

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M)/ PGDM (SM)
FIRST TRIMESTER (Batch 2020-22)
END-TERM EXAMINATIONS (Reappear)

Course Name	Managerial Economics	Course Code	ECO101
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS: All the question are compulsory to attempt.

SECTION I

Read the news excerpt given below and answer the questions that follow:

Bullish on IT services, there is no competition for India: Vikas Khemani
The Economic Times (Aug 10, 2020, 06:22 PM IST)

How are you looking at the Indian IT sector? Would it be a positive view across the board or are you being very selective?

A very big shift has happened. Post Covid crisis, across the world, organisations need to spend significantly on digital transformation, infrastructure update and that has created a significant spurt in IT demand. This demand is global, this is not a particular company, particular sector or a particular country. It is global across sectors and this is a very robust environment. From a supply side perspective, the great path for India is that there is no competition; only Indian IT companies can provide IT services both in digital transformation and infrastructure upgrade for the related IT services.

We will create the demand environment over the next three to five years for most IT services. Of course, there will be some sort of a shift from the traditional server system to the new digital side. The overall pie is going to get fairly large. Across the board, IT services will do very well but obviously the larger ones will capture the larger part because they are a lot more prepared for the digital capability perspective. They are more prepared from the point of access to customer perspective. But in general, when that pie goes up, every company benefits. We are in general bullish for IT services and we think it is here to stay because existing demand supply dynamics. On the supply side, it is only Indian. You cannot count more than 10-15 companies which have any kind of capability to cater to this demand. So we remain quite positive on this thing.

Q.1. Identify type of a market structure is represented by the above scenario? Explain the salient features of the market structure identified as per the information given in the case. **(5 Marks)**

Q.2. What do you think, IT services firms in the industry be able to generate economic profits in long run? Why or why not? How can you measure market power of any organisation in this market structure? **(5 Marks)**

SECTION II

The general linear demand for good X is estimated to be

$$Q^x_d = 1200 - 3P_x - 0.1P_z$$

Where $P_z = \text{Rs } 300$

Q.3. What is the price elasticity of demand of Good X when $P_x = \text{Rs } 140$? Is the demand elastic or inelastic at this price? What would happen to the firm's revenue if it decided to charge a price below Rs 140? **(5Marks)**

Q.4. Calculate the cross-price elasticity EXR when $P_x = 140$. Are the goods X and R substitutes or complements? **(5Marks)**

SECTION III

If the demand and supply curve for an exotic fruit in the market are:

$$Q_d = 1200 - 10P$$

$$Q_s = -500 + 10P$$

Where P is the price of the exotic fruit in rupees per kg and Q_d and Q_s are quantity demanded and supplied respectively of the fruit in kilograms.

Q.5. Compute equilibrium price and quantity of the exotic fruit in the market. **(5 Marks)**

Q.6. Assess the impact of a ceiling price of Rs. 75 per kilogram, as imposed by the government. **(5 Marks)**

SECTION IV

Identify what is wrong with the following reasoning on the part of a factory manager?

Q.7. The plant is working steadily at its most efficient output. Nevertheless, I could always meet a short run increase in demand by running two shifts and deferring maintenance. So, in short run, the marginal cost is zero'. **(5 Marks)**

Q.8. The portion of long run cost curve that is falling down indicates diseconomies of scale. **(5 Marks).**

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FIRST TRIMESTER (Batch 2020-22)
END-TERM EXAMINATIONS, OCTOBER 2020

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INSTRUCTIONS: All questions are compulsory.

SECTION I

Based on the following excerpts compiled from different sources, answer the questions that follow.

Revenge travel picks up in India; resorts, hotels beat some COVID-19 blues

Oct 26, 2020 (Source: Moneycontrol.com)

A 10-minute-long discussion on a WhatsApp video call, and, two days later, Mumbai-based college student Siddharth Shetty and four of his friends steered their Maruti Suzuki Swift towards Goa. Passing through the lush green forests and overflowing rivers of the Western Ghats, the fivesome checked into two standard double rooms of Double Tree by Hilton in Goa's capital Panaji at the end of the 12-hour drive. "Being at home, we could not take it anymore. This holiday break meant to us more than all our holidays put together, and we are having the best time of 2020," Shetty said on a phone call. Nineteen-year-old Shetty is one among several thousand Indian travellers who have not let go of the chance to head out for an unplanned holiday as soon as the 'unlocking' phase started, allowing interstate and intercity leisure travel.

