

UNIVERSITY OF MUMBAI

Guidelines for assessment/ model answers and marking scheme

FYBCom Sem I (Program Code: 2C00141) Business Economics: Paper I (Paper Code: 80907)

Question Paper Code: 55700 Date of Examination: 3/12/2018

Max. Marks: 100

The synoptic answers given below are broad guidelines provided so as to maintain uniformity and consistency in assessment of answers. Due credit should be given to candidates who provide neat diagrams, explanations and examples

- 1(A) Select the best answer from the given options and rewrite the statement (Any Ten) 1 mark for each correct answer (10)**

i) c) both a) and b)	ii) b) Direct
iii) b) Downward sloping	iv) d) Oligopoly
v) b) a fall in price will raise total revenue.	vi) d) Both a and b
vii) c) Both fixed and variable factors	viii) a) Increasing returns to scale
ix) d) All of the above	x) c) TVC curve
xi) c) Externalities	xii) b) Sunk cost

- 1. Write whether the following statements are true or false (Any Ten) (10)**
B) 1 mark for each correct answer

i) True	ii) False	iii) False	iv) False	v) False	vi) True
vii) False	viii) True	ix) False	x) True	xi) True	xii) True

- 2. Attempt A and B OR C and D**

- A. Meaning of business economics - Scope: demand, supply, cost, production, pricing, market structures, etc. (07)**

- B. (08)**

Output (Units)	1	2	3	4	5	6	7
Price (Rs.)	10	10	10	10	10	10	10
TR (Rs.)	10	20	30	40	50	60	70
AR (Rs.)	10	10	10	10	10	10	10
MR (Rs.)	10	10	10	10	10	10	10

Perfect competition since more units of output are sold at a constant price – relationship between TR, AR and MR.

OR

- C. Use of marginal analysis: meaning and use in decision making in business (07)**

D.

Price (Rs.)	Quantity demanded	Quantity supplied
100	30	0
200	20	20
300	10	40
400	0	60

(08)

Equilibrium price is Rs. 200 and equilibrium quantity is 20 units where quantity demanded is equal to quantity supplied.

3. Attempt A and B OR C and D

- A. Law of demand – statement and explanation. Assumptions: constant income, price of related goods, tastes, taxes, demography, expectations, etc. Exceptions: Giffen and Veblen goods, emergency, changes in income, tastes, preferences, expectations, etc. (07)
- B. Demand curve under perfect competition- horizontal- diagram and explanation. Demand curve under monopolistic competition- downward sloping, flatter – diagram and explanation. (08)

OR

- C. Demand forecasting- meaning, significance: helps in production planning, sales targeting, inventory control, price policy, resource planning, budgeting, stability, long term growth planning, etc. (07)
- D. Price elasticity of demand is – 0.4. No, it is not beneficial to raise the price since TR will reduce due to relatively inelastic demand. (08)

4. Attempt A and B OR C and D

- A. Isoquant – meaning and properties – negative slope, convex to origin, do not intersect, do not touch any axis, oval-shaped (ridge lines), etc.- diagrams as required (07)
- B. Diseconomies of scale- meaning, internal diseconomies-labour, technical, administrative, managerial, risk-bearing, etc. External diseconomies – intense competition, delays, high input costs, scarcity, pollution, etc. (08)

OR

- C. Economies of scope- meaning, measurement and examples. Economies of scale- meaning. Difference between economies of scope and scale. (07)

D.

Labour(Units)	0	1	2	3	4	5	6	7	8
TP (Units)	0	50	110	180	240	270	282	282	240
AP (Units)	-	50	55	60	60	54	47	40.28	30
MP (Units)	-	50	60	70	60	30	12	0	-42
Stages	I- increasing returns			II- diminishing returns			III – negative returns		

A rational producer will operate in stage 2 since MP is positive and TP is maximised

5. Attempt A and B OR C and D

- A. Nature and relationship between AFC, AVC, ATC and MC curves of a firm – diagram and explanation. (07)

- B. (08)

Output (Units)	0	1	2	3	4	5	6
TVC (Rs)	0	30	55	75	105	155	225
TC (Rs.)	55	85	110	130	160	210	280
AFC (Rs.)	-	55	27.5	18.33	13.75	11	9.17
AVC (Rs.)	-	30	27.5	25	26.25	31	37.5
MC (Rs.)	-	30	25	20	30	50	70

OR

- C. Break-even point – meaning - $TR = TC$, diagram and explanation (07)

- D. i) 100 ii) 50 iii) 250 iv) 120

6. Attempt A and B OR Write short notes on any four

- A. Income elasticity of demand - meaning and measurement, degrees – implications and examples, diagram (10)

- B. LAC – meaning, diagram of derivation and explanation, features- dish shaped, envelope curve, planning curve, represents least AC of producing various output levels in the long run, etc. (10)

OR

Write short notes on any four (5 marks each) (20)

- i) Functions and equations- use as basic tools in business economics
- ii) Promotional elasticity of demand- meaning, measurement, implications
- iii) Types of isoquants- linear, L shaped, kinked and convex
- iv) Expansion path- diagram and explanation
- v) Accounting and economic cost – meaning with examples
- vi) Applications of breakeven analysis-decision making regarding pricing, cost control, profit prediction, target sales, safety margin, etc.
