# GUJARAT TECHNOLOGICAL UNIVERSITY
## MBA-SEMESTER-I-EXAMINATION-SUMMER-2025

**Subject Code: MB01092021**          **Date: 31/05/2025**
**Subject Name: Economics for Managers**
**Time: 02:30 PM TO 05:30 PM**          **Total Marks: 70**

**Instructions:**

    1. Attempt all questions.
    2. Make suitable assumptions wherever necessary.
    3. Figures to the right indicate full marks.
    4. Use of simple calculators and non-programmable scientific calculators are permitted.

| Q. No. | Question | Marks |
|---|---|---|
| Q.1. | **Explain the following terms:** | |
| a. | The Law of Demand | 2 |
| b. | Inferior Goods | 2 |
| c. | Inflation | 2 |
| d. | Natural Monopoly | 2 |
| e. | Price Discrimination | 2 |
| f. | Real GDP | 2 |
| g. | Aggregate Demand | 2 |
| Q.2. (a) | Explain the ten principles of economics in brief. | 7 |
| Q.2. (b) | In each of the following cases, state whether price elasticity of demand is (i) Perfectly elastic (ii) Perfectly inelastic (iii) Relatively elastic (iv) Relatively inelastic | 7 |

a. An increase in demand for rooms at a luxury resort during the summer vacation leads to a huge jump in room tariffs for rooms.

b. The price for petrol and diesel is same during festival periods when demand is high or during COVID-19 pandemic when demand is low.

c. Less people want to fly during July than during any other month of the year. The airlines cancel about 10% of their flights as ticket prices fall about 20% during this month.

d. Owners of vacation homes in Switzerland rent them out during the summer. Due to the slump in the 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.

Use diagrams also to explain your answer.

**OR**

| | | |
|---|---|---|
| Q.2. (b) | Analyse economies of scale in the cell phone industry using examples of production and marketing economies. | 7 |

**Q.3. (a)** What is Dead Weight Loss? How does it affect societal welfare?       **7**

**Q.3. (b)** Two firms in the automobile industry have the following two options: (i) Reduce output and cooperate with other firm       **7**
          (ii) Increase output and not cooperate with the other firm

| Firm | Firm B | Reduce Output | Increase Output |
|------|--------|---------------|-----------------|
| Firm A | Reduce Output | A gets $5000<br><br>B gets $5000 | A gets $1000<br><br>B gets $8000 |
|  | Increase Output | A gets $8000<br><br>B gets $1000 | A gets $2000<br><br>B gets $2000 |

What is the dominant strategy for Firm A and Why?
What is the dominant strategy for Firm B and Why?
What is the likely Nash equilibrium in the strategy?

OR

**Q.3. (a)** Explain the difference between monopolistic competition and perfect competition using examples of two industries where each one is prevalent.       **7**

**Q.3. (b)** Explain diagrammatically the cost-output relationship during short run. Following is the cost–output table of a French company producing perfumes with a Fixed Expenditure of US $ 2000. Complete the table with TFC, AFC, AVC, ATC and MC.       **7**

| Quantity | 0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 |
|----------|---|-----|------|------|------|------|------|------|
| Variable Cost in US $ | 0 | 800 | 1400 | 1860 | 2200 | 2800 | 3800 | 5000 |

**Q.4. (a)** Explain the three theories for why the short-run aggregate supply curve is upward sloping. Use examples to support your answer.       **7**

**Q.4. (b)** Discuss why the long-run aggregate supply curve might shift.       **7**

OR

**Q.4. (a)** Suppose that the economy is in a long-run equilibrium.       **7**
(i) Draw a diagram to illustrate the state of the economy.  Be sure to show aggregate demand, short-run aggregate supply and long-run aggregate supply.
(ii) Now suppose that outbreak of pandemic overseas causes aggregate demand to fall.  Use your diagram to show what happens to output and the price level in the short-run.  What happens to the unemployment rate?
(iii) Use the sticky-wage theory of aggregate supply to explain what will happen to output and price level in the long-run.

**Q.4. (b)** Discuss how monetary policy influences aggregate demand.       **7**

**Q.5.** Read the case carefully and answer the following questions.

In a study titled 'Phillips Curve: The Indian Case', two economics students Dhar and Ghosh trace the presence of Phillips curve in India for both short run and long run. Their study estimates the short-run and long run trade-off between inflation and unemployment for the Indian economy over the period 1991-2021. In this study, researchers have used time series data on unemployment (in percentage) and inflation (in percentage) for India from the years 1991 to 2021. They have used data for the past 31 years and the data has been sourced from World Bank Open Data.

It was anticipated that the rate of unemployment would vary inversely with the rate of inflation. However the scenario was quite different as they found that the rate of unemployment remained fairly stable for different rates of inflation. This was in contradiction to what Phillips had observed for the US unemployment and inflation data.

In the short run they find that the relation between inflation and unemployment is more or less constant over the years. However from 2005-2008 Dhar and Ghosh find the inverse relation as suggested by Phillips holds true. On using the total data from 1991-2021, they found that inflation has negligible effects on unemployment. The result obtained from this study is indeed surprising and is contradictory to what Phillips's theory suggests. This relationship is also suggestive of the fact that the government can very well achieve the dual objectives of lower inflation and lower unemployment as opposed by Phillips as long as policies are directed to achieve the same.

| | | |
|---|---|---|
| **Q.5. (a)** | According to the Phillips Curve, what are the two main issues of economic life for a developing country like India? Why? | **7** |
| **Q.5. (b)** | Based on this study, explain the behaviour of Phillips Curve in India, as compared to the one in US. | **7** |

<div align="center">**OR**</div>

| | | |
|---|---|---|
| **Q.5. (a)** | 'From the above study, we can conclude that in India, there may be several other factors apart from inflation rate which affects the rate of unemployment.' Comment on the statement in light of what could be these other factors. | **7** |
| **Q.5. (b)** | Suggest government measures for handling high inflation and unemployment rate in India. | **7** |