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MODEL ANSWER

Subject–Business Economics-I

Marks: 75

Q.P ~~Subject~~ Code: 57327

Q1. State whether the following statements are true or false.(Any Eight) (08)

1. True
2. True
3. False
4. False
5. False
6. True
7. True
8. True
9. True
10. False

B) Match the following statements:(Any Seven) **(07)**

Group 'A'	Group 'B'
1) Business economics	a) Application of economic theory to business management
2) Incrementalism	b) Measures larger change
3) Demand for petroleum products	c) Relatively price inelastic $Q_{dx} = f(P_x)$
4) Demand function	d) $Q_{dx} = f(P_x)$
5) Trend Analysis	e) Method of demand forecasting
6) Expansion path	f) Scale line
7) Short run production	g) Law of variable proportion
8) Third degree price discrimination	h) Different prices in different markets
9) Perfect competition	i) Large number of buyers and sellers
10) Non Collusive oligopoly	j) Firms compete with each other

Q2A) **Point method of measuring price elasticity of demand (Explanation with diagram)**
Ep= Line segment below the point on the Demand Curve/Line segment above the point on the Demand Curve

Price elasticity of Demand (Ep) varies from Infinity at Y-intercept to Zero at X-intercept; Ep>1 above mid-point (Elastic demand), Ep=1 at mid-point (Unitary elastic demand), Ep<1 below mid-point (Inelastic Demand).

Q2B)**Meaning-** Demand forecasting.

Significance of demand forecasting.-(a) Production planning of business firm (b)To formulate proper sales policy (c) To formulate proper purchase policy (d) To ensure suitable price policy (e)Financial planning of business firm (f)Future investment plans (e)Useful to the government to formulate various policies (7)

OR

C) Demand function: Qx=1000-20Px

Demand schedule (8)

Price	Quantity Demanded
5	1000-20*5=900
10	1000-20*10=800
20	1000-20*20=600
25	1000-20*25=500

Demand Curve:(Diagram)

a) Price elasticity of demand when price changes from Rs 10 to Rs 20

$\Delta P=20-10=10$, $\Delta Q=600-800=-200$

$Ep=-(-200)\backslash 10*10/800=0.25$

D) Important applications of elasticity of demand in economics and business. (7)

a)Business Decisions b)Tax Policy c)Agriculture d)Foreign trade policy e)Trade unions

Q3A) Meaning –Internal economies and External economies of scale . (8)

Types of external economies of scale: Cheapening of material and equipment, Growth of skill labour, Growth of subsidiary and ancillary industries, Development of transportation and marketing facilities, Development of information services

Q3B) Statement of Law of returns to scale: " As a firm in the long run increases the quantities of all factors employed, other things being equal, the output may rise initially at a more rapid rate than the rate of increase in inputs,then output may increase in the same proportion of input, and ultimately, output increases less proportionately"

Explanation of the relationship between input and output through three stages:

Increasing Returns to scale, Constant Returns to scale, Diminishing Returns to scale

3 Q3C) The total cost schedule of a firm is given below.

(8)

Units of output	TC	TFC	TVC=TC-TFC	AFC=TFC/Q	AVC=TVC/Q	MC= TVC/ Q Or TVCn+1 - TVCn
0	150	150	150-150=0	∞	-	-
1	300	150	300-150=150	150	150	150
2	420	150	420-150=270	75	135	120
3	600	150	600-150=450	50	150	180
4	790	150	790-150=640	37.50	160	190
5	1000	150	1000-150=850	30	170	210
6	1260	150	1260150=1110	25	185	260

(i)Average fixed cost of producing 4 units= Rs37.50
(ii)Average variable cost of producing 5 units= Rs170
(iii)Total variable cost of producing 6 units= Rs 1110
(iv)Marginal cost of producing the 3rd unit=Rs 180

OR

Q3D) Break -even point: The volume of sales at which the firm just breaks-even, (7) with total revenues equal to total costs
Business application of break-even analysis:(a)Returns on capital employed b)Cost recovery c)Profit forecast d)Raising Capital e)Capacity utilization f)Determine sales and marketing strategies

Q4A) Meaning – Monopolistic competition, Equilibrium conditions - Explanation of three possibilities : Excess profit, Losses and Normal profit with diagrammatic representation (8)

B) Difference in the features of Perfect competition and monopoly form of market structure(7)

OR

C) Types of price leadership that may be established in an oligopolist market situation: (8)
a)Dominant Firm Leadership b)Low cost Firm Leadership c)Barometric Price Leadership
d) Aggresive Price Leadership

D) Meaning – Monopoly , Equilibrium conditions - Explanation of the possibilities : Excess profit and Normal profit with diagrammatic representation (7)

4)

Q.5(A) Price discrimination: "The act of selling the same article, produced under the single control at different prices to different buyers"
Conditions of price discrimination:
No possibility of resale, Presence of monopoly market structure, Ignorance, Geographical distance, Tariff barriers, Location, Price-Quality link (07)

(B) Transfer pricing- Concept
Strategies :a) Determines cost b)Not different from market price c)It can be used to avoid taxes

OR

Q5. Write short notes on (Any three) (15)

Pls. consider relevant answer for each topic of short note.