Demand picks up for resort properties

SP Jain, Founder and Chairman, Pride Hotels, said: "There is a huge demand for resort properties, where, during weekends, room occupancy hits as high as 80 percent. We started advertising and marketing our properties after seeing this surge. With (room) rates being 20-25 percent less than the pre-COVID-19 levels, the food and beverage sales have also shot up. What we saw in China about 'revenge travel', we are seeing in India now". Revenge travel is a term which gained popularity in China, and refers to compulsively travel by people to beat boredom brought about by the lockdown. Similar sentiments among travellers were noted by Indian hoteliers. The long weekend, starting October 2 (Gandhi Jayanti), saw start-up Oyo Hotels and Homes, registering a 72 percent surge in bookings for leisure destinations, with nearly 1.8-2 lakh guests spending their long weekend at Oyo properties.

Popular destinations

Jaipur, Goa, and Kochi topped as India's most popular leisure destinations among travellers during the long weekend. "We also observed that Delhiites took interstate road trips to tourist hotspots, with Jaipur and Agra topping the chart. A majority of travellers from Pune, Bengaluru and Mumbai preferred to go to the relaxing beaches of Goa. "Down South, Kochi was the most popular leisure destination, with most people coming into the city from Bengaluru, Kozhikode, and Thiruvananthapuram," Oyo posted on its official blog page. Demand for budget and mid-scale hotels (priced under Rs 7,000 a night), such as Lemon Tree, Double Tree by Hilton, Country Inn and Suites, and Holiday Inn are getting stronger than luxury properties such as JW Marriott and Taj, say market watchers.

Safety, car access priorities

"Safety remains the top priority with guests, and, probably, that is why almost everyone opted for private road trips. Air travel has taken a backseat for now. The appetite for travel within India, especially in the light of international travel restrictions, is huge and it's heartening to see it come back so robustly," said a senior executive of a Delhi-based hotel chain. STR, a market intelligence company tracking the hotel sector, reported that many leisure destinations began seeing weekend occupancy spikes since August itself. "Leisure destination markets with easy car access, such as Rajasthan, Punjab and Karnataka, were the first to attract domestic leisure guests. Goa, where occupancy was in a state of limbo and in single digits until August, has seen considerable upward movement with weekend leisure demand growing robustly," STR said.

Rise in corporate travel

Corporate travel, which was not expected to see an upside before December, has started to witness strong week-on-week improvement. For instance, Delhi-based businessman Puneet Tayal, who was travelling outside his city for the first time in seven months on a work visit, struggled to get a hotel room. His destination was the industrial town of Baddi, Himachal Pradesh. "All decent hotels in Baddi are full; had to find a place in Panchkula. Lemon Tree has a property in Baddi which was full," Tayal tweeted. "City hotel occupancy is also increasing, which means corporate travel has restarted. Their occupancy has risen to around 20 percent, pushing the total occupancy to 30-35 percent in city hotels," added Jain. The extended lockdown and the ensuing slowdown may have eroded 57 percent or Rs 90,000 crore in revenues for the hotels and hospitality industry, forcing real-estate developers to go slow on new properties, as per a report by real-estate consultants HVS Anarock. After a strict lockdown hotels and restaurants were allowed to reopen from June 8 by the Ministry of Home Affairs under Unlock 1.0. However, hotels in Maharashtra were allowed to run on full capacity only from September 2.

Travel firms witness spike in bookings in festival season

26 Oct 2020 (Source: Mint)

With easing of inter-state restrictions and states lifting mandatory covid test requirement, an increasing number of travellers are spending time at tourist destinations in the festival season. Online and offline travel operators have witnessed a spike in enquiries and booking.

