IMALDA’S COMPENSATION SUIT

Imalda worked in an electrical company. While working the evening shifts in the summer of 1992, she suffered a severe electric shock, which is expected to keep her away from work for three years. Besides the pain and suffering, she is expected to spend on medical treatment Rs 13,000 during the first year, Rs 10,000 during second year and Rs 7,000 per year. At the time of accident Imalda was employed at the salary of Rs. 90,000 per year. Given by the past trend, her salary would have gone up at the rate of 20% per annum. Her total economic loss includes the medical expenses and the loss of income due to in ability to work. Imalda’s attorney files a suit for compensation to the tune of Ts 5,00,000 claiming that she be compensated Rs 3,00,000 for economic loss objects to such a high demand for compensation.

Using economic logic will you agree with Imalda’s attorney or the company’s attorney? Give reasons.

If the market rate of interest is 10% and Imalda’s is to be provided full yearly salary and medical expenses during the year, how much money would compensate her for total economic loss.

HIGH WAY BLUES

Ratan Sethi opened a petrol-pump cum retail store on Delhi- Agra Highway, about two-hour drive from Delhi. His store sells typical items needed by highway travellers like fast foods, cold drink, chocolates, hot coffee, children's toys etc. He charges higher price compared to the sellers in Delhi, yet he is able to maintain brisk sale-particularly of "Yours' Special Pack" (YSP) consisting of soft drink in a disposable plastic bottle and a packet of light snacks. The Highway travellers prefer to stop at his store because, while their cars wait for petrol-filling they in the meantime can enjoy Your's Special Pack (and, in some cases would help themselves with some other items in the store). Each year he could substantially enhance his sales by providing Special Summer Price on YSP which is almost half of its regular price. Last year while returning from Delhi, Ratan found that a new, big and modern grocery shop has come up 15 kms from Delhi on the National Highway. It has affected his sales but only marginally. But last month another large convenience store has opened just ,5 km. away from his store. He knows that the challenge has come meet to his doorsteps and he expects to be adversely affected by the existence of these two stores. He needs to meet this challenges and decides to use the pricing strategy which he has been using quite effectively till recently. He now permanently reduces the price of YSP to half of its existing price. But at the end of the year Ratan finds that his sales in general and of YSP in particular had declined by 20 per cent.

(a) Where has Ratan sethi gone wrong ?

(b) If he was a managerial economist, how do you think he would have handled the situation ?