

MGT-14 MANAGERIAL ECONOMICS

Time: 3:00 Hours

Max. Marks: 60

Note: Q6 is compulsory. Attempt any FOUR questions from Q1-5. All questions carry equal Marks. Assume suitable missing data, if any.

Q1. (a) To what extent do you think that price is the most important determinant of demand? Discuss the ways in which the concept of elasticity of demand might be of value to the managing director of an international supermarket chain. [6 marks]

(b) Calculate cross price elasticity of demand between

- (i) Inkpen and ballpen
- (ii) Inkpen and ink

Good	Before		After	
	Price (Rs/Unit)	Quantity (unit/month)	Price (Rs/Unit)	Quantity (unit/month)
Inkpen (Y)	5	15	2	20
Ballpen (X)	1	10	1	8
Inkpen (Z)	4	10	5	9
Ink (X)	5	15	5	10

Comment on the nature of goods. [6 marks]

Q2. If price of good Y is Re. 1 per unit and that of good X is Rs. 2 per unit and money income is Rs. 20.

- (i) Draw budget line
- (ii) Calculate the slope of budget line
- (iii) Write budget equation
- (iv) Show and explain consumer's equilibrium. On this budget line, what is the slope of indifference curve at the point of equilibrium. [1+1+1+3=6 marks]

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(b) What do you mean by consumer surplus? Explain with the help of a diagram. [6 marks]

Q3. (a) What is the difference between returns to factor and returns to scale? Explain and show different types of returns to scale with the help of isoquants. [6 marks]

(b) Labour and capital are substitutes as well as complementary to each other. Draw the production function for labour and capital as perfect complements and explain. What is this production function called? [6 marks]

Q4. What is meant by deadweight loss? How does price ceiling result in deadweight loss? How does elasticity of demand affect deadweight loss? Explain in detail. [8 marks]

(b) A sales tax of Re. 1 per unit of output is levied on a firm whose output sells for Rs. 5 in a competitive industry.

(i) How does this tax affect the cost curves of the firm?

(ii) What will happen to price, output, and profit? [4 marks]

Q5. (a) Citing an example of an oligopoly market structure explain the basic features of such a market structure. Why determination of equilibrium in such a market structure is difficult? [8 marks]

(b) When can a monopolist practice price discrimination? [4 marks]

Q6. Attempt all of the following:

(a) What is stated by the law of diminishing marginal utility?

(b) Distinguish between a substitute and a complement using diagram.

(c) Distinguish between a normal, an inferior good and a luxury good using IC analysis.

(d) What do you mean by shut down point? Explain with the help of cost and revenue curves. [3*4=12 marks]

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