

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA I - SEMESTER - I EXAMINATION – WINTER • 2014

Subject Code: 2810002

Date: 24-12-2014

Subject Name: Economics for Managers (EFM)

Time: 10:30 am - 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) Attempt the following multiple choice questions

06

- 1) Economics is primarily the study of
 - a how to make money in the stock market
 - b how to operate a business successfully
 - c How individual/ society manages the scarce resources.
 - d government policies
- 2) If DVD players and DVDs(of Bollywood movies) are complementary goods, then a decrease in the price of DVD player would
 - a decrease the demand for DVD players
 - b decrease the demand for DVD (of Bollywood movies)
 - c have no effect on the demand for DVD players
 - d increase the demand for DVD (of Bollywood movies)
- 3) In the long run,
 - a All costs will vary
 - b There are both fixed Costs and Variable costs
 - c There are only Fixed costs
 - d Firms cannot respond to price signals
- 4) A Nash's Equilibrium occurs when,
 - a oligopolists cooperate with one another
 - b economic actors who are interacting choose their best strategy given the strategies chosen by others
 - c the efficient allocation of resources is achieved by setting marginal revenue equal to marginal cost
 - d a monopolist is forced to produce the efficient level of output
- 5) An Economy that interacts with other economies is known as
 - a A balanced trade economy
 - b An export economy
 - c An import economy
 - d An open economy
- 6) According to Economists, the Phillips curve in the long run is
 - a Vertical
 - b Downward sloping
 - c Horizontal
 - d Upward sloping

Q.1 (b) Attempt EACH of the following

04

1. Explain Cross Elasticity of demand
2. Opportunity Cost principle
3. Explain Real Exchange Rate
4. Bank discount rate

Q.1 (c) List and explain the steps involved in calculation of the Consumer Price Index

04

- Q.2 (a)** Explain supply schedule and supply curve? Why does the supply curve slope upwards? **07**
(b) From the following data, measure the Total cost, Average Cost and Marginal Cost. **07**
 Manufacturer of Product X of Parthivi Castings Ltd incurred fixed cost of Rs.300

Variable cost	Output unit
500	1
640	2
720	3
740	4
800	5
900	6

OR

- (b)** Among monopoly, oligopoly, monopolistic competition, and perfect competition, how would you classify the markets for each of the following? Explain with reasons. **07**
- 1) Indigo airlines in India
 - 2) Coca-cola in India
 - 3) Packaged Tea market of India
 - 4) Indian Railways
 - 5) Vegetable market

- Q.3 (a)** What is Gross Domestic Product? What does it indicate? How does it differ from Gross National Product? **07**
(b) What is Cash Reserve Ratio? Explain multiple credit creation by Rs.10,000 deposited (primary deposit) in a commercial bank with 10% CRR. **07**

OR

- Q.3 (a)** Define economies of scale and explain why they might arise. Define diseconomies of scale and explain why they might arise. **07**
(b) What is Purchasing Price Parity? Explain its implication with a suitable example. **07**

- Q.4 (a)** List and describe four determinants of productivity **07**
(b) What is multiplier effect? Explain how changes in the Government purchases cause a Multiplier effect? Discuss by giving any examples of your choice. **07**

OR

- Q.4 (a)** List and explain the three theories for why the short run aggregate supply curve is upward sloping. **07**
(b) Imagine that a country only produces two items as mentioned below. **07**

Year	Price per Packet of Bread (in Rs.)	Quantity of Bread Packets produced	Price per Packet of Biscuits (in Rs.)	Quantity of Biscuit packets produced
2011	10	120	12	200
2012	12	200	15	300
2013	14	180	18	275

Based on the above information:

- a) Calculate nominal GDP, real GDP and the GDP deflator for the each year using 2011 as the base year.
- b) Which year seems to be better year in terms of economic growth? 2012 or 2013? Explain.

