipping away at Coke's market lead less fizzy taste, was clearly aimed at reversing Pepsi's market gains. Coca-Cola spent more than $4 million to develop its new Coke, and it conducted taste tests on more than 190,000 consumers over a three-year period. These tests seemed to indicate that consumers preferred the new Coke over the old Coke by 61 percent to 39 percent. Coca-Cola then spent more than $10 million to advertise its new product.

When the new Coke was finally introduced in May 1985, there was nothing short of a consumers revolt against the new Coke, and in what is certainly one of the most stunning multimillion-dollar about-faces in the history of marketing, the company felt compelled to bring back the old Coke under the brand name Coca-Cola Classic. The irony is that with the Classic and new Coke sold side by side. Coca-Cola regained some of the market share that it had lost to Pepsi.

Although some people believed that Coca-Cola intended all along to reintroduce the old Coke and that the whole thing was part of a shrewd marketing strategy, most marketing experts are convinced that Coca-Cola had underestimated consumers loyalty to the old Coke. This did not come up in the extensive taste tests conducted by Coca-Cola because the consumers tested were never informed that the company intended to *replace* the old Coke with the new Coke rather than sell them side by side. This example clearly shows that even a well-conceived strategy is risky and can lead to results estimated to have a small probability of occurrence. Although Coca-Cola recuperated from the fiasco, most companies are not so lucky! In the meantime, the perennial cola battle for market supremacy between Coke and Pepsi rages on.