Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER -1 – EXAMINATION – SUMMER 2019

Subject Code: 4519202 **Date:16/05/2019**

Subject Name: Economics for Managers (EFM)

Time: 02:30 PM TO 05:30 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 following (a) Price elasticity of demand (b) Relationship between MR and ATC (c) Sunk cost (d) Opportunity cost (e) Natural Monopoly (f) Economic Profit (g) Deadweight Loss	**14**
Q.2	**(a)**	Trade can make everyone better off. Explain in detail	**07**
	(b)	What is monopoly? Which are the reasons for arising of monopoly situation?	**07**
		OR	
	(b)	Describe the three attributes of monopolistic competition. How is monopolistic competition like monopoly? How is it like perfect competition?	**07**
Q.3	**(a)**	Why do economists use real GDP rather than nominal GDP to gauge economic well-being?	**07**
	(b)	Describe the economic logic behind the theory of purchasing-power parity.	**07**
		OR	
Q.3	**(a)**	Describe the three problems that make the consumers price index and imperfect measure of the cost of living.	**07**
	(b)	How fiscal and monetary policy influences aggregate demand	**07**
Q.4	**(a)**	Explain the three reasons for the aggregate demand curve is downward sloping.	**07**
	(b)	Draw the short run trade - off between inflation and unemployment. Explain how the short – run and long – run trade-offs are related.	**07**
		OR	
Q.4	**(a)**	Explain in detail how monetary and fiscal policy can stabilize the economy? Give appropriate example.	**07**
	(b)	Explain four components of GDP with example.	**07**

Q.5 CASE STUDY:

THE DEBEERS DIAMOND MONOPOLY

A classic example of monopoly that arises from the ownership of a key resource is De beers, the South African diamond company. The company was founded in 1888 by Cecil Rhodes, an English business man (and benefactor for the Rhodes scholarship), when he merged two of the biggest mines in the country. Rhodes then proceeded to use his profits to continue buying mines, consolidating his market power. Today, De Beers controls about 80% of the world's production of diamonds. Although the firms share of the market is not 100%,it is large enough to exert substantial influence over the market price of diamonds. How much market power does De Beers have? The answer depends in part on whether there are close substitutes for its products. If peoples view Emeralds, rubies and sapphires as good substitutes for diamond, then De Beers have relatively little market power. In this case, any attempt by De Beers to raise the price of diamonds would cause people to switch to other Gemstones. But people view this others stones as very different from diamonds. Then De Bees can exert substantial influence over the price of its product.
De Beers pay for large amount of advertising. At first this decision might seem surprising. If a monopoly is the sole seller of its product, why does it need to advertise? One goal of the De Beers ads is to differentiate diamonds from other gems in the minds of consumer. When their slogan tells you that" A diamond is forever", you are meant to think that the same is not true of emeralds, rubies and sapphires.(And the notice that the slogan is applied to all diamonds, not just de Beers diamonds-a sign of De Beers monopoly position.)If the ads are successful consumer will view diamonds as unique, rather than as one among many Gemstones, and this perception will give De Beers greater market power.

(a) How did De Beers dominate the diamond industry? **07**

(b) Before other nations began mining for diamonds, did De Beers have a geographic monopoly, or was it part of a monopolistic competition? **07**

OR

Q.5 (a) As more businesses and nations enter the diamond industry, why does De Beers retain such a significant share of the market? **07**

(b) What is the role of advertisement for De Beers? **07**

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