Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (PART TIME) SEMESTER 01 - EXAMINATION – SUMMER-2018

Subject Code: 3519902 **Date:01/05/2018**
Subject Name: Economics for Managers
Time: 10:30 AM To 01:30 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.		Question Text and Description	Marks
Q.1		Definitions / terms / explanations / short questions based on concepts of theory/practical (a) Law of demand (b) Deadweight loss (c) Economies of Scope (d) Isoquants (e) Cartel (f) Consumer surplus (g) Selling cost	**14**
Q.2	**(a)**	The study of economics has many facets and the field is unified by several Central ideas regarding decision making of peoples, their interaction and the Working of economy as a whole- Explain.	**07**
	(b)	Explain price elasticity of demand and the income elasticity of demand. Also explain the determinants of the price elasticity of demand	**07**
		OR	
	(b)	Discuss production and pricing decision for monopoly firm.	**07**
Q.3	**(a)**	Explain the role that banks play in the monetary system through the money multiplier. Explain the Reserve Bank's tools of monetary control.	**07**
	(b)	What is CPI? List the steps involved in calculation of CPI. Briefly explain the three problems in measuring the cost of living	**07**
		OR	
Q.3	**(a)**	GDP is not ultimate measure of well-being of an economy. Discuss it.	**07**
	(b)	What are the features of firms in a competitive market? Why do competitive firms stay in business if they make zero economic profit? Discuss.	**07**
Q.4	**(a)**	What is the slope of the Aggregate-Demand and Aggregate-Supply curve in the Short run and in the long run? What shifts both these curves?	**07**
	(b)	What is the Prisoners Dilemma & What does it have to do with Oligopoly?	**07**
		OR	
Q.4	**(a)**	Explain the short run trade-off between inflation and unemployment using the Phillips curve. When does the Phillips curve become vertical?	**07**

(b) Define Nominal Exchange Rate, Real Exchange Rate and the concept PPP with suitable examples. **07**

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

OR

Q.5 (a) Below are some data from the country of Shortsville. **07**

Year	Price per football	Quantity of footballs	Price per baseball	Quantity of baseballs
2014	$10	200	$8	75
2015	14	200	10	75
2016	14	350	10	125

A) Compute nominal GDP, real GDP, and the GDP deflator of each year, using 2014 as the base year.

B) Compute the percentage change in nominal GDP, real GDP, and the real GDP deflator in 2015 and 2016 from the preceding year.

(b) Define ATC, AVC, AFC, and MC. Discuss relationship among them with the help of diagram. **07**

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