

**Online PGDM**

**First Year, Trimester 1, June 2023**

**Course Name : Business Economics**

**Max Marks : 70**

**Course Code : 1101**

**Max Time : 2 hrs**

*Instructions for Students: The question paper comprises three sections and 12 questions. Read each question carefully.*

**Section A : Objective Type Questions**

**Max. Marks-20**

**Questions 1:** (2 Mark) If demand equation is given by  $D = 1000 - P$ , and the supply equation is given by  $S = 100 + 4P$ , price would be.

- a.  $P = 160$
- b.  $P = 180$
- c.  $P = 170$
- d.  $P = 200$

**Question 2:** (2 Mark) Suppose the price of a product increases from £12 to £20 and the quantity demanded falls from 55 a week to 45. What is the PED?

- a. 0.4
- b. -0.4
- c. 2.5
- d. -2.5

**Question 3:** (2 Mark) In the short-run, which of the following always gets smaller as output increases?

- a. Average fixed cost
- b. Average variable cost
- c. Short-run average cost
- d. Short-run marginal cost

**Question 4:** (2 Mark) Suppose a profit-maximizing firm faces a rise in the wage rate it pays. Which of the following would definitely stay the same?

- a. Its choice of production method
- b. The expansion path on which it ends up
- c. Its isocost line
- d. Its production function

**Question 5:** (2 Mark) Suppose there is excess supply in a market and the price decreases. Which of the following combinations of events will occur?

- a. There will be a fall in quantity supplied and a rise in quantity demanded.
- b. There will be a fall in quantity supplied and a rise in demand.
- c. There will be a fall in supply and a rise in quantity demanded.
- d. There will be a fall in supply and a rise in demand.

**Question 6:** (2 Mark) Which of the following is a characteristic of monopolistic competition?

- a. Few sellers.
- b. A differentiated product.
- c. Easy entry into and exit from the industry.
- d. All of the above are characteristics of monopolistic competition.

**Question 7:** (2 Mark) The automobile market is an example of

- a. monopolistic competition.
- b. duopoly.
- c. differentiated oligopoly.
- d. pure oligopoly.

**Question 8:** (2 Mark) According to the kinked demand curve model, a firm will assume that rival firms will

- a. keep their rates of production constant.
- b. keep their prices constant.
- c. match price cuts but not price increases.
- d. match price increases but not price cuts.

**Question 9:** (2 Mark) The petroleum industry is an example of

- a. monopolistic competition.
- b. pure oligopoly.
- c. duopoly.
- d. differentiated oligopoly.

**Question 10:** (2 Mark) Which of the following is a form of nonprice competition?

- a. Advertising
- b. Quality of service
- c. Product quality
- d. All of the above are forms of nonprice competition.

**Section B : Subjective Type Questions (Short Answer Questions)**

Max. Marks-10

**Question 11:** (10 Mark) Assume there is a well-defined geographic area of a city. The area is composed exclusively of apartments and is populated by low-income residents. The people who live in the area tend to stay in that area because (1) they cannot afford to live in other areas of the city, (2) they prefer to live with people of their own ethnic group, or (3) there is discrimination against them in other areas of the city. Rents paid are a very high percent of people's incomes.

- (a) Would the demand for apartments in this area be inelastic or elastic? State why.
- (b) Would the supply of apartments in this area be inelastic or elastic? State why.

Or

**Question 11:** (10 Mark) What happens to the equilibrium price and quantity of ice cream in response to each of the following? Explain your answers. [ 5 + 5 Marks]

(a) The price of dairy cow fodder increases.

(b) Concerns rise about the fat content of ice cream. Simultaneously, the price of sugar (used to produce ice cream) increases.

**Section C : Subjective Type Questions (Long Answer Questions)**

Max.Marks-40

**Question 12:**

**Zara and Hennes & Mauritz (H&M): How do these two retail giants differ?**

The owners of Zara (Inditex) and H&M (H&M Group) are the world's two biggest players in fashion retail, and as such are under intense scrutiny as the market undergoes changes accelerated by the health crisis. By dissecting the fashion assortment sold online by these two fashion giants, analyst Retviews by Lectra reveals similar trends, but also different strategies.