Yatra.com, for instance, said they are witnessing an increase of about 40% in booking enquires for the festival season with travelers now moving from essential to leisure travel. "During this festive

season, we have seen a spike in bookings being made to destinations such as Himachal, Uttarakhand, Varanasi, Ranchi, Lucknow and Kolkata as travelers plan trip to their hometowns or nearby destinations for leisure around the weekends of festivals such as Dussehra or Diwali," said a Yatra.com spokesperson. People travelling with family are opting for a minimum of four-night holiday preferring to stay at homestays, cottages, luxury hotels. About 74% of individuals are opting for 4- and 5-star hotels at a drivable distance, as per Yatra.com's data.

Resort chain Mahindra Holidays & Resorts India said more members are holidaying in its properties across India in October over the same month last year despite the fact that only 52 out of 69 resorts are currently operational. "There's a high occupancy in locations such as Maharashtra, Goa, Rajasthan, Karnataka, Himachal and Uttarakhand. In fact, over the weekend we are almost sold out across these locations. Most of our resort properties are outside the main city with big rooms and common areas which is offering travellers a sense of safety," said Vivek Khanna, COO, Mahindra Holidays & Resorts India Ltd.

Thomas Cook India said it is witnessing a demand for small group/family breaks - eager to catch up on all that was missed during the period of the lockdown. "Further, we are also seeing demand from the honeymoon segment who, due to the lockdown and restrictions, had their honeymoon plans postponed. We are also seeing growing demand for bookings that are at short notice - between 5-10 days among those planning a domestic holiday," said Rajeev Kale, president & country head – Holidays, MICE, Visa, Thomas Cook (India) Ltd.

Gen Z and millennials are showing strong inclination to explore adventure and nature based holidays with their families. Fun outdoor activities such as nature camps, national parks and hiking trails are popular among Indians travelling with friends and families. SOTC Travel said that they have seen strong demand for Ranthambore for the month of October and November with the wilderness packages. Other popular wildlife reserves include Kanha, Gir and Jim Corbett National Park.

"With consumers opting for non-standard/eclectic accommodation such as colonial bungalow, plantation villas (coffee /tea estates), heritage properties, to tap into the demand for non-standard/unique journeys, we have introduced India's Hidden Gems package starting at ₹11,500," said Daniel D'souza, president and country head, leisure, SOTC Travel.

A set of travellers are also looking at private vacation homes with luxury villa chain. Saffron Stays receiving twice the number of bookings they had last year during the festive season. "Now, people prefer booking villas at drive-to distances because they are seen as a safer option. Unlike hotels where one can't use the pool at the moment, travellers can freely do so at a rented villa. We've seen an increase in demand for smaller homes - anywhere between one to three bedrooms as well in drive-to distances from Mumbai including Lonavala, Khandala and Alibaug," said Devendra Parulekar, founder, SaffronStays.

- Q.1.** Examine the market structure of travel and tourism industry in India. Validate with suitable arguments. **[5 Marks]**
- Q.2.** Assess the role of price and non-price competition in this type of market. **[5 Marks]**

- Q.3.** Examine the probable impact of prices and income changes on accommodation bookings. [5 Marks]
- Q.4.** Will the firms be able to generate supernormal profits in long run? Review. [5 Marks]

SECTION II

Read the following excerpt and answer the following question:

Hyderabad and Bengaluru saw residential weighted average price increase of 4% and 3% YoY (Adapted from: The Economic Times , 27 October, 2020, 09:59 PM IST | E-Paper)

Synopsis: Property prices have reduced in the range of 3-7% across Mumbai, Pune, NCR, Chennai and Kolkata during Q3 2020 compared to a year ago. Bengaluru and Hyderabad are the only markets that saw prices grow on YoY basis.

BENGALURU: The COVID-19 induced lockdowns across the country have led to softening of weighted average prices of residential properties across six of the eight markets during the third quarter of 2020. Property prices have reduced in the range of 3-7% across Mumbai, Pune, NCR, Chennai and Kolkata during Q3 2020 compared to a year ago. Bengaluru and Hyderabad are the only markets that saw prices grow on YoY basis as developers in these predominantly end-user markets sustained pricing power in a favourable demand-supply scenario.

