

Seat No.: _____ Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA I - SEMESTER – 01 - EXAMINATION – SUMMER • 2017

Subject Code: 2810002

Date: 06/05/2017

Subject Name: Economics for Managers (EFM)

Time: 10.30 AM TO 01.30 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 6
- 1 _____, Environmental Degradation and Market Failure all three are interrelated to each other.
- a. Internalizing externality b. Externalities
- c. Direct government regulations d. Price mechanism
2. Suppose there is only one factory in a small town providing employment for labor in the area. And there is a trade union which controls the supply of labor in the factory. What kind of market situation it is?
- a. Oligopoly b. Monopoly
- c. Monospony d. Bilateral monopoly
- 3 The numerical co-efficient of perfectly inelastic demand ED= _____
- a. ED=0 b. ED>1
- c. ED<1 d. ED=1
- 4 Demand for new Wagon R, which is a modified version of Old wagon can most effectively be projected based on the sales of the old Wagon, can be the example of _____.
- a. Substitute Approach b. Opinion Poll Approach
- c. Evolutionary Approach d. Sales Experience Approach
- 5 _____ is a statistical device by which changes in prices of the same articles at different periods are calculated and computed.
- a. Nominal GNP b. Index number
- c. GNP deflator d. Real GNP
- 6 Which theory based on law of one price
- a. The quantity theory of money b. Philip curve
- c.. Purchasing Power Parity d. Inflation
- Q.1 (b) Attempt EACH of the following 4
- 1 Explain Production possibility frontier
- 2 Each of the following determines the goods are substitute, complement and unrelated.
1. Corn flex and wheat flex
2. Shoes and shoes less
3. Train and plane

4. Tea and shoes
- 3 What is 'triple identity' in measuring a country's National income?
- 4 What is the Menu cost?
- Q.1 (c) What are the three important function of money. 4
- Q.2 (a) What is demand? discuss the determinates that influence the demand of normal goods. 7
- Q.2 (b) Draw a circular flow of diagram. Identify the parts of that model that correspond to the flow of goods and services and the flow of rupees for each of the following activities; 7
- Kunal pay Rs 65 for a litre of petrol
 - Kunal earn Rs. 250 per hour working at a hair-salon .
 - Smith earn Rs 5 lakhs from his 10% of J Carlo Company
- Or
- Q.2 (b) What is Gross Domestic Product? What does it indicate? How does it differ from Gross National Product? 7
- Q.3 (a) Explain in brief an Individual competitive firms short run supply curve is the portion of its marginal cost curve that equals or rises above the average variable cost. 7
- Q.3 (b) A furniture company incurs a fixed cost of 200 and the following variable cost. Calculate AFC, AVC and ATC for each quantity. What is the efficient scale of the painting company? 7

Quantity of House Furnish per month	Variable Cost(Rs)
1	10
2	20
3	40
4	80
5	160
6	320
7	640

- Or
- Q.3 (a) Why Monopolies Arise? Discuss comparison between Monopoly and competition. 7
- Q.3 (b) What is "prisoner's Dilemma" and what does it have to do with Oligopoly? 7
- Q.4 (a) Write short note on following 7
- The Sticky Price Theory & The Sticky-Wage Theory
 - Real Exchange Rate & Nominal Exchange Rate
- Q.4 (b) Explain How each of the following will affect the SRAS. 7
- An increase in wage rates -
 - A beneficial supply shock -
 - An increase in the productivity of labour
 - A decrease in the price of oil.
- Or
- Q.4 (a) Explain in details types of Money. 7

Q.4 (b) Why is inflation like a tax? How does inflation affect the rate of Interest?

7

Q.5

14

DeBeers, is the south African Diamond company. The company was founded in 1888 by Cecil Rhodes, an English businessman (and benefactor for the Rhodes scholarship), when he merged two of the biggest mines in the country. Rhodes then proceeded to use his profits to continue buying mines, consolidating his market power. Today, DeBeers control about 80% of the world's production of diamonds. Although the firm's share of the market is not 100%, it is large enough to exert substantial influence over the market price of diamonds.

The answer depends in part on whether there are close substitutes for its product. If people view emeralds, rubies, and sapphires as good substitutes for diamonds, then DeBeers has relatively little market power. In this case, any attempt by DeBeers to raise the price of diamonds would cause people to switch to other gemstones. But if people view these other stones as very different from diamond, then DeBeers can exert substantial influence over the price of its product.

DeBeers pays for large amounts of advertising. At first, this decision might seem surprising. One goal of the DeBeers ads is to differentiate diamonds from other gems in the mind of consumers. When their slogan tells you that "a diamond is forever" you are meant to think that the same is not true for emeralds, rubies and sapphires. If the ads are successful, consumers will view diamonds as unique, rather than as one among many gemstones, and this perception will give

Q.1 How much market power does DeBeers have?

Q.2 If a monopoly is the sole seller of its product, why does it need to advertise?

Or

Q.5 Henry Ford was an industrial visionary. As founder of the Ford Motor company, he was responsible for introducing modern techniques of production. Rather than building cars with small teams of skilled craftsmen, Ford built cars on assembly lines in which unskilled workers were to perform the same simple tasks over and over again. The output of this assembly process was the Model T Ford, one of the most famous early automobiles.

In 1914, Ford introduced another innovation: the \$5 workday. This might not seem like much today, but back then \$5 was about twice the going wage. It was also far above the wage that balanced supply and demand. When the new \$5-a-day wage was announced, long lines of job seekers formed outside the Ford factories. The number of workers willing to work at this wage far exceeded the number of workers Ford needed.

Ford's high-wage policy had many of the effects predicted by efficiency-wage theory. Turnover fell, absenteeism fell and productivity rose. Workers were so much more efficient that Ford's production costs were lower even though wages were higher. Thus, paying a wage above the equilibrium level

was profitable for the firm. Henry Ford himself called the 5\$ - -day wage “one of the finest cost-cutting moves we ever made.”

Historical accounts of this episode are also consistent with efficiency-wage theory. An historian of the earl Ford Motor Company wrote, “Ford and his associates freely declared on many occasions that the high-wage policy turned out to be good business. By this meant that it had improved the discipline of the workers, given them a more loyal interest in the institution, and raised their personal efficiency.”

Q.1 Why did it take Henry Ford to introduce this efficiency wage?

Q.2 Why were other firms not already taking advantage of this seemingly profitable business strategy?
