

Presidency University, Bengaluru

School of Law

Comprehensive Examination

I Semester 2015-2016

Economics

BBL A 105

(Closed Book)

Max Marks: 80 marks

Max Time 3 hours

Weightage: 40%

11 January 2016

Instructions to Candidates:

Write legibly, briefly and summarize/highlight the main points

Part a

(2X 10 = 20)

Answer all questions

- Economics is the study of
 - How society manages its unlimited resources.
 - How to reduce our wants until we are satisfied.
 - How society manages its scarce resources.
 - How to fully satisfy our unlimited wants.
 - How to avoid having to make trade-offs.
- A rational person does not act unless
 - The action is ethical.
 - The action produces marginal costs that exceed marginal benefits.
 - The action produces marginal benefits that exceed marginal costs.
 - The action makes money for the person.
 - none of these answers
- Positive statements are
 - macroeconomic.
 - microeconomic.
 - statements of description that can be tested.
 - statements of prescription that involve value judgments.
- If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are
 - complements.

- b. inferior goods.
 - c. normal goods.
 - d. none of these answers
- e. substitutes
5. The law of demand states that an increase in the price of a good
- a. increases the supply of that good.
 - b. decreases the quantity demanded for that good along its demand curve
 - c. decreases the demand for that good
 - d. increases the quantity supplied of that good along its supply curve
 - e. none of these answers
6. That the supply curve of ice cream cones is upward sloping indicates that
- a. the marginal cost of providing ice cream cones increases as more cones are produced
 - b. as the price of ice cream cones increases, the production technology is upgraded
 - c. as the price increases, the opportunity cost of making ice-cream cones decreases.
 - d. all of the above
 - e. none of the above
7. An inferior good is one for which an increase in income causes a(n)
- a. decrease in supply.
 - b. increase in demand.
 - c. increase in supply.
 - d. decrease in demand.
8. If consumers think that there are very few substitutes for a good, then
- a. supply would tend to be price elastic.
 - b. none of these answers.
 - c. demand would tend to be price inelastic.
 - d. demand would tend to be price elastic.
 - e. supply would tend to be price inelastic.
9. A floor price
- a. always determines the price at which a good must be sold.
 - b. sets a legal maximum on the price at which a good can be sold.
 - c. is not a binding constraint if it is set above the equilibrium price.
 - d. sets a legal minimum on the price at which a good can be sold.
10. Within the supply and demand model, a tax collected from the sellers of a good shifts the
- a. demand curve downward by the size of the tax per unit.
 - b. supply curve downward by the size of the tax per unit.
 - c. demand curve upward by the size of the tax per unit.
 - d. supply curve upward by the size of the tax per unit.

Part B

(5X 8= 40)

Answer all questions

1. Define the law of variable proportions and show that the marginal cost curve slopes upward because the marginal product declines.
2. What is the meaning of preferences and utility? People are rational. Their economic choices are consistent, complete and transitive. Non-satiation: people like more and more; never satisfied. Explain the issues.
3. What do you mean by 'law of demand'. Derive a demand curve that shows the amount demanded at each price. What are the properties of this demand curve?
4. What do you mean by 'elasticity of demand'? What are the determinants of elasticity of demand?
5. What is the relation between revenue cost functions and does the profit function relate to these two functions - Profit maximization, cost minimization.
6. "If a monopoly retains its market power over the long run, it must be protected by barriers to entry." Explain
7. Suppose the market demand for a product rises. In the short run, how will a perfect competitor react to the higher market price?
8. What do you understand by the term "theory of variable proportions"? How is the law of increasing returns relating to this theory?

Part C

(2X 10= 20)

Answer any two questions

1. What do you understand by "objectives of firms"? There are many motives and some of them are discussed often like sales and revenue maximization. Discuss all of the said motives and illustrate with suitable examples.

