Model Question Paper

Name: **Enrolment No:**	UPES

Course code: ECON1001 – Business Economics-I

Program B.BA FT/Core/E-Business/AIS **Semester: I**

Time: 03 hrs. **Max. Marks:100**

Instructions: Section A is compulsory (each carrying 1 marks = 20 marks); any **Four Questions** from **Section B** (20 marks)**.** Any **Five Questions** from **Section C** is (carrying 6 marks = 30 marks)**. Section D** is compulsory (each carrying **15 marks = 30 marks**);

Section A (This section is compulsory)

1.	A perfectly competitive firm would shut down if a. AVC < AR b. AVC > AR c. AVC = MC d. AVC < MC	**[1]**	**CO1**
2.	In case of super normal profit, position of AC curve is a. Above price line b. Below price line c. Tangent to price line d. Parallel to price line	**[1]**	**CO1**
3.	Slope of AR is a. Equal to slope of MR b. Twice the slope of MR c. Thrice the slope of MR d. Half the slope of MR	**[1]**	**CO1**
4.	Formation of monopoly due to economies of scale is known as: a. A natural barrier b. A legal barrier c. A structural barrier d. An efficiency barrier	**[1]**	**CO1**
5.	Economies of scale emanate from: a. Learning by doing b. Production of two different products jointly c. Production of two complementary goods separately d. Production in bulk	**[1]**	**CO2**
6	All of the following are valid for ordinal school of consumer preferences except: a. Consumer preferences can be plotted on an indifference curve b. Ranking of utility is important c. Magnitude of utility is important d. Utility is not additive	**[1]**	**CO1**
7	Subject matter of Microeconomics includes mainly a. General equilibrium analysis b. Growth in GDP and employment c. Partial equilibrium analysis d. Value judgments	**[1]**	**CO1,2**
8	The difference between consumers is willing to pay and what they actually pay is a. Cost plus pricing	**[1]**	**CO1**

	b. Consumer surplus c. Feasible set d. Marginal utility		
9	If by increasing the quantity of labor by one unit, a firm gives up 3 units of capital and yet produces the same level of output, then the $MRTS_{LK}$ is equal to (a) 1/3 b. 3 c. 1 d. 6	**[1]**	**CO3**
10	The point where total revenue line crosses the total cost is called. a. Point of inflection b. Break-even point b. Equilibrium point d. Split off point	**[1]**	**CO1**
11	]The ----------- the demand curve, the higher is price elasticity (a) Steep b. flatter c. straight d. both 'b' and 'c'	**[1]**	**CO2**
12	If demand equation is given by D = 1000 – P, and supply curve equation is given by S = 100 + 4P, price would be: a. 160 b. 180 c. 170 d. 200	**[1]**	**CO3**
13	Which of the following is not a long run concept? a. Expansion path b. Isoquant c. Law of variable proportion d. Returns to scale	**[1]**	**CO1**
14	Cross elasticity between Omega watch Car and Tata Tea would be a. Positive b. One c. Negative d. Zero	**[1]**	**CO1**
15	Microeconomic helps to determine the following: a. Equilibrium of the economy b. Equilibrium of the firm c. Equilibrium of an individual d. Equilibrium of an industry	**[1]**	**CO1**
	State true (T) or False (F)		
16	A firm can generate negative social costs.	**[1]**	**CO1**
17	The government sets price of the product in a perfectly competitive market.	**[1]**	**CO1**
18	A monopolist operates at the optimum level of output and charges higher prices.	**[1]**	**CO1**
19	In Cournot's model firms, take decisions as if they are operating independently in the market.	**[1]**	**CO1**

20	Slope of the demand curve for monopolistic competition is flatter than that of monopoly firms.	**[1]**	**CO1**
	Section B **Very short type answers (not more than 2-3 lines)**		
1	In Cournot' model (in oligopoly), how much market share will each firm have when both the firms are in equilibrium?	**[2]**	**CO2**
2	The fares determined for different means of transport (say train, bus, and airplane) fall under which degree of price discrimination? Why?	**[2]**	**CO3**
3	Which are two distinct characteristics of monopolistic competition? Why it is difficult to enter an industry in monopolistic competition for a new firm?	**[3]**	**CO2,3**
4	Suppose, you are working as a team member of Finance Minister to prepare the annual budget. What kind of products will you tax to increase the revenue?	**[2]**	**CO3**
5	State 'cross elasticity of demand'. How is it calculated?	**[2]**	**CO2**
6	Why does marginal cost curve falls more sharply and reaches minimum before average cost curve?	**[2]**	**CO3**
7	Mention the basic conditions for the applicability of 'law of diminishing marginal utility'	**[2]**	**CO1**
8	Define 'Marginal Rate of Technical Substitution'.	**[2]**	**CO1**
9	. State difference between 'partial' and 'general' equilibrium.	**[3]**	**CO1,2**
	Section C **Attempt any 5 questions (Answers should not exceed more than one and half page)**		
1	Define 'selling costs'. State the difference between 'selling cost' and 'production cost'. Why is selling cost important in monopolistic competition?	**[6]**	**CO4**
2	How will a firm decide on the price and quantity in perfect competition? What kind of profits will firm have in long run? State assumption of the perfectly competitive market. Explain diagrammatically.	**[6]**	**CO3**
3	Complete the following table on the basis of the figures given:	**[6]**	**CO2,3**