According to the latest report by Knight Frank, the overall real estate sector dynamics continue to remain strained with improvement in sales and new launches in Q3 2020 due to home loan rates at a multi-decade low of sub 7%, fall in residential prices, aggressive marketing of ready inventory and indirect discounts/freebies to the buyers - have helped move the demand needle in Q3 2020. Rajani Sinha, Chief Economist & National Director Research, Knight Frank India said, "Strong demand stimulus like the one by the Maharashtra government and historic low home loan interest rates have been the key reason for the current uptick residential sales. These measures have compelled end users, those looking for good deals for their property, to take their purchase decision. Developers also took the opportunity to make strategic offer, especially on their unsold inventory, to support the sales velocity."

Both sales and launches for the eight markets under review, rebounded sharply from their lockdown lows. In Q3 2020, for the eight cities under review, launches have grown by four and half times and sales by two and half times compared to the second quarter of 2020.

The total residential sales of the top eight markets under review during Q3 2020, reached 54% of 2019 quarterly average. Similarly, residential launches in Q3 2020, improved to 56% of the 2019 quarterly average. Mumbai, Bengaluru and NCR accounted for 56% of the quarterly sales volume during Q3 2020 compared to 62% in 2019, primarily due to a fall in Bengaluru's share in total sales for the same period. Kolkata was the only market that exceeded the quarterly average of 2019 in both parameters with sales and new launches increasing to 137% and 139% respectively compared to pre-covid levels, albeit on a low base.

Shishir Baijal, Chairman and Managing Director, Knight Frank India said, "There has been a meaningful improvement in sales and launches in Q3 2020. Developers have been focusing on

liquidating inventory and homebuyers inclined to purchase ready assets has translated into reduced unsold inventory levels in this quarter. For markets such as Mumbai and Pune, additional push by the state government in the form of reduced stamp duty has helped in demand generation and revenue creation for the for the state government. Going forward, the festival season will be crucial for developers. This may prove to be an opportune time for end-users with adequate financial stability to make their investments. The near-term outlook on sales continues to depend on the speed and trajectory of recovery in the economy in the months ahead.” The third quarter also saw buyers opting for ready or near ready inventory to minimize completion risk. While the average age of inventory stayed at 16.9 quarters in Q3 2020 compared to 16.2 quarters in the year-ago period, the developers focus on clearing the old stock has helped the market reduce unsold inventory levels to 0.44 mn units in Q3 2020, 1% less than a year ago.

Q.5. Identify the factors affecting demand of residences in different cities of India. With the help of demand and supply scenario explain the price increase observed in these cities.

[10 Marks]

SECTION III

Bank mergers for Creating Efficiency

The successful merger of two public sector banks (PSBs), Dena Bank and Vijaya Bank, with Bank of Baroda has paved the way for the future road map of PSB restructuring. It has created the right synergy, achieved scale & resulted in better shareholder value creation. It would be wrong to think that this move of GoI was in response to the difficult conditions that many PSBs find themselves in. Nor was it meant to provide protection to a ‘weak’ bank like Dena Bank (as it is perceived to be). This amalgamation is the result of a deliberated choice in the present world economy.

It is incongruous for the world’s sixth-largest economy by GDP in 2018 to not have a bank ranked in the world’s top 25 by size; China has six. The UK, whom we will overtake to become the fifth-largest economy this year, has three. Canada, the 10th largest economy, has two, and Spain ranked 13th has one. In the world’s top-ranked 100 banks by assets, India has one: SBI, which is ranked 60th.

To be globally competitive, we have to build banks that are bigger and stronger than what we have at this time. The faster we do it, the better it would be. The amalgamation of the three banks is the first step to achieving that goal.

Q.6. Creating bigger banks after mergers can help these banks in regaining the lost ground.

Discuss. Apply the relevant economic concept or model can explain the rationale of the government move or reform of merging Public Sector Banks. (Please refer to the case facts given above for explaining the economic concept or model)

[10 Marks]

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