

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER-I • EXAMINATION – SUMMER • 2015

Subject Code: 2810002

Date: 06-06-2015

Subject Name: Economics for Manager (EFM)

Time: 14.30 pm - 17.30 pm

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 (a) Multiple choice questions.

06

1. Cross Elasticity of complementary goods is
 - A. Negative
 - B. Zero
 - C. High
 - D. Infinite
2. Monopolistic competition constitutes
 - A. Single firm producing close substitutes
 - B. Many firms producing close substitutes
 - C. Many firms producing differentiated product
 - D. None of these.
3. Equilibrium quantities in markets characterized by oligopoly is
 - A. Lower than in monopoly markets and higher than in perfectly competitive markets.
 - B. Lower than in monopoly markets and lower than in perfectly competitive markets.
 - C. Higher than in monopoly markets and higher than in perfectly competitive markets.
 - D. Higher than in monopoly markets and lower than in perfectly competitive markets.
4. If more is demanded at the same price or the same quantity is demanded at a higher price, this is known as –
 - A. Extension of demand
 - B. Contraction of demand
 - C. Increase in demand
 - D. Decrease in demand.
5. Match List I and List II

List I

- i. The extra output obtained from employing an additional unit of output.
- ii. Long run average cost curve is influenced
- iii. One of the three reasons why people demand money
- iv. A policy used to control money supply in the economy.

List II

- a. Speculative demand
- b. Monetary Policy
- c. Economies and diseconomies of scale
- d. Marginal product.

Codes:

- A. 1-c, 2-d, 3-b, 4-a
- B. 1-c, 2-a, 3-b, 4-a
- C. 1-d, 2-c, 3-a, 4-b
- D. 1-d, 2-c, 3-b, 4-a

6. In the ice-cream industry in the short run, _____ includes the cost of cream and sugar but not the cost of factory.
- (A) Variable Cost
 - (B) Total Cost
 - (C) Average Cost
 - (D) Opportunity Cost

Q.1 (b) Short answer questions 04

- 1. Closed Economy
- 2. Classical Dichotomy
- 3. Efficient Scale
- 4. Opportunity Cost

Q.1 (c) Explain giving examples the last three principles concerning the workings of the economy 04

Q.2 (a) What is Prisoner's dilemma? Explain how it helps in explaining the oligopolistic behavior. 07

Q.2 (b) Explain giving reasons the difference between the long run average cost curves and short run average cost curve of a firm. 07

Consider total cost and total revenue given in the following table:

Quantity	0	1	2	3	4	5	6	7
Total Cost	8	9	10	11	13	19	27	37
Total Revenue	0	8	16	24	32	40	48	56

- a. Calculate profit for each quantity. How much should the firm produce to maximize profit?
- b. Calculate marginal revenue and marginal cost for each quantity. Graph them. At what quantity do these curves cross? How does it relate to your answer to part (a)?
- c. Can you tell whether this firm is in a competitive industry?

OR

Q.2 (b) Suppose that business travelers and vacationers have the following demand for airline tickets from New York to Boston: 07

Price (Rs.)	Quantity demanded (Business Travelers)	Quantity demanded (vacationers)
150	2100	1000
200	2000	800
250	1900	600
300	1800	400

- a. As the price of the tickets rises from Rs. 200 to Rs. 250, what is the price elasticity of demand for (i) business travelers and (ii)

vacationers?

- b. Why might vacationers have a different elasticity from business travelers? (Use the midpoint i.e. arc elasticity formula).

Q.3 (a) Explain the difference between monopolistic competition and perfect competition **07**

(b) Suppose the residents of Protein land spend all their incomes on ham, chicken, and roast beef. In 2006, they buy 50 pounds of ham for \$150, 35 pounds of chicken for \$ 140, and 100 pounds of roast beef for \$500. In 2007, they buy 35 pounds of ham for \$140, 50 pounds of chicken for \$200, and 100 pounds of roast beef for \$600. **07**

- a. Calculate the price of each meat in each year.
- b. Using 2006 as base year, calculate the CPI for each year.
- c. What is the inflation rate for 2007?

OR

Q.3 (a) Define Price discrimination. Why does a monopolist want to discriminate? Explain. **07**

(b) In each of the following cases, do you think the price elasticity of supply is **07**
(i) Perfectly elastic; (ii) perfectly inelastic; (iii) elastic, but not perfectly elastic; or (iv) Inelastic, but not perfectly inelastic? Explain using a diagram.

- a. An increase in demand this summer for luxury cruises leads to a huge jump in the sales price of a cabin on the Queen Mary 2.
- b. The price of a kilowatt of electricity is the same during periods of high electricity demand as during periods of low electricity demand.
- c. Fewer people want to fly during February than during any other month. The airlines cancel about 10% of their flights as ticket prices fall about 20% during this month.
- d. Owners of vacation homes in Maine rent them out during the summer. Due to the soft economy this year, a 30% decline in the price of a vacation rental leads more than half of homeowners to occupy their vacation homes themselves during the summer.

Q.4 (a) Why aggregate demand curve slopes downward? Explain giving reasons **07**

(b) What is CPI? What steps should one follow in calculation of CPI? Find out the CPI and inflation for the given data considering 2013 as base year. **07**

Year	Price of basket of goods
2013	Rs. 36
2014	Rs. 40
2015	Rs. 45

OR

Q.4 (a) Explain any two of the following. **07**

1. Crowding out effect
2. Short run Phillips curve
3. Misperceptions theory.

- (b) Suppose that the price of basketball tickets at your college is determined by market forces:

07

Price`	Quantity demand	Quantity supplied
4	10000	8000
8	8000	8000
12	6000	8000
16	4000	8000
20	2000	8000

Case 1: Draw DD & SS curves. What is unusual about their SS curve?

Case 2: Your college plans to increase total no. by 5000 students. Additional students will have the following DD schedule: Find out new equilibrium

Price`	Quantity demand
4	4000
8	3000
12	2000
16	1000

Q.5

Amazon.com, the online bookseller, wants to increase its total revenue. One strategy is to offer a 10% discount on every book it sells. Amazon.com knows that its customers can be divided into two distinct groups according to their likely responses to the discount. The accompanying table shows how the two groups respond to the discount.

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	Group A (sales per week)	Group B (sales per week)
Volume of sales before 10% discount	1.55 million	1.50 million
Volume of sales after 10% discount	1.65 million	1.70 million

- Calculate the price elasticity's of demand for group A and group B.
- Explain how the discount will affect total revenue from each group.
- Suppose Amazon.com knows which group each customer belongs to when he logs on and can choose whether or not to offer the 10% discount. If Amazon.com wants to increase its total revenue, should discounts be offered to group A or to group B, to neither group, or to both groups?

OR

Q.5

Suppose the natural rate of unemployment is 6 percent. On one graph, draw two Phillips curves that describe the four situations listed here. Label the point that shows the position of the economy in each case.

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- Actual inflation is 5 percent, and expected inflation is 3 percent.
- Actual inflation is 3 percent, and expected inflation is 5 percent.
- Actual inflation is 5 percent, and expected inflation is 5 percent.
- Actual inflation is 3 percent, and expected inflation is 3 percent.