2. What do you understand by 'price discrimination' by firms? In which kind of markets can a firm resort to discriminative pricing? What are the three degrees of price discrimination and give suitable examples of each.

3. How would you explain the concept of "Circular Flow of Money"?

i. Explain the interrelationship between Market Flow and Factors flow.

ii. How is Growth and Development a composite part of the flow of goods and factors?

Part C (20-20)

Answer any two questions

1. What do you understand by "objectives of firms"? There are many motives and some of them are discussed after the size and revenue maximization. Discuss all of the said motives and illustrate with suitable examples.

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I Semester 2015-2016

Test2

Course: BBLA105 Economics

(Closed Book)

Max Marks: 50

Max Time 50 Min

Weightage: 25 %

14 December 2015

Instructions to Candidates:

Write legibly, briefly and summarize/highlight the main points

Part A

Marks 5 x 2= 10

1. Average Total Cost equals the
 - a) TC minus total output
 - b) AFC divided by AVC
 - c) AFC minus AVC
 - d) AFC plus AVC
 - e) None of the above

2. A firm operating in a perfectly competitive market will shut down when price is below the minimum of
 - a) Marginal cost curve
 - b) Average total cost curve
 - c) Average fixed cost curve
 - d) Average variable cost curve

3. When an output increases in higher proportion than the increase in the inputs, the returns to scale is
 - a. Decreasing
 - b. Increasing
 - c. Negative
 - d. Constant

4. A student states that there are four differences between monopolistic competitors and monopolists, as follows. Which one of these stated differences is false?
 - a) There are many firms in monopolistic competition and only one in monopoly.
 - b) The monopolist may make a profit in the long run whereas the monopolistic competitor will not.

- c) Price discrimination is less common with monopolists than with monopolistic competitors.
 d) A monopolist would never react to the imposition of a tax on its product by reducing its price, but a monopolistic competitor might.
5. An isoquant relates the quantity of inputs a firm uses to the quantity of output it can produce. In drawing an isoquant, which of the following assumptions about the firm is made?
- It is a profit-maximizing firm.
 - It is a technically efficient firm.
 - It is an economically efficient firm.
 - It has at least one fixed input

Part B

Marks 4 x 5 = 20

- What do you understand by the term law of returns to scale? What is law of diminishing returns and how is different from diminishing marginal returns? Illustrate your answer by using a suitable graph.
- What do you understand by the term "theory of variable proportions"? How is the law of increasing returns relate to this theory
- Discuss the definition of a marginal product with average product. How are they different?
- What do you understand by 'normal and super normal profits'?

Part C

Marks 10 x 2= 20

- What is the difference between supernormal, subnormal and normal profits? Is it in any connected with the shutdown profit ?
- What do you understand by Price Discrimination by firms in which kind of market can a firm resort to discrimination pricing? What are the three degrees of price discrimination and give suitable examples of each?

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I Semester 2015-2016

Test2

Course: BBLA105 Economics

(Closed Book)

Max Marks: 50

Max Time 50 Min

Weightage: 25 %

14 December 2015

Instructions to Candidates:

Write legibly, briefly and summarize/highlight the main points

Part A

Marks 5 x 2= 10

1. One of the following is not a result of Variable production
 - a) Increasing Returns
 - b) Constant Returns
 - c) Decreasing returns
 - d) Decreasing scope
 - e) All of the above
2. A firm's marginal cost curve eventually increases as production increases due to the effect of
 - a) Economies of Scale
 - b) Diseconomies of scale
 - c) Law of diminishing returns
 - d) None of the above
3. What type of profit is earned by a firm at an equilibrium output?
 - a) Supernormal Profits
 - b) Subnormal profits
 - c) Normal profits
 - d) Accounting profits
4. Which of the following statements about a firm in an oligopolistic market is false:
 - a) It maximizes profit at a point at which the marginal revenue equals marginal cost
 - b) It has an influence over the market price
 - c) It is independent of other firms action
 - d) It is a kinked demand curve

