Presidency University, Bengaluru

School of Management

Comprehensive Examination

I Semester 2015-2016 | **Economic Analysis** | **MBA A 103**

(Closed Book)

Max Marks: 80 marks
Weightage : 40%

Max Time 3hours
09 January 2016

Instructions to Candidates:

Write legibly, briefly and summarize/highlight the main points

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Part A **(2X 10 = 20)**

Answer all questions

1. Which of the following statements is true?
a) Microeconomics is concerned chiefly with the economy as a whole.
b) Macroeconomics is concerned chiefly with individual markets.
c) Governments have no influence over market prices.
d) When economists study the price in a market, their chief aims are to understand why the price is what it is and why it may change.

2. Which of the following statements is true?
a) The production possibility frontier is steeper at the right end than the left because some resources are better suited to making some products than others.
b) The production possibility frontier is straight because some resources are better suited to making some products than others.
c) The production possibility frontier is steeper at the left end than the right because some resources are better suited to making some products than others.
d) The production possibility passes the point which represents total wants in the economy.

3. The supply and demand model applies when three of the following four conditions are met. Which condition is not required?
a) There must be many buyers.
b) There must be many sellers.
c) The buyers and sellers must trade an identical item.
d) The item traded must be a product.

4. Suppose there is excess supply in a market and the price decreases. Which of the following combinations of events will occur?
a) There will be a fall in quantity supplied and a rise in quantity demanded.
b) There will be a fall in quantity supplied and a rise in demand.
c) There will be a fall in supply and a rise in quantity demanded.
d) There will be a fall in supply and a rise in demand.

5. Which of the following statements is false?
a) Price elasticity of demand is negative for most products.
b) Price elasticity of supply is positive for most products.
c) Income elasticity of demand is positive for normal goods.
d) Cross elasticity of demand is positive between complements.

6. Which of the following does the principle of diminishing marginal utility say about what happens when a consumer consumes more of a product?
a) The consumer's total utility will be unaffected.
b) The consumer's total utility will diminish.
c) The consumer's marginal utility will diminish.
d) The consumer's marginal utility will become negative

7. Which of the following statements about firms in different types of market is false?
a) A perfect competitor has no influence over the price of its product.
b) A monopolistic competitor may engage in non-price competition.
c) An oligopolist may monitor the prices and products of all the other firms in its market.
d) A monopolist must be a large firm.

8. In the short-run, which of the following always gets smaller as output increases?
a) Average fixed cost.
b) Average variable cost.
c) Short-run average cost.
d) Short-run marginal cost

9. Suppose a monopolist discriminates between different groups of customer. Which of the following statements is false?
a) The best strategy for the monopolist is to set the highest prices for the types of customer with the least elastic demand.
b) Some customers will face a higher price than they would if the firm did not adopt price discrimination.
c) By having a relatively low price for some groups of customers, the monopolist is sure to make less profit than it would without price discrimination.
d) The monopolist might be able to make more profit by instead discriminating between different individual customers.

10. What is the definition of a Nash equilibrium?

a) A situation where each player adopts their dominant strategy.

b) A situation where each player adopts the best strategy for them, given the strategy adopted by the other.

c) A situation where the combined payoffs of the players are the maximum possible.

d) The outcome that will arise in a game

Part B (5X 8 = 40)

Answer all questions

1. What do you understand by the terms 'substitute goods' and 'complementary goods'? How will the price for the normal goods change if there are substitutes?
2. What do you mean by Marginal Rate of Technical Substitution? In the production theory how does this effect the MPP?
3. What do you understand by the term 'value in use' and 'value in exchange'? Are they in any way connected to each other?
4. What is 'income effect'? Is the demand curve due to change if there is a fall or increase in income of the consumer? Explain the concept of Griffins Goods and Veblen Paradox in this connection.
5. Discuss the law of Diminishing Marginal Returns. Is it true and why?
6. What are the costs of production? How is it explained in economics? What do you mean by short term and long terms costs? Explain with suitable graphs and indicate the law of decreasing, constant and increasing returns.
7. What do you mean by 'pure or perfect competition'? A firm's demand curve is horizontal and the price is equal to marginal revenue. Is this statement true and if so why? If the statement is not true, then what is the true state of affairs?
8. What do you mean by a 'oligopoly' market? Explain the behavior of firms in an oligopoly and why do they resort to 'collusion' or 'cartelization' and how does it help the firms?

