

[This question paper contains 4 printed pages.]

8378

Your Roll No.

BFIA / II Sem. – 2011

Paper 203 – MANAGERIAL ECONOMICS (NS)

Time : 3 hours

Maximum Marks : 75

(Write your Roll No. on the top immediately
on receipt of this question paper.)

Attempt any five questions.

1. True or false explain

- (a) At relatively low levels of output the firm's AFC dominates the ATC but at relatively high levels of output the firm's AVC dominates.
- (b) A negative substitution effect is enough to yield a downward sloping demand curve.
- (c) Two parallel straight line demand curves have equal price elasticity at the same price.

(3×5=15)

2. (i) Explain with diagrams, what happens to the market for butter when –

- (a) there is a rise in the price of margarine which is often used in place of butter.

P.T.O.

- (b) A tax is levied on the production of butter.
- (ii) A monopolist is in equilibrium. At this point the coefficient of price elasticity is -2 and the marginal cost is Rs. 4. What price should be charged by the monopolist? How will this price be affected by an increase in fixed cost of monopolist? (8,7)

3. (a) Explain how points of tangency between a budget line and indifference curves create a demand curve? (7)

- (b) A perfectly competitive firm has the following cost in the short run

Output	Total Cost
0	60
1	90
2	109
3	125
4	140
5	160
6	184
7	210
8	240
9	275
10	315

- (i) How much output does this firm sell when the price is Rs. 35, and how much profits does it make?
- (ii) At what price does this firm break even?
- (iii) How much output does this firm sell and how much profits does it make when the price is Rs. 16. (3,2,3)
4. (i) The marginal product of the last worker employed by a firm is 60 units of output and the wage is Rs. 40, while the marginal product of the last machine rented by the firm is 80 units of output and the rent is Rs. 40. Is this firm maximising profits? If not, how can it do so? Explain your answer. (7½)
- (ii) Why does excess capacity arise in monopolistic competition? What is its economic significance? (7½)
5. Write short notes on any three of the following :
- (i) Modern Theory of costs
- (ii) Stages of production
- (iii) Downward sloping long run supply curve
- (iv) Advantages of price discrimination (15)

6. (a) Explain how the kinked demand curve describes price rigidity. (7)
- (b) Mr. A has Rs. 80 to spend on burgers, coke and chips. Burgers costs Rs. 10, coke Rs. 8 and chips Rs. 18. The utility schedule of Mr. A is as follows

Units of burger	TU burger	Units of coke	TU coke	Units of chips	TU chips
1	15	1	30	1	20
2	45	2	60	2	74
3	65	3	84	3	110
4	75	4	100	4	144
5	80	5	110	5	160

- (i) How many units of burgers, coke and chips does Mr. A consume?
- (ii) If his income goes up by Rs. 36, what will Mr. A do to maximise his utility? (4,4)