Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (PART TIME) – SEMESTER - I – EXAMINATION – WINTER 2021

Subject Code:4519905 **Date: 25/03/2022**

Subject Name: Economics for Managers

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. No.		Marks
Q. 1	Explain the following terms in short. a) Inflation b) Law of Supply c) Variable Cost d) Price Discrimination e) Net Export f) Aggregate Supply g) Recession	**14**
Q. 2 (a)	What is shift in the demand curve? Explain the factors that can shift the demand curve.	**07**
Q. 2 (b)	Discuss the price elasticity of demand.	**07**
	OR	
Q. 2 (b)	What do you mean by monopoly business? Explain the reasons why monopoly arises in an economy?	**07**
Q. 3 (a)	What is the prisoners' dilemma and what does it have to do with oligopoly?	**07**
Q. 3 (b)	Enlist and describe four determinants of productivity.	**07**
	OR	
Q. 3 (a)	Explain the short run trade-off between inflation and unemployment.	**07**
Q. 3 (b)	Explain under what condition, the competitive firms will shut down its business temporary and under what condition it will exit from the market?	**07**

Q. 4 CASE STUDY:

Assume that an economy produces only two products milk and honey. Below are some assumed data for answering given questions.

(Price is in INR)

Year	Price of Milk	Quantity of Milk	Price of Honey	Quantity of Honey
2015	10	1000	20	5000
2016	10	2000	20	10000
2017	20	2000	40	10000

(a) Calculate Nominal GDP, Real GDP & GDP deflator for each year using 2015 as a base year. **07**

(b) Did the economic well being increased more in the year 2016 or 2017? Justify the same. **07**

OR

Q. 4 (a) Compute the percentage changes in Nominal GDP, Real GDP & GDP deflator in 2016, 2017 from the preceding year. **07**

(b) For each year identify the variable that does not change. What does it means? **07**

Q. 5 CASE STUDY:

When the policymaker changes the money supply or the level of taxes, they shift the aggregate-demand curve indirectly by influencing the spending decisions of firms or households. By contrast, when the government alters its own purchases of goods and services, it shifts the aggregate-demand curve directly.

Suppose, for instance, that the U.S. Department of Defense places a $20 billion order for new fighter planes with Boeing, the large aircraft manufacturer. This order raises the demand for the output produced by Boeing.

When the government buys $20 billion of goods from Boeing, that purchase has repercussions. The immediate impact of the higher demand from the government is to raise employment and profits at Boeing. Then, as the workers see higher earnings and the firm owners see higher profits, they respond to this increase in income by raising their own spending on consumer goods. As a result, the government purchase from Boeing raises the demand for the products of many other firms in the economy. Because each dollar spent by the government can raise the aggregate demand for goods and services by more than a dollar, government purchases are said to have a multiplier effect on aggregate demand.

The multiplier effect seems to suggest that when the government buys $20 billion of planes from Boeing, the resulting expansion in aggregate demand is necessarily larger than $20 billion. Yet another effect works in the opposite direction. While an increase in government purchases stimulates the aggregate demand for goods and services, it also causes the interest rate to rise, which reduces investment spending and puts downward pressure on aggregate demand. The reduction in aggregate demand that results when a fiscal expansion raises the interest rate are called the crowding-out effect.

(a) Explain how the Multiplier Effect raises the aggregate demands by more than $20 billion? **07**

(b) Draw a diagram showing multiplier effect on the aggregate demand curve. **07**

OR

Q. 5 (a) Discuss how crowding out effect influences the aggregate demand curve? **07**

(b) Draw a diagram showing the crowding-out effect on the aggregate demand curve. **07**

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