Part C

Answer any two questions **(2X 10 = 20)**

1. The production possibilities model is a device that assists us in thinking about many of the choices about resource allocation in an economy. When illustrated graphically, the production possibilities model typically limits our analysis to two goods. wo characteristics of the production possibilities curve are particularly important. First, it is downward sloping. This reflects the scarcity of the factors of production available to the economy; producing more of one good requires giving up some of the other. Discuss the importance of the concepts explained in the "production possibility curve" and how important it is for growth and trade.

2. Markets, the institutions that bring together buyers and sellers, are always responding to events, such as bad harvests and changing consumer tastes that affect the prices and quantities demanded of particular goods. Discuss the law of Demand and Supply and how they are interactive. Show the graphs to explain your views.

3. "In the short run, there are total fixed costs, total variable costs, and total costs. In the long run, there are no fixed factors, and a firm can build a plant of any size. Once a firm has constructed a particular plant, it operates in the short run." Examine the statement and discuss whether it is true? If not what is the truth and explain with sufficient examples.

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I Semester 2015-2016	Test2	Course: MBA A103	**Economic Analysis** (Closed Book)
Max Marks: 50	Max Time 50 Min	Weightage: 25 %	14 December 2015

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Part A **Marks 5 x 2= 10**

1. Suppose a consumer faces a rise in the price of product A while the consumer's income remains unchanged. Which of the following statements about the income effect is false?

a) There is no income effect because the consumer's income is unchanged.

b) Between them the income and substitution effects cover the entire change in the quantity that the consumer demands.

c) If the product is normal, the income effect works in the same direction as the substitution effect.

d) If the product is inferior, the income effect works in the opposite direction to the substitution effect

2. Which of the following statements about a fixed input is true?

a) Its price is fixed.

b) The quantity of it that a firm can use in the long run is fixed.

c) The quantity of it that a firm can use in the short run is fixed.

d) The quantity of output that the firm can produce with it is fixed.

3. Which of the following statements about industries that are oligopolies is false?

a) Firms in these industries may attempt to coöperate.

b) Firms in these industries are interdependent.

c) The fact that there is more than one firm in an oligopoly means that there are no barriers to entry.

d) An oligopoly with two firms is called a duopoly.

4. In the short-run, which of the following always gets smaller as output increases?

a) Average fixed cost.

b) Average variable cost.

c) Short-run average cost.

d) Short-run marginal cost

5. Which of the following statements about price-takers is false?

a) They include monopolistic competitors and monopolists.

b) They can always raise their prices and still retain some customers.

c) They may set different prices in the short run and in the long run.

d) We do not analyze them using diagrams with supply and demand curves

Part B **Marks 4 x 5 = 20**

1. What do you understand by a short run and long run analysis of markets? What is the difference in these two markets – the market (demand and supply) or the inputs?
2. What do you understand by the term 'theory of variable proportions'? Is law of diminishing marginal returns concerned with the theory is any way, and if so explain the connection, and if not discuss why it is not related.
3. In a short run the average cost curve is in the shape of a "U", but in the long run it becomes a boat shaped curve. Is the statement true and explain your views on the statement.
4. Explain and contrast the difference between 'economies of scale" and 'economies of scope'. In scope enlargement what does a firm do to enhance its revenue yielding?

Part C **Marks 10 x 2= 20**

1. What do you mean by a "perfect competition"? What then will be an "Imperfect competition"? In a perfectly competitive market the price will be equal to MR (marginal revenue) and AR (average revenue). Why is that and is it true? Does that mean if price is true for all firms in the market, quantity of goods offered in the market does not really matter? Explain your contention.
2. Compare the Market conditions in a pure competition, a Monopoly, a Monopolistic competition and an Oligopoly and What are the clear differences between them ? Do you believe that firms operating in a pure competition have better control over revenue maximization as against firm operating in other market condition?