

- 4 Explain the concept of price elasticity of demand. What are the factors on which price elasticity of demand depend? Also explain its role in business decision making.

OR

- 4 Explain the concepts of short-run costs and long-run costs.
- 5 Explain the prevalence of price rigidity in oligopoly market with the help of kinked demand curve model.

OR

- 5 Distinguish between the long-run equilibrium of a firm under monopolistic competition and perfect competition.
- 6 Discuss the three methods of measurement of National Income. Which method(s) is/are used for measurement of national income in India.

OR

- 6 Distinguish between demand-pull and cost-push inflation. What are the effects of inflation on businesses?



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(Following Paper ID and Roll No. to be filled in your Answer Book)

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Roll No.

M.B.A.

(Only for the candidates admitted/Readmitted in the session 2008-09)

(SEM. I) EXAMINATION, 2008-09

MANAGERIAL ECONOMICS

Time : 3 Hours]

[Total Marks : 100

- Note :**
- (1) *The question paper contains three parts.*
 - (2) *All questions are compulsory.*
 - (3) *The figures given in the right hand margin indicate marks.*

PART - I

- 1 Attempt all 20 parts of the following, each part carry 01 mark. 1×20
- (a) Managerial economics is best defined as
- (i) discipline which helps managers to learn economics
 - (ii) a discipline which shows how to manage personnel
 - (iii) the application of economic theory to decision making.
 - (iv) a branch of economics which shows how to influence management decisions.



- (b) Difference between accounting profit and economic profit is equal to
- explicit costs
 - implicit costs
 - implicit costs + explicit costs
 - None of the above
- (c) If implicit cost increases
- Both accounting and economic profit decrease
 - Economic profit decreases
 - Accounting profit decreases
 - None of the above
- (d) Opportunity cost can be defined as
- Explicit cost of production
 - Out-of-pocket costs
 - What must be sacrificed in order to choose one alternative over another.
 - Everything except implicit costs.
- (e) Demand will tend to be more elastic if
- there are many substitutes
 - a small fraction of income is spent on the good
 - the time period is long
 - none of the above
- (f) The cross elasticity is positive when
- demand is elastic
 - goods are substitutes
 - goods are complements
 - goods are unrelated

- (g) In production theory, the short-run is
- a length of time in which all inputs are fixed
 - a length of time in which all inputs are variable
 - a length of time when at least one input is fixed
 - a concept unrelated to time
- (h) Average cost equals marginal cost where
- average and marginal cost are declining
 - total costs are a maximum
 - average cost is at a maximum
 - average cost is at a minimum
- (i) Monopolistic competition is characterized by
- few firms selling identical products
 - few firms selling differentiated products
 - many firms selling identical products
 - many firms selling differentiated products
- (j) First degree price discrimination involves
- charging the maximum price for each unit sold
 - charging the minimum price for each unit sold
 - charging different prices based on quantity purchased
 - charging different prices based on market price elasticities of demand.



- (k) The kinked demand curve model
- (i) seeks to explain the price rigidity often found in oligopolistic markets.
 - (ii) implies that oligopolists recognize their interdependence.
 - (iii) does not imply collusion on the part of the oligopolists.
 - (iv) all of the above
- (l) Which of the following is not a distinguishing characteristic of an oligopoly?
- (i) interdependence among firms
 - (ii) few firms
 - (iii) close competition among firms
 - (iv) none of the above
- (m) The difference between gross aggregates and net aggregates is
- (i) the value of net indirect taxes.
 - (ii) the value of consumption fixed capital.
 - (iii) the value of intermediate consumption.
 - (iv) the value of final consumption expenditure.
- (n) Expenditure on advertisement and public relations by the enterprises is a part of
- (i) final consumption expenditure
 - (ii) intermediate consumption
 - (iii) fixed capital
 - (iv) consumption of fixed capital
- (o) Imputed gross rent of owner-occupied buildings is a part of
- (i) capital formation
 - (ii) final consumption
 - (iii) intermediate consumption
 - (iv) consumer durable

- (p) Which of the following is deducted from Gross National Product at Factor Cost to get figures for National Income?
- (i) Net indirect taxes
 - (ii) Net factor income from abroad
 - (iii) Subsidies
 - (iv) Consumption of fixed capital.
- (q) Inflation rate is calculated in India on the basis of change in
- (i) Wholesale Price Index
 - (ii) Consumer Price Index (Agricultural Labourers)
 - (iii) Consumer Price Index (Industrial Workers)
 - (iv) Consumer Price Index (Urban Non-Manual Employees)
- (r) In production theory, the long-run is
- (i) a length of time in which all inputs are fixed
 - (ii) a length of time in which all inputs are variable
 - (iii) a length of time when at least one input is fixed
 - (iv) a concept unrelated to time.
- (s) Diminishing marginal returns to a variable factor is a concept involving
- (i) proportionate change in all inputs
 - (ii) a production function with only one input
 - (iii) a production function with at least one input held constant
 - (iv) All of the above



- (t) U-shaped long run average cost curve indicates the presence of
- (i) decreasing and then increasing returns to scale
 - (ii) inefficient production
 - (iii) increasing and then decreasing returns to scale
 - (iv) Both (i) and (ii)

PART - II

- 2 Attempt all questions given at the end of the Case Study. Each question carries **equal** marks : 30

Robers Pvt. Ltd. was established in 1985. The company started manufacturing of light bulbs with a brand name of 'Prakash'. During initial 10 years, the company made good profits. But, its profits gradually declined due to competition from national brands. The promoters of the company had a committed team of engineers who were constantly working on Research and Development. Finally, they came out in the year 2000, with an innovative product, a unique ceiling fan 'Voltec' which runs even at very low voltage and consumes less electricity. However, its speed is slow. Thus, the company is monopoly manufacturer of 'Voltec'. The company is currently supplying its products in geographically separated markets of Uttar Pradesh and Bihar. The company is currently charging the same price in Uttar Pradesh and Bihar. The Chief Economist of the company has informed the top management that

price elasticity of demand at currently-charged price is 3 in Bihar and 5 in Uttar Pradesh. The top management is planning to charge two different prices in Uttar Pradesh and Bihar in order to make more profits.

- (a) Will it be possible for the company to charge two different prices in Uttar Pradesh and Bihar? If yes, under what conditions?-Explain.
- (b) Will it be profitable for the company to charge two different prices in Uttar Pradesh and Bihar? - Explain.
- (c) Given the volume of total production, supply will be transferred from Uttar Pradesh to Bihar or from Bihar to Uttar Pradesh? Why?

(Assume that transport cost for supplying the product in Uttar Pradesh and Bihar is the same for the company).

PART - III

$12\frac{1}{2} \times 4$

- 3 Describe the difference between the accounting and the economic concept of profit. How might accounting-practices be changed to make financial statements and reports more useful for management decision making?

OR

- 3 Provide examples of managerial decisions that might reduce profits for the next few years, but would increase the value of the firm. - Explain.