5. Which of the following statements about price-takers is false?
- They include monopolistic competitors and monopolists.
 - They can always raise their prices and still retain some customers.
 - They may set different prices in the short run and in the long run.
 - We do not analyze those using diagrams with supply and demand curves

Part B

Marks 4 x 5 = 20

- The long run average cost is boat shaped while short run costs are 'U' shaped. Discuss whether the statement is true and explain your understanding with a suitable graph.
- What do you understand by the term "theory of variable proportions"? How is the law of increasing returns relate to this theory
- How is perfect competition different from monopolistic competition and if there is no difference why do you consider them the same?
- "A monopoly is a market structure where there is a single seller and large number of buyers. The seller is able to price the products as required, because there are no close substitutes and very high exit and entry barriers." Do you agree with the statement wholly? If you are in part agreement, then which part is wrong? Explain in detail.

Part C

Marks 10 x 2= 20

- What do you understand by "objectives of firms"? There are many motives and some of them are discussed often like sales and revenue maximization. Discuss all of the said motives and illustrate with suitable examples.
- What do you think are the six essential conditions of a perfectly competitive market? Discuss the condition of Market structure and product homogeneity to illustrate the nature of 'pure' competition

Presidency University, Bengaluru
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I Semester 2015-2016 Test 1

Course: **BL A 105 Economics**
(Closed Book)

Max Marks: 45

Max Time 50 Min

Weightage: 15 %

02 November 2015

Instructions to Candidates:

Write legibly, briefly and summarize/highlight the main points

Part A

Marks 5 x 1= 5

Answer the following by choosing the right answer.

1. Economics is essentially a study of the community's techniques of utilizing its resources to satisfy its physical needs and involves,

- a. the methods of exchanging the social product among those who produce and distribute it
- b. the problems involved in relating ends and scarce means which have alternative uses
- c. the methods adopted by the community in order to increase its stocks of capital goods
- d. the community's attempts to solve problems arising from the working of its distributive system

2. If a person has to choose between buying a second-hand car and a color television set and he buys the television set, the opportunity cost of the set is said to be:

- a. the utility derived from its purchase
- b. the car which he has to do without
- c. the price he paid compared with the price of the cheapest set
- d. the price he might receive if he were to sell the set at a later date
- e. the scarcity value of the set in terms of money

3. The production possibilities frontier illustrates

- a. current production levels
- b. a society's level of consumption
- c. a range of alternative levels of output
- d. decisions on how to produce

4. The pursuit of capitalism is a characteristic of a
- command economy
 - primitive economy
 - centrally planned economy
 - market economy
5. An inelastic demand curve
- is usually steeply sloped
 - can always be indicated by the slope of the curve
 - means consumers are very responsive to price changes
 - would shift to the left when the price increased

Part B

Marks 6 x 5= 30

1. Discuss the scope and utility of dividing the subject in two parts – Macro and Micro Economics. What would you call a Positive Economics and Normative Economics? Explain the meaning of the terms
2. What are the different types of Market Structures and why are they different? Is Monopolistic Competition the same as Monopoly?
3. What do you understand by the term “Deadweight Loss” in the theory related to effects of Tariff?
4. What is the difference between ‘price ceiling’ and ‘floor pricing’. When and how is it operative and what use are these mechanisms?
5. Define “Price Elasticity of Demand”. How is it different from “Income Elasticity of Demand”?
6. Explain the reason why a country levies an import tariff or as an alternative imposes an “import Quota” to support domestic markets?

Part C

Marks 15 x 1= 15

1. What do you understand by Interventionist policy of the Government in terms of taxes and subsidies on prices? What are the different kinds of impact on supply and demand?
 - i. What is Tax Revenue?
 - ii. How does the tax act as a deadweight loss to a fall in surplus in a market?
 - iii. Discuss the relationship between consumer’s surplus & producer’s surplus, and Tax