

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER- I EXAMINATION – WINTER 2019

Subject Code: 2810002

Date: 26-12-2019

Subject Name: Economics for Managers

Time: 10:30 AM TO 1.30 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:- 06

- (1) A good or service for which an increase in income causes customers to demand more of the good, holding all other variables in the generalised function constant are called
 - a. Inferior Goods
 - b. Normal Goods
 - c. Substitute
 - d. Complements
- (2) Real GDP is measured
 - a. At constant Price
 - b. At Current Price
 - c. At Market Price
 - d. At Wholesale Price
- (3) A decrease in income should:
 - a. Shift demand for an inferior product inwards
 - b. Shift demand for an inferior product outwards
 - c. Shift supply for an inferior product outwards
 - d. Shift supply for an inferior product inwards

Q. 1(b) Definitions/ Explain in short (1 mark each) 04

1. Price Elasticity of Demand
2. Giffen Goods
3. Difference between GDP & GNP
4. Economies of Scale

Q. 1(c) Short Note (Any one) 04

1. Dead-Weight Loss
2. Cross-Price Elasticity of Demand

Q. 2(a) State and Explain the Law of demand. Also describe the factors affecting demand. 07

Q. 2(b) Suppose that the demand schedule for Chocolate bars is as follows:- 07

Price	Quantity Demanded when income is Rs. 10,000	Quantity Demanded when income is Rs. 12,000
8	40	50
10	32	45
12	24	30
14	16	20
16	8	12

- (a) Calculate the price elasticity of demand when the price of chocolate bar increases from 8 to 10 if
 - (i) Income is Rs. 10,000

- (ii) Income is Rs.12,000
- (b) Calculate the income elasticity of demand if the income increases from Rs. 10,000 to Rs. 12,000 if
 - (i) The Price is Rs.12
 - (ii) The Price is Rs.16

OR

- Q. 2 (b)** Medicines have an inelastic demand and mobile phones have an elastic demand. Suppose a technological advancement doubles the supply of both the products, **07**
- (i) What happens to the price and quantity in each market?
 - (ii) Which product experiences a larger change in price?
 - (iii) Which product experiences a larger change in quantity?
 - (iv) What happens to the total consumer spending of each product?

- Q. 3 (a)** State and explain the difference between Monopoly and Monopolistic competition with appropriate diagrams and suitable examples. **07**

- Q. 3 (b)** Suppose the firm is currently employing 20 workers, the only variable input, at a wage rate of Rs. 60. The average product of labour is 30. The last worker added 12 units to the output, and total fixed cost is Rs. 3600. **07**
- a. What is marginal cost?
 - b. What is average variable cost?
 - c. What is average total cost?
 - d. How much output is being produced?
 - e. Describe & interpret the nature of ATC & AVC from the data.

OR

- Q. 3 (a)** 1. Fill in the blanks in the following table: **07**

Output	Total Cost	Total Fixed Cost	Total Variable Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost	Marginal Cost
100	260	-	60	-	-	-	-
200	-	-	-	-	-	-	0.30
300	-	-	-	-	0.50	-	-
400	-	-	-	-	-	1.05	-
500	-	-	360	-	-	-	-
600	-	-	-	-	-	-	3.00
700	-	-	-	-	1.60	-	-
800	2,040	-	--	-	-	-	-

- Q. 3 (b)** What is Purchasing Price Parity? Explain its implication with a suitable example. **07**

- Q. 4 (a)** List and explain the three theories for why the short run aggregate supply curve is upward sloping. **07**

- Q. 4(b)** What is CPI? What steps should one follow in calculation of CPI? Find out the CPI and inflation for the given data considering 2016 as base year **07**

Year	Price of basket of goods
2016	Rs. 36
2017	Rs. 40
2018	Rs. 45

OR

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

- Q. 4(b)** Below are some data for butter and cheese. **07**

Year	Price of Butter (in rupees)	Quantity of Butter (in units)	Price of Cheese (in rupees)	Quantity of Cheese (in units)
2016	10	100	20	50
2017	20	200	30	100
2018	30	200	40	100

Compute nominal GDP, real GDP and the GDP deflator for each year, using 2016 as the base year.

- Q. 5** Ambar Pvt. Ltd. was established in 1995. The company started manufacturing of Water Geyser with a brand name of 'Amba'. 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 workers who were constantly working on Research and Development. Finally, they came out in the year 2006, with an innovative product, named Maha Amba which runs even at very low voltage and consumes less electricity. Thus, the company is monopoly manufacturer of 'Maha Amba'. The company is currently supplying its products in geographically separated markets of Punjab and Haryana. The company is currently charging the same price in Punjab and Haryana. The Chief Economist of the company has informed the top management that price elasticity of demand at currently-charged price is 3 in Punjab and 5 in Haryana. The top management is planning to charge two different prices in Punjab and Haryana. In order to make more profits Questions: **14**

(1) Will it be possible for the company to charge two different prices in Punjab and Haryana? If yes, under what conditions? Explain.

(2) Will it be profitable for the company to charge two different prices in Punjab and Haryana? - Explain.

(3) Given the volume of total production, supply will be transferred from Punjab to Haryana or from Haryana to Punjab. Why?

(Assume that transport cost for supplying the product from Punjab and Haryana is the same for the company.)

OR

- Q. 5** MBA syllabus of GTU recommends two books for Managerial Economics studies. These are the books by Gregory Mankiw and Samuelson & Nordhaus. Mankiw's book is priced at Rs. 140 while Samuelson & Nordhaus's book costs Rs. 115. Both the books are readily available in the market and the publishers ensure that these are never stocked out. Mankiw's book sells more than that by Samuelson & Nordhaus and their publisher tried at least to have parity with the sale of Mankiw's book. Many financial incentives provided by the publisher **14**

proved to be of a little use and the two books continued to maintain a long term ratio of 10:9, though there were temporary marginal variations in the ratio. Samuelson & Nordhaus were persuaded by the publishers to revise and enlarge their book. The publishers gave Samuelson & Nordhaus the examination papers and syllabus of 15 universities across the length and breadth of the country. The aim was to ensure that the coverage of the subject was improved and emphasis was placed on the topics which often appear in the examinations. Samuelson & Nordhaus spent 11 months for revising the book and the publishers ensured that specimen/complimentary copies of the revised enlarged edition were in the hands of all the concerned faculty members well before the commencement of the session. The hard work of the author paid and the sales of the book improved. The sales of two competing books were equal, i.e. a parity had been achieved between the two books. This sales information brought dismay to the publishers of Mankiw's books. Though Mankiw was not bothered. He did not go through his book after repeated request of his publishers but decided that the book needed no major changes but for a few topographical mistakes. The publishers tried price elasticity and brought down the price of Mankiw's book to Rs. 110.

Consider the situation and the environment of the university as described above. What do you feel will be the reaction to this price advantage? What are the chances of Mankiw's book improving? Will the earlier ratio of 10:9 in favour of Mankiw's book be achieved? Give reasons for your views. What can the publishers and Mankiw do to bring back the advantage to enjoyed by Mankiw's books over the years?
