

GUJARAT TECHNOLOGICAL UNIVERSITY**MBA – SEMESTER 1 – EXAMINATION – WINTER 2018****Subject Code: 3519202****Date: 26/12/2018****Subject Name: Economics For Manager (EFM)****Time: 10:30 am to 1: 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 | Definitions (a) Equilibrium price and quantity with diagram (b) Income elasticity (c) Marginal productivity of labour (d) Efficient scale of production (e) Total surplus (f) Economies of scale (g) Shutdown and exit | 14 |
| Q.2 | (a) List and explain the three reasons the aggregate demand curve slopes downwards. | 07 |
| | (b) Reliance Jio gave its WIFI router which allows only Jio sim to be operational. Is it an example of Tying? Justify your answer. | 07 |
| | OR | |
| | (b) Assuming a two-party electoral system, a lot of election expenses can be reduced if both the parties don't opt for advertising. Is this possible, explain with the concept of prisoner's dilemma. | 07 |
| Q.3 | (a) List four components of GDP. Give an example of each. | 07 |
| | (b) Indian banks offer an interest rate on the money deposited by the account holders to maintain the value of the money over time. Considering nominal and real exchange rate and current inflation, is the value of money maintained? Justify. | 07 |
| | OR | |
| Q.3 | (a) Explain the costs of inflation | 07 |
| | (b) If only pav bhaji and vadapav are available in the economy, mention the steps to calculate CPI with base year of 2016. Assume data where necessary. | 07 |
| Q.4 | (a) Explain reasons for aggregate supply to slope upwards | 07 |
| | (b) Mention the various tools of fiscal policy | 07 |
| | OR | |
| Q.4 | (a) If unemployment is to be reduced, then inflation increases in short run. Explain with graph. | 07 |
| | (b) RBI is reluctant to reduce the interest rates, despite the meeting with the Prime minister. Explain this in context to the monetary policy (Hint: CRR, SLR impact on loan rates and consumer spending) | 07 |

Q.5

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According to analysis, prices are determined quite differently in monopolized markets from the way they are in competitive markets. A natural place to test this theory is the market for pharmaceutical drugs because this market takes on both market structures. When a firm discovers a new drug, patent laws give the firm a monopoly on the sale of that drug. However, eventually the firm's patent runs out, and any company can make and sell the drug. At that time, the market switches from being monopolist to being competitive.

What should happen to the price of a drug when the patent runs out - During the life of the patent, the monopoly firm maximizes profit by producing the quantity at which marginal revenue equals marginal cost and charging a price well above marginal cost. Nevertheless, when the patent runs out, the profit from making the drug should encourage new firms to enter the market. As the market becomes more competitive, the price should fall to equal marginal cost. Experience is, in fact, consistent with the theory. When the patent on a drug expires, other companies quickly enter and begin selling so-called generic products that are chemically identical to the former monopolist's brand-name product. Moreover, just as the analysis predicts, the price of the competitively produced generic drug is well below the price that the monopolist was charging.

The expiration of a patent, however, does not cause the monopolist to lose all its market power. Some consumers remain loyal to the brand-name drug, perhaps out of fear that the new generic drugs are not actually the same as the drug they have been using for years. As a result, the former monopolist can continue to charge a price at least somewhat above the price charged by its new competitors.

- (a) Draw a graph depicting the demand curve, marginal revenue curve, marginal cost curve, profit maximizing quantity and efficient quantity. **07**
- (b) In above situation, Demand: $P = 1000 - 10Q$, Total revenue: $TR = 1000Q - 10Q^2$, Marginal revenue: $MR = 1000 - 20Q$ and Marginal cost: $MC = 100 + 10Q$, find price & quantity that maximizes social welfare with its graph. **07**

OR

- Q.5** (a) If Demand: $P = 10 - Q$, Marginal revenue: $MR = 10 - 2Q$, Total cost: $TC = 3 + Q + 0.5Q^2$ and Marginal cost: $MC = 1 + Q$, Find price, quantity and monopoly profit in this situation with its graph **07**
- (b) Explain the theoretical concept of dead weight loss in the above situation. **07**
