Enrollment No./ Seat No.:

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA-SEMESTER-I-EXAMINATION-WINTER-2025

Subject Code: MB01092021 **Date: 17-01-2026**

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.
4. USE of SIMPLE calculators AND non-programmable scientific calculators are permitted.

			Marks
Q.1		ALL 7 Questions must be Compulsory.	**14**
	(a)	Consumer Surplus	
	(b)	Price Elasticity	
	(c)	Shoe Leather Cost	
	(d)	Sunk Cost	
	(e)	Nash Equilibrium	
	(f)	Aggregate Demand	
	(g)	Philips Curve	
Q.2	**(a)**	Discuss principles of Economics related to "How People make decisions" and "how people interact" given by Gregory Mankiw.	**07**
	(b)	The government increases taxes on cigarettes with the objective of reducing consumption. Explain Using the concept of price elasticity of demand, explain whether this policy is likely to achieve its objective.	**07**

OR

(b)

Quantity	Total Cost	Marginal Cost	Total Fixed Cost	Total Variable Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost
0	250						
1		100					
2							200
3				220			
4	510						

07

Q.3 **(a)** Differentiate between monopoly and monopolistic competition. **07**

(b) How will permanent increase in fuel costs influence entry and exit decisions of transport firms in a perfectly competitive market in the long run? **07**

OR

(a) What is the prisoner's dilemma and explain its relation with Oligopoly. **07**

(b) f a clothing brand faces declining sales due to close substitutes, how should it adjust price and product features in monopolistic competition? **07**

Q.4 **(a)** Describe circular flow diagram in four sector economy **07**

(b)

Year	Price of Rice (₹)	Quantity of Rice	Price of Milk (₹)	Quantity of Milk
2022	20	100	10	200
2023	25	110	12	210
2024	30	120	15	220

07

(i)Calculate Real GDP
(ii)Calculate Nominal GDP
(iii) Calculate GDP Deflator

OR

(a) What is CPI? Discuss in detail steps for calculation of CPI. **07**

(b) Examine the relevance of the Phillips Curve in modern macroeconomic policy making. **07**

Q.5 The tea leaf market in Country Z operates under conditions that closely resemble perfect competition. The industry consists of thousands of small tea growers located across various regions, each producing tea leaves using similar cultivation methods and technology. No single producer is large enough to influence market prices, and tea leaves supplied by different growers are largely homogeneous in quality before processing. Market prices are publicly available

through auction centers and online platforms, ensuring that both buyers and sellers have perfect information.

In recent years, favorable climatic conditions and government support in the form of subsidized fertilizers led to a significant increase in tea production. As output expanded rapidly, the market experienced excess supply, resulting in a fall in tea leaf prices. Since growers are price takers, they were compelled to sell their produce at prevailing market prices, even when prices declined close to their average total cost (ATC).

In the short run, many growers continued production despite earning losses because market prices still covered their average variable cost (AVC). Shutting down production would have led to even higher losses, as fixed costs such as land rent and equipment maintenance continued regardless of output. However, prolonged low prices placed financial pressure on high-cost growers who relied on outdated farming practices and inefficient input use.

Over time, these high-cost producers gradually exited the market, either by shifting to alternative crops or leaving agriculture altogether. The exit of such growers reduced total market supply, which gradually pushed prices upward. Efficient producers with lower cost structures remained in the market and benefited from improved market conditions.

In the long run, the tea leaf market reached an equilibrium where market price equaled the minimum average total cost, and all remaining growers earned only normal profit. Free entry and exit ensured efficient allocation of resources, prevented long-term economic losses or profits, and stabilized the market.

(a)	Why do tea growers continue production in the short run even when market price is lower than average total cost?	**07**
(b)	Critically assess whether government support measures can distort long-run equilibrium in a perfectly competitive market.	**07**

OR

(a)	Explain how exit of inefficient growers affects market supply and price in the long run.	**07**
(b)	Why do firms earn only normal profit in the long run under perfect competition?	**07**

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