**Average Prices Premium vs. Regular Collections**



The main difference in their offerings is the selling prices. Due to supply chain related difficulties (materials, transport, etc.), many brands are passing these price increases on to their customers. From August to December 2021, H&M saw its average price per item increase by 13% (from €24 to €27), while Zara, whose positioning is slightly higher than that of its rival, recorded a jump of 23% (with an average price rising from €31 to €38).

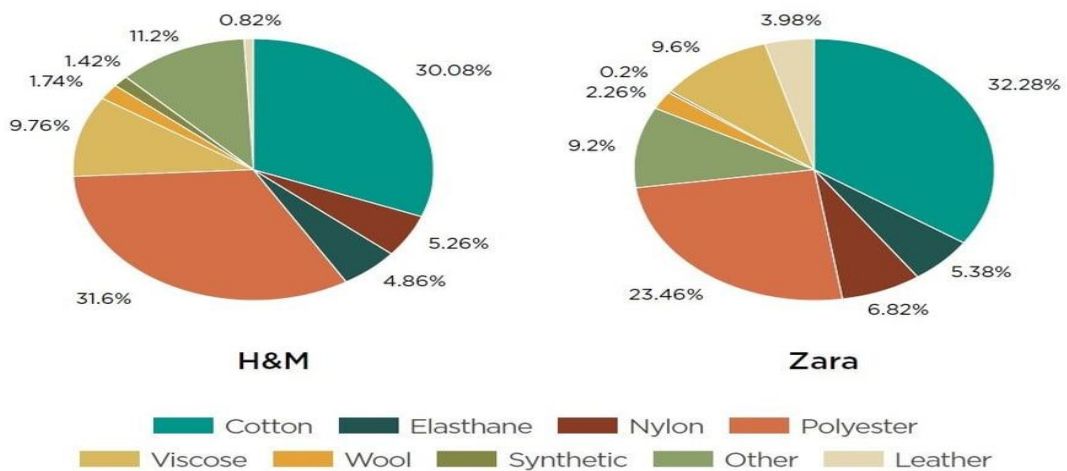
In addition to the difficulties caused by the pandemic, it seems that Zara's elevated prices are also due to its increasing higher quality, since the garments are therefore made with more expensive materials. The premium products offered by the Spanish retail chain, which launched the 'Zara Origins' collection last year, now represent 4.8% of its product portfolio, compared to 4.1% a year ago, an increase of 17%. H&M's premium offerings, on the other hand, have increased by only 2%, reaching 5.6% of the total assortment.

### Average Price Variation



Now let's dive into the fibers. What are the materials most used by the two brands in their overall assortment? They are cotton (32% at Zara and 30% at H&M) and polyester (31.6% at H&M, and 23% at Zara), which are both well ahead of other textiles, such as viscose (around 10% for both), nylon, elastane or wool (only 1 to 2% of the supply).

### Fabric Mix



In the niche of high-end materials, Retviews by Lectra noted a 44% jump in one year of the presence of cashmere in Zara's e-commerce product offering, and +29% at H&M, despite these knitwear items representing less than 1% of the overall offer. Similarly, leather (representing 4% of Zara's offer and 0.8% at H&M), made a small breakthrough, from +16% at Zara to +32% at H&M.

Regarding markdowns, products made from these higher-quality materials are discounted less. This is especially the case at H&M, which discounts around 7% of these items (compared to 22% for other products), while Zara discounts 19% of pieces made with premium materials, compared to 23% for the rest of its products.

In terms of their eco-labeled products (which are included in the main range and in specific lines), H&M appears to be a little further ahead than Zara: the former has 21% of its items labeled 'Conscious', while the latter has 16% of products stamped by its 'Join Life' label.

**(a).** Examine the market structure in which Zara and H&M operate in India. Validate with suitable arguments. **[20 Marks]**

**b).** Define Market Power. Identify the sources from where Zara is earning its market Power. **[20 Marks]**