Output	TC	TFC	TVC	AFC	AVC	AC	MC
0							
1	200		100				100
2	290				95		
3						123	
4						110	71
5							80

6			420	20	84	103.8	
7	751					107	128
8			801				
9	1098		998				197
10				10	123.2		

4	How a consumer does attains equilibrium for two products case? Explain the necessary conditions being reflected in the diagram.	**[6]**	**CO2,3**
5	Explain the difference between 'Microeconomics' and 'Macroeconomics' as clearly as possible.	**[6]**	**C01,2**
6	"If there is increase in the price of small cars (say Alto 800) by Maruti, others (Hyundai-Eon, Tata-Nano, Chevrolet–Beat, Nissan-Dastun), may not follow; and if there is decrease in the price of small cars segment by Maruti (Alto 800), other firms in small car segment (mentioned above) may follow". What shape of demand curve will emerge in such situation? Which market structure this situation refers to? How producer does attains equilibrium in such situation?	**[6]**	**CO3,4**

Section-D

All questions in this section are compulsory.

1.	The short run production function shows the maximum output a firm can produce when only one input can be varied" Explain the statement as clearly as possible. Which is the most economic region where a firm will operate and when will it stop producing?	**[15]**	**CO2, CO3,**
2.	**Case Study:** DeBeers is a South Africa based company that, until the late 1990s, had a near monopoly on the sale of diamonds worldwide. DeBeers had exclusive rights to mining in Africa, producing about 80 per cent of the quantity and over 95 per cent of the dollar value of diamonds worldwide. Most diamonds were sold through its London office. By effectively managing a cartel of the major producers in Africa, DeBeers maximized profits by reducing the quantity of diamonds sold, thereby raising prices. As one might expect, as a near monopolist in the market for newly minded diamonds, DeBeers made enormous profits for many years. New developments since that time have threatened DeBeer's monopoly. DeBeers also had the rights to sell diamonds mined in the Soviet Union. However, when the Soviet Union collapsed, DeBeers was unable to enforce those agreements. The flow of Russian diamonds increased dramatically, outside of DeBeers's control. Several jewelry companies, including Tiffany integrated backward into mining to avoid acquiring diamonds from DeBeers. In 2004 Namibia passed a law requiring miners to sell a percentage of their diamonds to local polishers, also outside of DeBeer's influence. Other African nations were increasingly challenging the dominance of DeBeers over the distribution and sale of such a valuable		**CO2,3, 4**

	commodity mined in their countries. DeBeers's market share has gradually decreased over time. A new development may be of even greater concern for DeBeers; synthetic diamonds. Natural diamonds are formed when carbon is under intense pressure under the Earth's surface of hundreds of millions of years. Recently, scientists have discovered how to create diamonds in less than a week by putting carbon under extremely high pressure in a laboratory. The first synthetic diamonds were deemed poor substitutes for natural diamonds in jewelry, but they did prove to be excellent substitutes in industrial applications (where diamonds are used for cutting because of their extremely hard surface). By 2007, synthetic diamonds had captured 90 per cent of the industrial diamond market from DeBeers. Worse still for DeBeers, makers of synthetic diamonds have improved their products to such an extent that they are now often indistinguishable from natural diamonds, even to professional jewelers. It will be interesting to see what effects synthetic diamonds will have on the market for diamonds in jewelry. Currently, most jewelers and customers have a strong preference for natural diamonds, even though synthetic ones are chemically identical and indistinguishable. Apparently, the 'authenticity' of natural diamonds still as sentimental value. The market price of synthetic diamonds for jewelry is about 30 per cent of the price of the natural diamonds. However, preference's may change over time as consumers become more accustomed to synthetic diamonds and see that they are functionally equivalent and much cheaper. If that happens, DeBeers will lose a large part of its market power. DeBeers still control a large fraction of the supply of natural diamonds, but it may be forced to dramatically cut prices (and increase output it is willing to sell) in order to meet the new competition. (Microeconomics by David Besanko & Ronald Braeutigam; Chapter 11, Applications 11.1pp.443**)**		
	Q1. In which type of market structure is DeBeers operating in the case study. Mention and define that market structure while mentioning it main characteristics.	**[3]**	
	Q2. How De Beers decides the quantity to be produced and priced?	**[2]**	
	Q3. What kind of profits DeBeers earning in the present situation mentioned in the case? Explain with the help of diagram.	**[6]**	
	Q4. Which factors are affecting market share of DeBeers? How will this effect profit of DeBeers over a period of time?	**[4]**	