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University of Mumbai - Solution Set
C0142 - F.Y. B.Com. (CBCGSS) (R-2016-17) Semester II
C0670 - Business Economics II

[Dated: 17th April, 2018] [Marks: 100] [Q. P. Code: 31605]

Note: The synoptic answers given below are the guidelines to maintain uniformity and consistency in the assessment. Due credit should be given to candidates who provide neat diagrams and explanation. Working of numericals and formulae are expected.

1. A. [10]

i.	d) Marginal Cost	ii.	b) Downward sloping	iii.	a) Both price and output
iv.	a) Product differentiation	v.	c) Both (a) & (b)	vi.	c) Few sellers
vii.	c) Different	viii.	d) All of these	ix.	a) Government
x.	c) Long term	xi.	d) All of these	xii.	b) Negative

1. B. [10]

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

2. A. Long run equilibrium of a firm and industry under Perfect Competition: Diagram and Explanation. [08]

B. Features of Monopoly: Single seller, Price maker, No close substitutes etc. [07]

OR

C. Short run equilibrium under Monopoly: Excess profit & Loss. [08]

D. i. Perfect Competition [02]

ii. Features: Large number of buyers & sellers, Homogeneous commodity, Free entry & exit, Price taker etc. [05]

3. A. Short run equilibrium under Monopolistic Competition – Excess profit & Loss. [08]

B. Features of oligopoly: Few sellers, Interdependence, Uncertainty etc. [07]

OR

C. Price rigidity through kinky demand curve: Reduction in price, Increase in price, Rigid price. [08]

D. i. Monopolistic Competition [02]

ii. Characteristics: Many sellers, Close substitutes, Free entry & exit, Product differentiation, Selling costs etc. [05]

02

4. A. Degrees of Price Discrimination: First Degree, Second Degree, Third Degree [08]
   B. Multiple Product Pricing: Explanation. [07]

OR

   C. Marginal Cost Pricing: Explanation. [08]
   D. Full cost price (Rs.) of a product: P = C (1+m) [07]
   = 40 + 50 (1+0.25)
   = 112.5

5. A. Capital Budgeting: Meaning, Importance: Profitability, Irreversibility, Long gestation period, Future cost structure. [08]
   B. Pay-back Period Method: Explanation, Merits and Demerits. [07]

OR

   C. Net Present Value Method: Explanation. [08]
   D. i. Pay-back Period = Initial Investment /Annual Cash Flows [05]

Project	Initial Investment (Rs.)	Annual Cash Flows (Rs.)	Payback Period (Years)	Ranking
A	10000	2000	5	IV
B	8000	1000	8	V
C	4000	1000	4	II
D	5000	1125	4.4	III
E	6000	2400	2.5	I

   ii. On the basis of the pay-back period criteria, project 'E' is recommended. [02]

6. A. Perfect competition and monopoly models are two extreme cases: Comparison of features. [10]
   B. Selling costs under Monopolistic Competition: Diagram and Explanation. [10]

OR

6. **Short Notes:** [20]
   i. Sources of Monopoly Power: Natural monopoly, Control over resources, Technology, Legal protection, Cartel formation etc.
   ii. Role of Advertising: Arguments for & arguments against.
   iii. Cartels: Diagram and Explanation.
   iv. Conditions for Price Discrimination: Non- transferability, Tariff barriers, Ignorance etc.
   v. Cost plus Pricing Method: Explanation.
   vi. Internal Rate of Return Method:Explanation.