JAIPURIA INSTITUTE OF MANAGEMENT
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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M)/ PGDM (SM)
FIRST TRIMESTER (Batch 2021-23)
END-TERM EXAMINATIONS, OCTOBER 2021

Course Name	**Managerial Economics**	**Course Code**	**ECO20401**
Max. Time	**2 hours**	**Max. Marks**	**40 MM**

INSTRUCTIONS: All questions are compulsory.

Q1. During a recent recession, Japan saw many business failures. Even businesses that traditionally do well during economic downturns, such as the beer brewing industry, were hit hard. Analysts blame the downturn in the beer market on two factors: (1) Japanese incomes (Gross Domestic Product) declined significantly as a result of the recession and (2) Japan's government imposed a beer tax in an effort to raise revenue. As a result of these events, top Japanese breweries such as Kirin Brewery Company, Ltd., and Sapporo Breweries Ltd. experienced a sharp decline in domestic beer sales. Meanwhile, their competitor—Asahi Breweries—touted double-digit growth and increased its market share. Asahi attributes its growth in sales to its superior sales network and strong marketing campaign for its best-selling beer, Asahi Super Dry. While part of Asahi's growth and success is attributable to the company's sales force and marketing activities— both create greater consumer awareness—this does not fully explain why Asahi has done especially well during the recent Asian recession. One possibility is that Asahi beer is an inferior good. Discuss.

[5marks]

Q2. According to an article in China Daily, China recently accelerated its plan to privatize tens of thousands of state-owned firms. Imagine that you are an aide to a senator on the Foreign Relations Committee of the U.S. Senate, and you have been asked to help the committee determine the price and quantity that will prevail when competitive forces are allowed to equilibrate the market. The best estimates of the market demand and supply for the good (in U.S. dollar equivalent prices) are given by $Q_d = 10 - 2P$ and $Q_s = 2 + 2P$, respectively. Determine the competitive equilibrium price and quantity. **[5 marks]**

Q3. Marie Smith runs a small business specialising in delivering organic fruit and vegetables to the local area. She buys from local farms and packages these together in boxes and delivers them locally. Each box is sold for $12. She has the following costs:

Direct wages are $9 per hour (30 minutes per box on average), Fruit and vegetables cost $4 per box, Other fixed costs incurred each year are as follows:

Rent of Delivery Van:	$ 4,500
Rent of Premises:	$ 10,500
Advertising:	$ 2,000

(P.T.O)

Calculate the breakeven point for this business? **[5 marks]**

Q4. Fashionable Designs, Ltd., plans to market a new sports blazer. Based on information provided by the accounting department, the company estimates fixed costs of $40,000 per year and average variable costs at:

$$AVC = \$1 + \$0.001Q$$

where AVC is average variable cost (in dollars) and Q is output measured in cases of output per year. Calculate total cost and average total cost for the coming year at a projected volume of 12,000 units. **[5 marks]**

Section II

The new trend in Indian Economy

During the 26th meeting of the Monetary Policy Committee of the Reserve Bank of India (RBI), one of the MPC members - Jayant R. Varma, - made an interesting observation, which many in government institutions would barely admit to. "Anecdotal evidence suggests that in several sectors which are characterized by an oligopolistic core and a competitive periphery, the oligopolistic core has weathered the pandemic well and it is the competitive periphery that has been debilitated. Rising profits and profit margins, improving capacity utilization and lack of new capacity additions create ripe conditions for the oligopolistic core to start exercising pricing power," he had said.

As consolidation picks up pace and few firms get bigger, India Inc. is seeing market share, revenue and profit concentrating among a handful. According to Saurabh Mukherjea, large swathes of the Indian economy are controlled by 20-25 families. "The top 20 companies in India generated 70 per cent of profits of the corporate sector (in 2019/20), compared to only 15 per cent in 1992/93." Mukherjea thinks this will only increase over time. Globally, companies including technology giants such as Google, Facebook and Amazon, have been criticized for too much market power.

Market Concentration

Much of this debate was triggered by a few of the following developments - a flurry of investments received by Reliance Industries and its subsidiaries, and its subsequent acquisition of Future Retail; Adani group's acquisition of a 74 per cent stake in Mumbai International Airport, after it had won the rights to manage six other airports also fueled the talks. Sectors, including cigarettes, non-banking finance companies (NBFCs), small cars, paints, adhesives, baby milk powder, hair oil, pharma APIs and health diagnostics, also throw up such examples.

