

II B. Tech I Semester Supplementary Examinations, September – 2014
MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS
 (Com. to EEE, ME, ECE, EIE, CSE, IT, ECC, BME)

Time: 3 hours

Max. Marks: 75

Answer any **FIVE** Questions
 All Questions carry **Equal** Marks
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1. a) Describe the basic tools in managerial economics for decision-making.  
 b) Explain various types of elasticity of demand. (7M+8M)
2. a) Explain the change in income elasticity of demand.  
 b) What is demand forecasting? Explain trend projection method demand forecasting (7M+8M)
3. a) Define production function. Write a note on the different types of production function  
 b) A company produces a single article and sells it at Rs.10 each. The marginal cost of production is Rs.6 each and total fixed cost of the concern is Rs.400 per annum. Construct a break-even chart and show the following: i) Breakeven point ii) Margin of safety at sale of Rs.1500 iii) Angle of incidence iv) Increase in selling price if break-even point is reduced to 80 units. (7M+8M)
4. a) Explain how price determination under monopoly in the long run.  
 b) Discuss the factors those influence price decisions (7M+8M)
5. a) Define the term joint stock company. What are its salient features?  
 b) What is business cycle? Describe the different phases of a business cycle. (7M+8M)
6. a) Define accounting and discuss its functions.  
 b) What is trading account? What purpose does it serve? (7M+8M)
7. a) Calculate net profit ratio from the following data:
 

|                         |          |                         |        |
|-------------------------|----------|-------------------------|--------|
| Sales less returns      | 1,00,000 | Selling expenses        | 10,000 |
| Gross profit            | 40,000   | Income from investment  | 5,000  |
| Administration expenses | 10,000   | Loss on account of fire | 3,000  |

 b) Determine in detail the significance of ratio analysis. (7M+8M)
8. a) Briefly examine the significance of identification of investment opportunities in capital budgeting process.  
 b) A firm is considering an investment proposal which requires an initial cash outlay of Rs.8 lakh now and Rs. 2 lakh at the end of the third year. It is expected to generate cash flows as under:
 

|      |              |
|------|--------------|
| Year | Cash inflows |
| 1    | 3,50,000     |
| 2    | 8,00,000     |
| 3    | 2,50,000     |

 Apply the discount rate of 12 percent calculate profitability index. (7M+8M)

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1. a) Write a note on basic tools of managerial economics.  
b) What are the major determinants of price elasticity of demand? (7M+8M)
2. a) Explain the importance of concept of elasticity of demand.  
b) What is demand forecasting? Explain in brief various methods of forecasting demand. (7M+8M)
3. a) Explain the production function with two variables or isoquants and isocost analysis.  
b) Explain the features of long run costs. (7M+8M)
4. a) Describe the price output determination under perfect competition.  
b) Write a note on advantages and disadvantages of monopoly. (7M+8M)
5. a) Enumerate the merits and demerits of partnership firm.  
b) What are the problems faced by the public enterprises in India. (7M+8M)
6. a) What is an account? Explain the different types of accounts with examples.  
b) Journalize the following transactions for March 31, 2010: (7M+8M)
 

|                                                  |           |
|--------------------------------------------------|-----------|
| March 1 Vamsi started business with a capital of | Rs.20,000 |
| 3 Paid cash to Madan                             | Rs.2,000  |
| 5 Sold goods to Samuel                           | Rs.4,000  |
| 6 Rent Paid                                      | Rs.500    |
7. a) Stock turnover ratio is 2.5 times. Average stock is Rs.20, 000. Calculate cost of goods sold and also sales if profit earned is 25% of cost.  
b) Describe the various limitations of ratio analysis. (7M+8M)
8. a) Explain the right procedure for capital budgeting decision.  
b) A project requires an initial outlay of Rs.1, 00,000. It is expected to generate the following cash inflows: (7M+8M)
 

| Year | Cash inflows |
|------|--------------|
| 1    | 50,000       |
| 2    | 50,000       |
| 3    | 30,000       |
| 4    | 40,000       |

What is the IRR of the project?

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1. a) Managerial economics is the close related to the other subjects. Discuss
 b) Why the demand curve downward slopping. Explain (7M+8M)
2. a) Explain the cross-elasticity of demand with examples.
 b) Describe the managerial uses of demand forecasting. (7M+8M)
3. a) Distinguish between fixed and variable costs.
 b) What are the advantages and disadvantages of using break-even analysis? (7M+8M)
4. a) Explain how price determination under monopoly in the long run.
 b) Explain the Marris Managerial theory of Firm Growth Maximization model. (7M+8M)
5. a) In what circumstances, sole proprietorship is considered and why.
 b) Write a note on: Prosperity and Depression in elaborate in business cycles. (7M+8M)
6. a) Explain the importance and purpose of final accounts.
 b) Post the following transactions in ledger accounts: (7M+8M)

| | | |
|-------------|---------------------|----------|
| April, 2010 | Sold goods for cash | Rs.800 |
| “ | Paid cash to Uma | Rs.2,000 |
| “ | Bought furniture | Rs.2,000 |
| “ | Paid salaries | Rs.3,000 |
7. a) Discuss the statement ‘Ratio analysis as a powerful tool’.
 b) Calculate debtors turnover ratio, if total sales is Rs.2,50,000, cash sales Rs.70,000, debtors in the beginning is Rs.16,000 and at the end is Rs.8,000 more. (7M+8M)
8. a) What are the merits and limitations of payback period? Explain
 b) Determine the payback period for the information given below: (7M+8M)
 - i) The project cost is Rs.20,000
 - ii) The life of the project is 5 years
 - iii) The cash flows for the 5 years are Rs.10,000, Rs.12,000, Rs.13,000, Rs.11,000 and Rs.10,000 respectively.
 - iv) Tax rate is 20%.

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1. a) Explain how managerial economics help the business students to integrate the knowledge of economic theory with business practice.
b) Analyze various types of demand. (7M+8M)
 2. a) How do you measure the price elasticity of demand?
b) Explain least square method and moving average method in demand forecasting. (7M+8M)
 3. a) Write various states of production function in the long run.
b) Write a note on: Marginal cost, Out of pocket costs, Opportunity cost. (7M+8M)
 4. a) Illustrate price determination of a firm in the monopoly in the long run.
b) Discuss the factors those influence price decisions. (7M+8M)
 5. a) Explain the main characteristics of business in the modern world.
b) Explain the innovations theory of business cycles. (7M+8M)
 6. a) Distinguish between single entry system and double entry system of accounting.
b) Prepare a Trial balance for the following:
Capital account Rs.20,000, Cash account Rs.18,500, Purchases account Rs.8,000, Sales account Rs.8,000, Furniture account Rs.2,000, X account Rs.4,000, Y account Rs.3,000, Rent account Rs.500. (7M+8M)
 7. a) Explain the various classifications of ratios in detail.
b) Calculate Quick ratio: Current assets: Rs.8,00,000, current liabilities: Rs.4,00,000, inventories (stock): Rs.2,20,000. (7M+8M)
 8. a) Critically examine the payback period as a technique of approval of projects.
b) A project costs Rs.25,000 and is expected to generate cash inflows as follows: (7M+8M)
- | Year | Cash inflows |
|------|--------------|
| 1 | 10,000 |
| 2 | 8,000 |
| 3 | 9,000 |
| 4 | 6,000 |
| 5 | 7,000 |
- Compute the NPV of the project.