435 *Your Roll No*...........

BFIA / II Sem. – 2012

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 **all** *questions.*

1. True or false. Explain

(a) An individual's demand curve for a commodity is more elastic than the market demand curve for the same.

(b) A monopolist never operates on the inelastic portion of the demand curve.

(c) An increase in both demand and supply of a commodity will increase the quantity and decrease the price of the commodity. (15)

2. (a) As far as effect on consumer welfare is concerned direct taxes are superior to indirect taxes. Explain with the help of indifference curves. (8)

(b) Monopolistic competition is characterised by too many firms, each producing too little. Explain with diagrams. (4)

3. (a) A monopolist does not have a supply curve. Explain with diagrams. (8)

(b) (i) Two friends Mr. A and Mr. B go to an icecream seller. Before looking at the prices each places an order. Mr. A says 'I'd like 2 icecreams" and Mr. B say's I'd like ₹ 40 worth of icecreams. What can you infer about each individual's price elasticity of demand for icecreams ?

(ii) What factors affect the price elasticity of demand ? (2+2=4)

4. (a) What is the shape of isoquants when

(i) There is no possibility of substitution between the two variable inputs.

(ii) The two inputs can be substituted at a constant rate. (4)

(b) Explain with diagrams, how the law of diminishing marginal utility helps a consumer to determine the optimum allocation of a given amount of money among different goods ? (8)

5. (a) What is an income compensated demand curve ? How is it different from an ordinary demand curve ? (4)

(b) A perfectly competitive firm produces output X with the help of variable factor V and 5 units of fixed factor (F). The price of 'F' is ₹ 10 and price of 'V' is ₹ 5. The production function is given below

Units of V	Units of X
6	1
16	2
20	3
32	4
48	5

(i) If price of X is ₹ 60, how many units of X does this firm supply in the market ? How much profit/loss does the firm make at this point ?

(ii) What happens when price of X falls to ₹ 20 ? (5,3)

6. Write short notes on any **three** of the following :

(a) Saucer shaped average variable cost curve

(b) Limitations of Marginal Utility Theory of demand

(c) Kinked demand curve model of oligopoly

(d) Expansion path of a firm (12)