Nestle, for example, has an 85 per cent share in the baby foods market. ITC has a 77 per cent share in cigarettes, Pidilite has 70 per cent in the adhesive segment, Bajaj Corp has 60 per cent in hair oil, and Asian Paints around 40 per cent in the paints market. Says Arvind Singhal, Chairman, Technopak Advisors, a management consulting firm, "Reliance (Retail) will become bigger and bigger for multiple reasons - its strategy is fundamentally sound, it offers multiple products and services on the same platform. You have services through Jio platforms, and as far as physical retail is concerned, they are trying to partner with independent retail outlets for cash and carry. The numbers show that it is working."

Entry Barriers

According to experts, some of these businesses have created entry barriers - regulatory or technology driven - which are insanely high. Mukherjea cites the example of the infant milk powder segment, where, he says, no one can compete with Nestle, partly because advertising is prohibited. Infant Milk Substitutes (IMS) Act, 1992 bans any kind of promotion of infant formula, feeding bottles and infant foods for 0-2 year-old children. Then there is Asian Paints in the paint segment with 40 per cent market share. "Asian Paints removed all layers of channel partners and reached out directly to paint dealers on the high street, while also compressing their channel margins. The incentive offered to these dealers was supply chain efficiencies (of three-four deliveries per day), which helped them generate healthy returns on capital employed. This capability was built using tech investments to forecast demand with greater accuracy compared to their competitors," explains a note by Marcellus.

Reliance's foray into telecom with the launch of Jio in 2016 offering free voice, zero roaming charges and free data rates, is probably one of the most strategic business moves in the last decade, keeping in mind the future potential of digital economy and Big Data. Within three years of its launch, Jio emerged as the leader by number of subscribers, ahead of incumbents such as Airtel, Vodafone and Idea. Former Telecom Regulatory of India (TRAI) Chairman Rahul Khullar had said in 2018 that Jio's entry had to be disruptive as it was the only way for it to succeed. However, he was quick to mention the regulatory action that became the 'invisible hand' determining Jio's economic fortunes.

Adani owns a group of companies in varied businesses - ports, power, food and airports. It has also won the right to upgrade and operate six airports - Ahmedabad, Lucknow, Jaipur, Guwahati, Thiruvananthapuram and Mangaluru - for 50 years. GMR, which handles three airports - Delhi, Hyderabad and Goa - is the only other airport operator handling more than one airport. While discussing the proposal to lease out the six airports of the Airports Authority of India (AAI), an appraisal note by the Department of Economic Affairs (DEA) had suggested that not more than two airports be awarded to the same bidder, 'duly factoring in the high financial risk and performance issues'. However, the note was ignored during bids and Adani has won all the six airports offered in this round.

Recently, the US Federal Trade Commission, an independent consumer protection agency, has sought the break-up of Facebook, asking it to sell Instagram and WhatsApp. It alleges that Facebook buys out rivals to curb competition and kills start-ups that it cannot buy by limiting access to its tools. Being a dominant social media player, Facebook's failure to curb fake news and hateful content have also invited a lot of criticism across the globe as well as in India. Indian competition law does not define monopoly, but it describes 'dominant position' as a position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables it to operate independently of competitive forces prevailing in the market, or affect its competitors or consumers or the relevant market in its favour. According to competition experts, and market dominance do not always mean market abuse. Unless there is evidence of past misconduct of dominance, which is abusive and harming - for the market, other stakeholders and consumers - there is no justification for maligning a company or a firm. A partner at a law firm says market monopoly in itself should not be a cause of concern for the regulator. "In case of competition law, without having any evidence of abuse the regulator should not try to discipline big companies just because it doesn't like them. This is not the intent of competition law," he says.

Inequality and More

No matter how dispassionately competition experts or stock market analysts view the debate around monopolies, oligopolies, dominance and corporate biggies, a large section of activists and economists fear that not all dominance is being created through best business practices, strategies and innovations driven by technology.

Q5 (a) Examine the current situation of competition in the sectors discussed in the case. **[5 marks]**

Q5 (b) Critically analyze what is wrong with a company growing bigger than the rest, through hard work, smart strategy and better technology adoption. **[5 marks]**

Q5 (c) Are Indian markets becoming more concentrated and less competitive? Is the balance tilting in favour of a few companies in certain sectors? **[5 marks]**

Q5 (d) Why would one fault Reliance's Retail strategy of using its telecom subscriber base to reach out to a larger market or Pidilite's strategy of targeting carpenters, educating them about the benefits of its products and then skilling them to use those to create a demand in the market (Pidilite has a 70 per cent share in the adhesive market)? Or could one blame Adani for its vertical integration efforts in the power sector, or for expanding its energy offerings by diversifying into the gas distribution business? Evaluate the above facts. **[5 marks]**