

International Islamic University Chittagong
Department of Business Administration

Program: MBA

Mid-term Examination; Summer-2022

Course code: ECON-5301, Course Title: Managerial Economics

Time-2.00 hours

Marks: 30

Answer any three of the following questions

Question-1

marks: 2+2+6

- a) Why should a manager prefer economic Profit to accounting profit? Use necessary illustrations.
- b) Discuss the goal of a manager with his constraints.
- c) An entrepreneur plans to convert a building she owns into a video-game arcade. Her main decision is how many games to purchase for the arcade. From survey information, she projects total revenue per year as $TR = 10,000Q - 200Q^2$, where Q is the number of games. The cost for each game (leasing, electricity, maintenance, and so on) is \$4,000 per year. The entrepreneur will run the arcade, but instead of paying herself a salary, she will collect profits. She has received offers of \$500 per month to rent her building and a \$15,000 offer to manage a rival's arcade. Being a profit maximizer, she orders 15 games for her arcade.
 - i. How much accounting profit does she earn?
 - ii. What is her economic profit? Provide your suggestions on whether she should run the business or not.

Question-2

marks: 2+2+6

- a) Mr. Milon buys less of good X, as his income rises while Mr. Zilan buys more of good X as its price rises. Now, determine and write the nature of good X separately for Mr. Milon and Mr. Zilan.
- b) Distinguish between demand Law and Supply Law. Are these laws applicable in all circumstances? Discuss briefly.
- c) Suppose that the general demand and supply function for good X is given as follows: $Q_{dx}=200-2P$, $Q_{sx}=-10+0.5P$
 - I. Determine equilibrium price and quantity.
 - II. If a tax at the rate of 5 taka per unit is imposed on seller, determine
 - i. the post-tax equilibrium price and quantity
 - ii. How much tax is paid by seller and buyer?
 - iii. Find out the tax revenue collected by government.
 - iv. Find out the amount of deadweight loss

Question-3

marks: 3+2+5

- a) Distinguish between Perfectly elastic and perfectly inelastic demand. How do you increase the revenue from the perfectly elastic and perfectly inelastic good? Illustrate with examples.
- b) Illustrate the relationship between revenue and price elasticity.
- c) Management of McPablo's Food Shops has completed a study of weekly demand for its "old-fashioned" tacos in 53 regional markets. The study reveals that, $Q = 400 - 1200P + 0.8A + 55Pop + 800P^o$, where Q is the number of tacos sold per store per week, A is the level of local advertising expenditure (in dollars), P is the price of taco at McPablo, Pop denotes the local population (in thousands), and P^o is the average taco price of local competitors. For the typical McPablo's outlet, $P = \$1.50$, $A = \$1,000$, $Pop = 40$, and $P^o = \$1$. Now,
 - i. Estimate the weekly sales for the typical McPablo's outlet.
 - ii. What is the current price elasticity for tacos?