

QP Code 57329

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10/5/21

Model Answer

Subject- Business Economics

(2 ½ Hours)

[Total Marks: 75]

N.B : (1) All questions are compulsory.

(2) Figures to the right indicate full marks.

(3) Draw neat diagram wherever necessary.

1. (A) State whether following statements are true or false.(Any Eight)

8

- (1) An equation is true only for a specific value. **True**
- (2) A variable is an identity whose quantity can change over a specified time period. **True**
- (3) Demand curve always slopes upward. **False**
- (4) Geometric method measures the elasticity of demand at a point on the demand curve. **True**
- (5) The concept of iso-quants is used to explain the expansion path. **True**
- (6) Economies of scale help to reduce the cost of production. **True**
- (7) A monopoly firm and industry are identical. **True**
- (8) A firm under perfect competition incurs heavy selling cost. **False**
- (9) Under marginal cost pricing, prices are determined on the basis of fixed cost only. **False**
- (10) Today firms produce a variety of products rather than a single product. **True**

(b) Match the following (Any seven)

7

1.	Slope - Refers to change in one variable due to change in other variable
2.	Graphs - show the pictorial presentation and the relationship between two variables
3.	Demand function - $Q = f(p)$
4.	$TR = P \times Q$
5.	Law of returns to scale - long-run production
6.	Opportunity cost - Next best alternative use
7.	Oligopoly - Few sellers
8.	Cartel - OPEC
9.	Discriminating pricing - Monopoly
10.	Marginal cost - Cost incurred in producing an additional units of output

2

2. (A) Explain the nature of demand curve under perfect competition. 8

AR = MR (Explanation with Table and Diagram)

(B) Discuss the types of cross elasticity of demand. 7

Positive, negative and zero Exy (diagrams)

OR

(C) The demand schedule for an industry in a purely competitive market is given as follows –

$$Q = 500 - 3P$$

The short-run supply schedule of the industry is as follows-

$$Q = -3 + 8P$$

Questions-

1. What is the equilibrium price and quantity in the market? 4

Ans- $Q = 500 - 3P = -3 + 8P$

$$503 = 11P$$

$$P = 45.727$$

$$Q = 362.818$$

2. What is the total expenditure incurred by the consumers? 2

$$Q \times P = 362.818 \times 45.727 = \text{Rs. } 16590.58$$

3. Calculate the total revenue of the firms. 2

Producers TR will be the same as consumers' total expenditure.

(D) Discuss the survey method of demand forecasting. 7

Consumer survey method, sample survey and end-use method.

3. (A) Explain the law of diminishing marginal returns with the help of an illustration and suitable diagram. 8

First, second and third stage (example and diagram)

3

(B) Discuss the types of internal economies of scale.

7

Labour, capital, financial, risk-bearing, marketing.

OR

(C) From the following cost function- $TC = 100 + 50Q + 4Q^2$

Continue

~~TC = 150 + 50Q + 10Q^2 + Q^3~~
 $ATC = \frac{AC}{Q} = \frac{100}{10} = 10$

Find TFC, TVC, AVC, AC, ATC, AFC if output is 10.

Questions-

1. Calculate TFC, TVC, AVC,

4

Ans- ~~TFC = 150~~ Ans ^{1°} $TFC = 100$

~~TVC = 50Q + 10Q^2 + Q^3~~ $TVC = 50Q + 4Q^2$

~~AVC = 50 + 10Q + Q^2~~ $AVC = \frac{TVC}{Q} = 50 + 4Q$

$AC = \frac{TC}{Q} = \frac{100 + 50 + 4Q^2}{Q} = \frac{100}{Q} + 50 + 4Q$ since $Q = 10$

2. Find out TC and ATC if the output is 10.

~~TC = 650~~ $ATC = \frac{AC}{Q} = \frac{100}{10} = 10$

$TC = \frac{100}{10} + 50 + 4(10) = 10 + 50 + 40$

~~ATC = 65~~ $AFC = \frac{TFC}{Q} = \frac{100}{10} = 10$

(D) Explain with the help of diagram the concept of break-even analysis.

TR=TC (Linear and non-linear)

4. (A) Explain the long-run equilibrium of price and output of the firm under perfect competition.

8

LAR=AMR=LMC=LAC (diagram)

(B) Discuss the equilibrium of a firm under monopolistic competition in short-run.

7

Super normal profit, normal profit and loss (diagram)

OR

(C) Discuss the various types of price leadership.

8

Low-cost, barometric, dominant and aggressive price leadership.

(D) What is price rigidity? Discuss it with the help of suitable diagram.

7

Concept of kinky demand curve with price rise and price decline (diagram)

5. (A) Discuss the merits and demerits of full cost pricing.

8



Merits- Simple method, easy application, ensures stability, easy to adjust price if cost rises.

Demerits- ignores demand side, ignores the existence of competitors, invalid method in case of multi-product firm, based on conventional accounting system.

(B) Explain the concept of transfer pricing without external market.

7

If there is excess production in division, the qty demanded by other division, the division has no competitive external market for selling extra output. (diagram)

OR

Write short notes (Any Three)

15

(Consider relevant answers for each short notes)

- (a) Use of marginal analysis in decision making.
- (b) Types of price elasticity of demand.
- (c) Ridge lines.
- (d) Kinky demand curve.
- (e) Types of price discrimination.

If any queries pls contact.

Dr. Nilima Bhagwat 9967460759

Mrunalini Shingare - 9004387438

Mamta Rajami - 9769470738