office 2013

[This question paper contains 4 printed pages.]

Sr. No. of Question Paper : 1643 **Roll No............**

Unique Paper Code : 101233

Name of the Paper : Business Economics – I

Name of the Course : Bachelor of Business Studies

Semester : II

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. **All** questions are compulsory.

1. Attempt any **five** :

   (a) If you like chocolates, you will consume as many chocolates as you can. True or False ? Explain.

   (b) Average Cost decreases as soon as point of diminishing average returns is passed. True or False ? Explain.

   (c) What would be the impact of technological improvement on firm's isoquants ?

   (d) A consumer chooses to consume three packets of chips and two ice-creams. The Marginal Utility of third packet of chips is equal to Marginal Utility of second ice-cream, but chips are cheaper than ice-creams. Has the consumer made the right choice ?

   (e) A profit maximising producer is employing 10 workers currently. He is considering whether to employ or not employ an additional worker. The wage rate is Rs. 80 per hour and marginal product of 11^{th} worker is Rs. 30. If hiring the 11^{th} worker adds Rs. 40 to the revenue, should this worker be employed ?

P.T.O.

(f) The budget constraint for an individual is given below :

$$Q_y = 250 - (3/4)Q_x$$

What amount of Y is the individual willing to sacrifice for an additional unit of X so that he remains at the highest level of satisfaction ? (3×5=15)

2. (a) Using indifference curve analysis compare a cash subsidy with option of food stamps. Which option is preferable ?

OR

What are the substitution and income effects ? Show graphically the effects for a Giffen good. (8)

(b) Utility maximisation is achieved when the budget is allocated so that Marginal Utility per rupee spent is the same for each good. Explain.

OR

An individual's income is Rs. 120 which he spends on two commodities, X and Y. The price of X is Rs. 20 and the price of Y is Rs. 10. The following table gives the individual's MU_x and MU_y schedule :

Q	1	2	3	4	5	6	7	8
MU_x	16	14	12	10	8	6	4	2
MU_y	11	10	9	8	7	6	5	4

(i) How many units of X and Y should he consume and why ?

(ii) What changes will you recommend the consumer to make if the price of X falls ? Explain why. (7)

3. (a) Differentiate between constant, increasing and decreasing returns to scale when both inputs are variable.

OR

Describe the characteristics of production isoquants. How does a producer decide on the level of output ? (7)

(b) In the short run when not all inputs are variable, the presence of diminishing returns determines the shape of the cost curves. Discuss. (8)

4. (a) If input prices rise as more inputs are demanded by an expanding industry, the long run industry supply curve will be positively sloped. Explain.

OR

The market demand and supply of an industry is given below

$Q_D = 6500 - 100P$

$Q_S = 1200\ P$

$C(q) = 722 + q^2 / 200$ is Total Cost Function of Firm

$MC\ (q) = 2q / 200$ is Marginal Cost Function of Firm

Assume that all firms are identical and market is characterized by pure competition.

(i) Find the equilibrium price, the equilibrium quantity, the output supplied by the firm, and the profit by each firm.

(ii) Would you expect to see entry into or exit from the industry in the long run ? Explain. What is the impact of entry or exit on market equilibrium.

(iii) What is the lowest price at which each firm would sell its output in the long run and short run. (9)

(b) Explain how a monopolist is able to increase its Total Revenue and profits by practicing Price Discrimination. Why is Indian Railways able to charge different prices from.

OR

Discuss the Long Run efficiency implication of monopolistic competition. (6)

(c) Explain the significance of price rigidity in oligopoly. Explain using the case of tariffs charged by mobile operators in India. (5)

5. Write short notes on any **two** :

(a) Modern Theory of cost

(b) Stages of production

(c) Welfare loss under monopoly

(d) Supply curve for a firm in perfect competition (10)