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: 55701   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) uses an '=' symbol	ii) c) the supply curve for computers shifts to the right
iii) c) Scarcity of resources	iv) b) A and B are complements
v) a) relatively elastic	vi) b) Variations within a year time
vii) b) Economies of localization	viii) a) uses less of any one of the inputs to produce the same level of output
ix) c) Diminishing returns	x) c) cost of owned resources used
xi) b) MC	xii) b) level of output where economic profit is equal to zero.

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

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

2. Attempt A and B OR C and D

A. Concept of market demand, concept of market supply, determination of equilibrium price- diagram and explanation   **(07)**

B.   **(08)**

Output (Units)	1	2	3	4	5	6	7
Price (Rs.)	100	90	80	70	60	50	40
TR (Rs.)	100	180	240	280	300	300	280
AR (Rs.)	100	90	80	70	60	50	40
MR (Rs.)	100	80	60	40	20	0	-20

Monopoly (imperfect competition) since more units of output are sold by reducing the price – relationship between TR, AR and MR.

OR

C. Opportunity cost principle, incremental and marginal concepts – meaning of each and use as basic tools.   **(07)**

D.

Price (Rs.)	Quantity demanded	Quantity supplied
80	440	240
100	400	300
120	360	360
140	320	420
160	280	480

(08)

Equilibrium price is Rs. 120 and equilibrium quantity is 360 units where quantity demanded is equal to quantity supplied.

3. **Attempt A and B OR C and D**

A. Relationship between elasticity of demand and revenue concepts – equations/formula, diagram and explanation. (07)

B. Demand forecasting- meaning, Steps – identifying objectives, nature of product, determinants of demand, data collection, time period, method of forecasting, estimation, interpretation, etc. (08)

OR

C. Demand curve under monopoly- downward sloping, steep – diagram and explanation. Demand curve under oligopoly – kinked - diagram and explanation. (07)

D. Income elasticity of demand for cars is 2. Diagram (08)

4. **Attempt A and B OR C and D**

A. Least cost combinations of factor inputs - Producer's equilibrium – where isoquant is tangent to iso cost. Diagram and explanation. Conditions: tangency, slope of isoquant is equal to slope of isocost, etc. (07)

B. Economies of scale- meaning, external economies- localization, information, by-product, transport, marketing, vertical disintegration, etc. (08)

OR

C. Law of returns to scale- statement, stages- diagram of expansion path sand explanation (07)

D.

Labour(Units)	0	1	2	3	4	5	6	7	8	9	10
TP (Units)	0	10	22	36	52	66	76	80	82	82	78
AP (Units)	0	10	11	12	13	13.2	12.67	11.43	10.25	9.11	7.8
MP (Units)	-	10	12	14	16	24	10	4	2	0	-4
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. LAC – meaning, diagram of derivation and explanation, features- dish shaped, envelope **(07)** curve, planning curve, represents least AC of producing various output levels in the long run, etc.

B.
Output (Units)	0	1	2	3	4	5	6	7	8
TC (Rs.)	100	125	140	150	160	180	210	250	400
TVC (Rs.)	0	25	40	50	60	80	110	150	300
ATC (Rs.)	-	125	70	50	40	36	35	35.72	50
AVC (Rs.)	-	25	20	16.67	15	16	18.33	21.43	37.5
MC (Rs.)	-	25	15	10	10	20	30	40	150

(08)

OR

C. Break-even point – meaning - TR = TC, diagram and explanation - shift in TFC curve **(07)** upwards/ downwards, resultant shift in TC curve and therefore change in breakeven point.

D. i) 250   ii) 400   iii) 200   iv) 500

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

A. Law of demand – statement and explanation. Determinants - price of commodity, **(10)** price of related goods, income of consumer, tastes, habits, preferences, size and composition of population, advertisements, fashion, customs, consumers' expectations, weather conditions, etc.

B. Isoquant – meaning and properties – negative slope, convex to origin, do not intersect, **(10)** do not touch any axis, oval-shaped (ridge lines), etc.- diagrams

OR

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

i) Use of marginal analysis – meaning and use in decision making

ii) Cross elasticity of demand- meaning, measurement and implications

iii) Isocost line – meaning, diagram and slope

iv) Economies of scope – meaning, measurement and implications

v) Relationship between AC and MC - meaning, diagram and explanation

vi) Learning curve – meaning, diagram and explanation

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