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QP code 57331

Model Answer
(2 1/2 Hours)

Subject- Business Economics

[Total Marks: 75]

- N.B :
- (1) All questions are compulsory.
 - (2) Figures to the right indicate full marks.
 - (3) Draw neat diagrams wherever necessary.

1. (A) State whether following statements are true or false. (Any Eight) 8
- (1) Function explains the relationship between two economic variables. **True**
 - (2) The perfectly inelastic demand curve is horizontal to X-axis. **False**
 - (3) Statistical methods of demand forecasting are more accurate and scientific. **True**
 - (4) The substitute goods have positive cross elasticity of demand. **True**
 - (5) Under law of variable proportion, the total product curve becomes negative in the third stage. **False**
 - (6) Internal economies of scale are termed as economies of large scale production. **True**
 - (7) Iso-quants are also known as equal product curve. **True**
 - (8) Oligopolist produce homogenous product. **False**
 - (9) Advertisement expenditures are huge for a perfectly competitive firm. **False**
 - (10) In case of multi-products, demand interrelationship influences the pricing decisions. **True**

(b) Match the following (Any seven) 7

1.	Incremental cost - Analyses the impact of a decision on investment and production
2.	AR- TR/Q
3.	Promotional elasticity of demand - Advertisement expenditure
4.	Geometric method - Point method
5.	Marginal Rate of Technical Substitution- Slope of iso-quant
6.	Learning curve- Arrow
7.	Long run average cost curve - Envelope curve
8.	Selling cost and product differentiation - Monopolistic competition
9.	Concept of Group- Prof. Chamberlin

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10. Transfer pricing- Arises due to growth of large scale industries

2. (A) Define income elasticity of demand and discuss the practical importance of income elasticity of demand. 8

$$E_y = \frac{\% \text{ change in demand}}{\% \text{ change in income}}$$

Importance- demand forecasting, taxation, selection of markets, government policies.

- (B) Explain the nature of demand curve under imperfect competition market. 7

$AR > MR$ (table and diagram)

OR

- (C) The following are the annual sales of bicycles from the period 2001 to 2008 --

Years	2001	2002	2003	2004	2005	2006	2007	2008
Sales in (Rs. Lakh)	21	25	29	35	28	31	34	32
3 yearly moving average	-	75	89	92	94	93	97	-
3yearly MA trend values	-	25	29.67	30.67	31.34	31	32.34	-

Questions-

- 1) Find the trend value of sales by using the three yearly moving average method. 6

- 2) What are the advantages of moving average method? 2

Advantages- Simple, easy application and more accurate method.

- (D) What is demand forecasting? Explain fully the consumer survey method. 7

Consumer survey method- complete enumeration , sample survey and end-use

Method.

3. (A) Explain the laws of returns to scale with the help of iso-quants. 8

3 stages- increasing, constant and decreasing (diagrams)

- (B) What are economies of scale? Discuss the types of external economies of scale. 7

Types external – Localisation, information, disintegration, by-product.

OR

- (C) Calculate the short-run Total Fixed Cost, Total Variable Cost, Average Cost and Marginal Cost from the following cost schedule. 8

Output [In units]	0	1	2	3	4	5	6
TC [In Rs.]	100	125	140	150	170	200	245
TVC	0	25	40	50	70	100	145
AC	0	125	70	50	42.5	40	40.84
MC	0	25	15	10	20	30	45

- (D) Explain with the help of suitable diagram linear break-even analysis and discuss the uses of break- even analysis. 7

TR = TC (Diagram)

4. (A) Discuss the short-run equilibrium of price and output of the monopolist firm. 8

Super-normal profit, loss and normal profit (diagram)

- (B) How does the industry attain equilibrium of price and output under perfect competition in long-run? 7

LAR=LMC=LAC=LMR (Diagram)

OR

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(C) Explain the concept of price rigidity with the help of suitable diagram. 8

Kinky demand curve with price increase and price decrease (diagram)

(D) "Cartel aims at joint profit maximisation". Explain. 7

Oligopolist surrenders their price and output decision to third party referred as Cartel which aims at joint profit maximization.

5. (A) Discuss the advantages and disadvantages of marginal-cost pricing method. 8

Advantages –it is rendered competitive due to high overhead structure, reflects future cost levels, allows sellers to adopt aggressive pricing policy, useful for pricing the life cycle of a product.

Disadvantages – accountants not fully aware about this cost, it's not encouraging, cut-throat price war.

(B) Explain how monopolists practices the different forms of price discrimination. 7

Personal, size, age ,comfort ,quality, sex, time , national, international.

OR

Write short notes (Any Three)

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Consider relevant answers for each short notes

- (a) Nature of business economics.
- (b) Time series method of demand forecasting.
- (c) Expansion path.
- (d) Price leadership.
- (e) Transfer pricing.
