

Semester end examination - First half of 2019

F Y B Com - Semester II, Business Economics II

Note : The synoptic answers given below are guidelines provided to maintain uniformity and consistency in assessment of answers. Due credit should be given to candidates who provide neat clear diagrams and explanations. Working notes are expected to be part of the answer for numerical questions.

1 A) 1 mark each, Maximum 10 marks

i) d. None of these	ii) d. Marginal cost	iii) c. Relatively inelastic
iv) d. All of these	v) d. Price control	vi) c. Indeterminate
vii) d. None of these	viii) b. Monopoly	ix) d. All of these
x) c. Both of these	xi) c. Long term investment	xii) a. More than investment

1 B) 1 mark each, Maximum 10 marks

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

2 A) Meaning; Features - large number of buyers and sellers, homogeneous product, freedom of entry and exit, perfect mobility of factors, perfect knowledge, absence/equal transportation cost, no govt. Intervention (8)

B) Meaning of monopoly; equilibrium conditions; equilibrium with different levels of profit - diagrams (7)

OR

C) Meaning; Equilibrium conditions; Equilibrium under different cost conditions with different levels of profit - diagrams (8)

D) Meaning of monopoly; Sources - Natural factors, control over resources, legal protection, technology, Cartel formation, Price policy (7)

3 A) i) Monopolistic competition; Differentiated products - characteristics of the product, conditions surrounding the sales, freedom of entry and exit (4)

ii) Monopolistic competition; Group of firms - firms producing similar but not homogeneous products, different from industry, limits of the group (4)

B) Oligopoly; Price rigidity; Kinked demand curve - diagrams (7)

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OR

- C) Monopolistic competition ; Long run equilibrium - Normal profit, Diagram, Explanation (8)
- D) Meaning ; features - few sellers, homogeneous/differentiated products, interdependence among firms, indeterminate demand curve, non price competition/selling cost (7)
- 4 A) i) Full cost / Cost plus pricing, assured reasonable profit, method (4)
- ii) $600 + 72 = 672$ (4)
- B) Price discrimination ; Different elasticity of demand; Diagram and explanation (7)

OR

- C) Transfer pricing; intermediate goods; intra -firm trading, example, diagram (8)
- D) Product interrelationship; firm producing multiple products, MRs of different products are equated with MC (7)
- 5 A) Definition ; Importance - Huge investment, long term effects, profitability, irreversibility, uncertainty, industry image (8)
- B) Project II is the best since it has the minimum pay back period (7)

Project	Initial Investment (In Rs.)	Annual Cash Inflow (In Rs.)	Payback Period	Rank
I	5,00,000	1,00,000	5 Years	5
II	5,00,000	2,00,000	2.5 Years	1
III	5,00,000	1,25,000	4 Years	4
IV	5,00,000	1,75,000	2.86 Years	2
V	5,00,000	1,50,000	3.33 Years	3

OR

- C) i) $DPV = 2,27,272.7 + 2,06,611.6 + 1,87,828.7 + 1,70,753.4 + 1,55,230.3 = 9,47,696.7$ (5)
- ii) $NPV = 9,47,696.7 - 10,00,000 = - 52303.3$ (1)
- iii) the project is not profitable since the NPV is negative (2)

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- D) Meaning of IRR ; Calculation formula; comparison with rate of interest - decision making (7)
- 6 A) $AR < AC$, but $AR > AVC$; reduce losses by producing; Diagram and explanation (10)
- B) Need for selling cost ; Arguments for - Information, Brand loyalty, Creates demand, Sales promotion ; Arguments against - Temptation, False claims, Health problems, Financial problems, Exploitation (10)

OR

- 6 Any four , 5 marks each, Maximum 20 marks
- i) Classification of markets on the basis of degree of competition; Types
 - ii) Monopolistic competition and Oligopoly; promotional expenditure / selling cost.
 - iii) Monopolistic competition, less than optimum output, under utilization of capacity
 - iv) International price discrimination; objectives; diagram
 - v) Meaning of Marginal cost pricing ; Public goods; explanation with the help of diagram
 - vi) Capital budgeting; steps - search for opportunities, forecasting cash flow, converting cash flows to a common unit, computing the cost of capital, selection
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