- Q.5** Read the following case and **answer the questions** given at the end. Write your own viewpoints regarding the situation discussed here. Be specific to your point do not write lengthy explanations. **14**

Auto industry gives thumbs-up to deregulation of diesel prices

Auto industry India welcomed the government's move to deregulate diesel prices in October 2014, saying the clarity on fuel prices would help the manufacturers plan for future products and investments in a better way.

"It is great that the government has been able to deregulate the diesel prices. Now the prices of petrol and diesel would move together and there won't be any distortion. It will help the auto manufacturers to plan for future products and investments in a better way," Maruti Suzuki India (MSI) Chairman RC Bhargava told. In a much-awaited reform, the government deregulated diesel prices that resulted in a price cut of Rs 3.37 a litre. Retail rates of the fuel will now reflect international movement in oil prices.

Commenting on the development, Hyundai Motor India Ltd Senior Vice President (Sales & Marketing) Rakesh Srivastava said having clarity on fuel pricing is going to be good on overall industry in terms of planning for new models and investment capacity.

"From a customer's point of view also, any clarity is also good for them to take decision as cost of ownership is one major deciding factor for acquisition of a new car. The price differential between petrol and diesel was artificial due to diesel being subsidised. If the difference were to stay between less than Rs 10 after this deregulation, then contribution of diesel vehicle on overall industry sales could be between 30—40 per cent," he added.

Honda Cars India, Senior Vice President, Marketing and Sales, Jnaneswar Sen termed the development as a reform in the right direction.

"Now customers can decide their car's fuel type depending on their user requirement. Moreover, this will help ease the fiscal deficit of the country," he added.

Renault India Country CEO and MD Sumit Sawhney said the deregulation of diesel prices will enable a substantial reduction in government subsidy, thereby reducing the overall burden on the budget with positive returns to the exchequer. "...From the automobile industry perspective, the expectation is that government will continue to look at such pro-business policy intervention with a long-term view to positively impact the economy and directly benefit the consumer," he added.

Echoing similar sentiments, General Motors India Vice President P Balendran termed the decision as a positive move for the overall economy. "This will help government manage its finances better. If diesel prices come down, transportation cost will also come down and that will have an effect on the prices of products that will help in bringing down inflation. When the overall economy improves, the auto industry will also benefit from it definitely," he added.

Toyota Senior Vice President (Sales and Marketing) N. Raja said the Japanese car maker welcomes the government's decision to deregulate the price of diesel especially in the time of festive season. "This is good for the consumers as they can now decide the car type, based on their preference and utility. The auto industry is witnessing a positive momentum and this step will further add to the upswing of the industry," he added.

(Source: THE HINDU dated October 19, 2014 available on <http://www.thehindu.com/business/Industry/auto-industry-gives-thumbsup-to-deregulation-of-diesel-prices/article6516669.ece>)

Answer the following questions:

- 1) How will the reduction in diesel prices help reduce inflation in India? Discuss in your own words in not more than 10 sentences.
- 2) Do you think sales of petrol cars will be negatively affected due to this reduction in prices of diesel in India?
- 3) What according to you are majority of the Indian Middle Class families looking for while buying their first car? How will deregulation of diesel prices affect their purchase decision?

OR

- Q.5** Utopia air has ventured into airlines business and has introduced flights between Mumbai and Goa (7 days a week, 4 flights to and fro). As per available statistics, demand of airline tickets made by business travellers and vacationers are as per table mentioned below. Goa is preferred both for arranging conference/business meetings and for family vacations which makes it one of the favourite destinations among both the segments of customers. **14**

Price of Airline tickets from Mumbai to Goa (Rs.)	Quantity of tickets demanded (business travelers)	Quantity of tickets demanded (Vacationers)
1500	2100	1000
2000	2000	800
2500	1900	600
3000	1800	400

- 1) When the price rises from Rs.2,000 to Rs.2,500 , what is the price elasticity of demand for
(a) Business travellers (b) Vacationers (Use midpoint method to calculate)
- 2) What are the reasons behind different elasticities between Vacationers and business travellers?
- 3) Do you think elasticity may change during Christmas vacation for vacationers? Why?
- 4) What should Utopia air do to attract more vacationers and persuade them to travel by air?
