

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
DEPARTMENT OF ECONOMICS
BSC ECONOMICS
MANAGERIAL ECONOMICS EC406 (1)
EXAMINATION DURATION 3 HOURS

NOV 2023

INSTRUCTIONS

1. This paper carries six questions
 2. Answer question 1 from Section A and any three questions from Section B.
 3. Question 1 carries 40 marks, and all other questions carry 20 marks and Total exam marks: 100
 4. Cell phones are not allowed in the examination room.
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SECTION A

Question 1 COMPULSORY QUESTION

Case study: Price cuts for medicines

Big price cuts on a wide range of medicines and vitamins were promised by the supermarket chains yesterday as 30 years of price-fixing were swept aside. Many popular products, including painkillers, cough medicines, indigestion tablets and nutritional supplements are being halved in price from last night, with reductions of between 20 and 40 per cent on many others. The Office of Fair Trading called it excellent news for consumers but the body representing small pharmacies said that many would close, threatening community services. The big supermarkets trumpeted 'millions of pounds-worth of savings' as they competed to offer the biggest reductions. At Asda, a packet of 16 regular Anadin will be 87p, instead of £1.75, and Nurofen tablets will cost £1.14 for 16, rather than £2.29. Reductions at Tesco included a 40 per cent cut in Anadin Extra, to £1.29 for 16, while Sainsbury's matched the Asda price for Nurofen, and reduced Seven Seas Evening Primrose Oil from £5.59 for a 60-pack to £2.79. The cuts came after the Community Pharmacy Action Group, representing small retailers, withdrew its opposition to a High Court action brought by the Office of Fair Trading. The OFT had sought the abolition of resale price maintenance in the industry, exempted 30 years ago from general price-fixing rules to try to ensure the survival of small pharmacies. There are 13,500 pharmacies in Britain, of which 9,000 are small shops serving local high streets and rural communities.

The action group backed out after Mr Justice Buckley said that he believed there was insufficient proof that a large number of independent pharmacies would close, or that the range of products would be reduced. But the group's chairman, David Sharpe, said that the outcome

would be a devastating blow. 'Many pharmacists will simply not be able to survive given the buying power and aggressive pricing of the supermarkets' he said. 'It's a sad day for Britain. The potential losers are the elderly, disabled and young mothers who rely on the free advice and range of services offered by the local pharmacist. We'll fight on and hope the public will remain loyal.' The changes will cover about 2,500 products sold without requiring a doctor's prescription and will have no effect on prescription drugs or on cosmetics sold by pharmacists.

Prices are likely to fall even lower as competition grows. In the United States, where prices are unregulated, comparable products are markedly cheaper. Richard Hyman, chairman of the Verdict retail research consultancy, said: 'This is a market made for supermarkets. Medicines are small, they fit on shelves and supermarkets are going to make a lot of noise about the great prices that they will be offering. Soon medicines will become like any other product and be part of the weekly shop.' John Vickers, Director-General of Fair Trading, said: 'This is excellent news for consumers, who will now benefit from lower and more competitive prices for common household medicines. Consumers will save many millions of pounds a year.' The Proprietary Association of Great Britain, which represents medicine and food supplement manufacturers, said it was disappointed.

Source: Wilkinson.N. (2005), Managerial economics, A problem solving approach. Cambridge, Page 317.

- a) Discuss the market structure involved for the sale of medicines and vitamins.

[10 marks]

- b) What can be said about barriers to entry in this market.

[10 marks]

- c) Might there be a change in market structure after the change in the law. Discuss.

[8 marks]

- d) How does the rise of the Internet affect this situation? [6 marks]

- e) When resale price maintenance (RPM) was abolished for book sales in 1995, the same concerns as those expressed in the above case were voiced. Since then, 10 per cent of bookshops have gone out of business. What conclusions might this help you to draw regarding the future of small pharmacies? [6 marks]

Section B

Question 2

Evaluate using two managerial discretion models how the management vs owner's objective affects its performance in any organization of your choice **[20 marks]**

Question 3

Using an example of an organization of your choice in Zimbabwe, critically analyse the validity and applicability of the Porter's Five Forces model. **[20 marks]**

Question 4

- a) Briefly discuss the principal-agency problems/conflicts that may arise in a firm and how can the problems be mitigated? **[8 marks]**
- b) Prepare a PESTLE analysis for a given firm of your choice and use it to analyse the impact of the external environment on a firm. Evaluate the impact on a firm's objectives and strategies of a change of the PESTLE factors. **[12 marks]**

Question 5

- a) Discuss the objectives of a firm using the Managerial Utility Maximisation model. **[10 marks]**
- b) Explain the relationship between a firm's short run production function and its short run cost function. **[10 marks]**

Question 6

Using examples, explain the differences between the Cournot and Bertrand models of competition. Why are these models not true models of interdependent behaviour? **[20 marks]**

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