Seat No.: ________ Enrolment No.

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER (1) – EXAMINATION – SUMMER 2018

Subject Code: 3519202 **Date: 01/05/2018**

Subject Name: Economics for Manager (EFM)

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.1		Write short note (a) Money Neutrality (b) Consumer surplus (c) Cross elasticity of demand (d) Repo rate and CRR (e) Deadweight Loss (f) Natural Monopoly (g) Economic Profit	**14**
Q.2	**(a)**	Explain price elasticity of demand and the income elasticity of demand. Also explain the determinants of the price elasticity of demand.	**07**
	(b)	What are the demand schedule and the demand curve, and how they related? Why does the demand curve slop downward?	**07**
		OR	
	(b)	Explain the relationship between a firm's total revenue, profit and total cost with the help of diagram.	**07**
Q.3	**(a)**	What is CPI? List the steps involved in calculation of CPI. Briefly explain the three problems in measuring the cost of living.	**07**
	(b)	What is the Prisoners Dilemma & What does it have to do with Oligopoly?	**07**
		OR	
Q.3	**(a)**	Discuss production and pricing decision for monopoly firm.	**07**
	(b)	Competitive Firm stays in market even if they make zero economic profit. Explain it.	**07**
Q.4	**(a)**	Define Nominal Exchange Rate, Real Exchange Rate and the concept PPP with suitable examples	**07**
	(b)	Explain the short run trade-off between inflation and unemployment using the Phillips curve. When does the Phillips curve become vertical?	**07**
		OR	
Q.4	**(a)**	GDP is not ultimate measure of well-being of an economy. Discuss it.	**07**
	(b)	What is CPI? Describe the three problems that make the consumer price index an imperfect measure of the cost of living.	**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.

QUESTIONS:

(a) Before other nations began mining for diamonds, did De Beers have a geographic monopoly, or was it part of a monopolistic competition? **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)** Honest Juice Bar has the following cost schedules.

Quantity	Variable cost	Total cost
0	0	30
1	10	40
2	25	55
3	45	75
4	70	100
5	100	130
6	135	165

Calculate AVC, ATC, & MC for each quantity, Graph all three curves. What is the relationship between the marginal cost curve and the average total cost curve? **07**

(b) What are the reasons that Aggregate Supply curve slopes upward in the short run? Explain with the help of diagram. **07**

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