

**III B.Tech I Semester Regular Examinations, November 2007  
MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS  
(Common to Mechanical Engineering, Electronics and Communication  
Engineering, Computer Science Engineering, Information  
Technology, Electronics and Telematics, Computer Science and Systems  
Engineering, Electronics and Computer Engineering, Production  
Engineering, Instrumentation and Control Engineering and Automobile  
Engineering)**

**Time: 3 hours**

**Max Marks: 80**

**Answer any FIVE Questions  
All Questions carry equal marks**

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1. Explain the relationship of Managerial Economics with other disciplines. [16]
2. What are the needs for demand forecasting. Explain the various steps involved in demand forecasting. [16]
3. (a) Distinguish between the following:
  - i. Average cost and Marginal cost
  - ii. Explicit cost and implicit cost
  - iii. Short run Average cost and Long run Average cost
  - iv. Variable cost and semi variable cost [4 × 2](b) Diagrammatically represent the relationship between Average Fixed Cost, Average variable cost, Unit cost and Marginal cost. [8]
4. (a) Explain in detail, the important features of perfect competition.  
(b) How can a competitor attain equilibrium position under conditions of perfect competition? [8+8]
5. What are the differences between a partnership business and company form of organization? [16]
6. Write short notes on the following: [4 × 4]
  - (a) Cumulative preference shares
  - (b) Customer advances
  - (c) Equity Shares
  - (d) Fixed capital.
7. Explain the following adjustments and illustrate suitably with assumed data. [16]
  - (a) Closing stock
  - (b) outstanding expenses
  - (c) Prepaid Income

- (d) Bad debts.
8. (a) What are the parties that make use of financial statements for their decision making?
- (b) How do they apply the same? Elaborate. [8+8]

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1. Define 'Demand' and explain the factors that influence the demand of product. [16]
2. What are the needs for demand forecasting. Explain the various steps involved in demand forecasting. [16]
3. (a) "To reach Breach even position means to reach zero point" In the light of the above statement explain how output, cost and revenue relationship can be established.  
(b) What are its limitations?  
(c) Use suitable diagrams. [8+4+4]
4. (a) Explain in detail, the important features of perfect competition.  
(b) How can a competitor attain equilibrium position under conditions of perfect competition? [8+8]
5. Briefly discuss about the different types of business organizations. [16]
6. Give a comparative description of various methods of ranking investment proposals by using assumed data. [16]
7. Explain the following concepts and illustrate their treatment with imaginary data. [16]
  - (a) Depreciation
  - (b) Prepaid expenses
  - (c) Reserve for bad and doubtful debts
  - (d) Income received in advance.
8. (a) From the following information, calculate [16]
  - i. Debt Equity ratio
  - ii. Current ratio

	Rs.		Rs.
Debentures	1,40,000	Bank balance	30,000
Long term loans	70,000	Sundry Debtors	70,000
General reserve	40,000		
Creditors	66,000		
Bills payable	14,000		
Share capital	1,20,000		

(b) Calculate Interest Coverage ratio from the following information.

	Rs.
Net profit after deducting interest and taxes	6,00,000
12% Debentures of the face value of	15,00,000
Amount provided towards taxation	1,20,000

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1. Explain the role of a Managerial Economist in a Business firm. [16]
2. What are the needs for demand forecasting. Explain the various steps involved in demand forecasting. [16]
3. Explain the following concepts and point out their relevance in managerial decisions. [16]
  - (a) Opportunity cost
  - (b) Marginal cost
  - (c) Contribution margin
  - (d) Margin of safety
4. 'A competitor under conditions of perfect competition is only price taker and quantity adjuster' - In the light of the above statement, discuss clearly the important features of perfect competition and how price output decisions can be taken. [16]
5. Define partnership business and discuss the merits and limitations of partnership. [16]
6. A company is considering two investment opportunities (A and B) that cost Rs. 4,00,000 and Rs. 3,00,000 respectively. The first project generates Rs. 1,00,000/- a year for four years. The second generates Rs. 60,000/-, Rs. 1,00,000/-, Rs. 80,000/-, Rs. 90,000/- and Rs. 70,000 over a five year period. The company's cost of capital is 8%. Which project would you choose under NPV method? [16]
7. Give a brief account on the important records of Accounting under Double entry system and discuss briefly the scope of each. [16]
8. Compute the following ratios.
  - (a) Calculate Earnings Per share

	Rs.
Net profit before preferential dividend	1,15,000
Equity share capital (40,000 shares of Rs.100 each)	4,00,000
12 $\frac{1}{2}$ % preference share capital	2,00,000

(b) Calculate Debtor Turnover ratio

Total sales for the year	Rs.1,75,000
Cash sales 25% of total sales	
Sales returns out of credit sales	Rs.10,000
Sundry Debtors Opening balance	Rs. 8,000
Sundry Debtors - Closing balance	Rs.12,000

(c) Calculate interest coverage ratio

	Rs.
Net profit after deducting Interest and Tax	6,00,000
12% Debentures of the face value of	15,00,000
Provision for taxation	1,20,000

(d) A company has current ratio of 3:1 and Quick ratio of 1:2. If the Working Capital is Rs. 1,80,000, calculate Current liabilities and Stock. [4+4+4+4]

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1. Define Managerial Economics. Explain its nature and scope. [16]
2. What are the needs for demand forecasting. Explain the various steps involved in demand forecasting. [16]
3. (a) Define and explain diminishing returns to variable factor and why does it happen?  
(b) Use suitable diagrams in support of your answer. [10+6]
4. (a) Explain in detail, the important features of perfect competition.  
(b) How can a competitor attain equilibrium position under conditions of perfect competition? [8+8]
5. "In the changing business environment the public sector enterprises should follow the principles of business" Is it true? [16]
6. Write short notes on the following: [4×4]
  - (a) Public deposits
  - (b) Time value of money
  - (c) Circulating capital
  - (d) Investment evaluation.
7. Explain the following adjustments and illustrate suitably with assumed data. [16]
  - (a) Closing stock
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8. (a) From the following information, calculate [16]
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ii. Current ratio

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