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<th>KOD KURSUS</th>
<th>EG 5013 MANAGERIAL ECONOMICS</th>
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<td>TARIKH</td>
<td>12 SEPTEMBER 1999</td>
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<td>MASA</td>
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**ARAHAN**

**NO. MATRIK**

**NO. KAD PENGENALAN**

**NAMA PENSYARAH** : PROF. MADYA DR. DAWOOD M. MITHANI

**JANGAN BUKA SOALAN INI SEHINGGA DIBERI ARAHAN**

* SULIT
MASTER OF BUSINESS ADMINISTRATION

Question 1 : [25 Marks]

a) The Chief Executive Officer of Petronas has been advised by one of his advisers to increase the price of oil as much as he likes, since the demand for oil is very inelastic.

(i) Do you agree with his adviser? In your explanation, discuss the concepts of price elasticity and cross elasticity of demand.

(ii) Would your answer differ if cars using electrical batteries instead of petrol were designed and produced in large quantities?

[6 Marks]
b) The market demand for playing cards in a region is given by the equation:

\[ Q_x = 6,000,000 - 1,000,000P_x \]

Where,

\[ Q_x = \text{the number of decks of cards demanded each year}; \]
\[ P_x = \text{the price in Ringgit} \]

For a price increase from RM2 to RM3 per deck, what is the arc price elasticity? How much will be the contraction of demand, if the price is increased by 10%?

[6 Marks]
c) Jelita Publishing House is a publisher of novels. The business economist estimated the following demand function for the firm's novels ($Q_x$):

$$Q_x = 12000 - 5000P_x + 5M + 500P_c$$

Where,

- $P_x$ = the price charged for the Jelita novels;
- $M$ = income per capita; and
- $P_c$ = the price charged by the competitors.

Initial values of $P_x = RM 5$, $M = RM 10,000$ and $P_c = RM 6$. On the basis of this information:

(i) Determine what effect a price increase would have on total revenues.

[Contd.: next page]

[3 Marks]
(ii) Evaluate how sale of the novels would change during recession.

[3 Marks]

(iii) Access the probable impact if competitors raise their prices by 10%.

[3 Marks]
d) On the basis of data for the period 1975 - 1995, sales trend equation for product x is estimated as:

\[ S_x = 27.8 + 2.72t \]

Where,
- \( S_x \) = sales value of x in million ringgit
- \( t \) = time-element

Give sales forecast for the product in 2000.

[4 Marks]
Question 2 : [25 Marks]

a) Using diagrams explain the behaviour of short-run per unit costs with the increase in output. Specify the relationship between marginal cost and average cost.

[7 Marks]
b) What are the cost economies to increasing scale of output?

[6 Marks]
c) If: \( TC = 100Q + 50Q^2 \)

At what stage of returns to scale the firm is operating in producing 15 units of a product? Justify your answer by measuring the scale economy index.

[6 Marks]
d) If: $TR = 100Q$ and 

$TC = 2000 + 50Q$, 
determine the break-even output volume, break-even output value and contribution margin per unit of output.

[6 Marks]
Question 3: [25 Marks]

a) What is perfect competition?  
   Is it a realistic phenomenon? Why?  

[6 Marks]
b) Using diagram, explain the profit-maximising rate of output of a competitive firm in the long run.

[6 Marks]
c) The Manager of Pizza Plaza has estimated the following monthly cost function:

\[ TC = 1000 + 2Q + 0.01Q^2 \]

(i) To maximise total profit, how many pizzas should be produced each month?

(ii) In the short-run, how much economic profit will the business earn each month?

Assume average price of pizza at RM10 as a given competitive price.

[6 Marks]
d) Cheetah Bicycle Manufacturing firm faces perfectly elastic demand curve. Its cost function is:

$$\text{TVC} = 150Q - 20Q^2 + Q^3$$

Where $Q$ is the number of bicycle produced.
Below what price should the firm shut down its business? Explain the shut down condition by using diagram.  

[7 Marks]
Question 4: [25 Marks]

a) If total fixed cost is RM5000, average variable cost is RM3, price is RM11, and output for product x is 1000 units, what is the profit elasticity?

[5 Marks]
b) What are the barriers to entry that give rise to monopoly power?

[6 Marks]
c) Product differentiation is a distinct feature of monopolistic competition. Discuss giving meaning, forms and implications of the concept.

[7 Marks]
d) Given the price and product, trace selling cost equilibrium of a firm.

[7 Marks]
Question 5: [25 Marks]

a) Monopolists have great opportunities for price discrimination. Illustrate how it is done in practice. Show equilibrium of a discriminating monopoly.

[9 Marks]
b) Explain the meaning and theoretical use of kinked demand curve hypothesis.

[6 Marks]
c) Why and how should government intervene in a market economy?

[10 Marks]
Question 6: [25 Marks]

The Malaysian economy is on the path of recovery in 1999. Do you agree? Justify your answer.