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| Name: |  |
| Enrolment No: | |

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| Course: – Business Economics I | Semester: II |
| Program B.BA AVO | Max. Marks:100 |
| Course Code: ECON1001 | Time: 03 hrs. |
| No of pages: 5 | |

Section A

Multiple choice question & ‘True’ or ‘ False’ (20 marks)

Instruction: Only write A/B/C/D Or ‘T’/’F’

| | | | |
|----|---|-----|-----|
| 1. | In monopoly market structure, 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 |
| 2. | 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 |
| 3. | 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 |
| 4. | Product homogeneity does NOT include; a. minor changes in the same generic product b. no change in the same generic product c. preference over any one product d. different prices for different product. | [1] | CO1 |
| 5. | 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 |
| 6. | The ----- the demand curve, the higher is price elasticity (a) Steeper b. flatter c. straight d. both ‘b’ and ‘c’ | [1] | CO1 |
| 7. | 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] | CO1 |
| 8. | Formation of monopoly due to economies of scale is known as a. Natural barrier b. Legal barrier c. Structural barrier d. Efficiency barrier | [1] | CO1 |
| 9. | In a perfectly competitive market, a firm in the long run operates at a. $AC=MC$ b. $AR=MR$ c. $MR=MC$ d. $P=AR=SMC=LRMC=SRAC=LRAC$ | [1] | CO1 |

| | | | |
|------------------------------------|---|-----|-------------------|
| 10 | Analyzing the second, third and fourth order effect of change in gas prices on its demand falls under the study of a. General equilibrium analysis b. Positive economics c. Microeconomics d. Normative economics | [1] | CO1 |
| 11 | Elasticity of Samsung Galaxy S 10+ will a. increase over a period of time b. decrease over a period time c. No change over a period of time d. Infinite over a period of time | [1] | CO1 |
| 12 | A perfectly competitive firm would shut down if a. $AVC < AR$ b. $AVC > AR$ c. $AVC = MC$ d. $AVC < MC$ | [1] | CO1 |
| 13 | A collusion is tacit when; a. demand curve for a firm in the collusion is kinked b. firms engage in price-war c. firms do not document their agreement to collude d. member firms cheat on each other | [1] | CO1 |
| 14 | Elasticity of products under monopolistic competition is a. equal to 1 b. less than 1 c. greater than 1 d. equal to zero | [1] | CO1 |
| 15 | Which of the following is NOT a long run concept? a. Expansion path b. Isoquant c. Returns to scale d. Law of variable proportion | [1] | CO1 |
| State True (T) or False (F) | | | |
| 1 | Slope of the demand curve for monopolistic competition is flatter than that of monopoly firms. | [1] | CO1 |
| 2 | The demand curve in oligopoly is less elastic above the kink and more elastic below the kink. | [1] | CO1 |
| 3 | A monopolistically competitive firm is similar to a perfectly competitive firm in terms of perfect knowledge of the market. | [1] | CO1 |
| 4 | The government sets price of the product in a perfectly competitive market. | [1] | CO1 |
| 5 | A monopolist operates at the optimum level of output and charges highest price. | [1] | CO1 |
| Section B | | | |
| Answer maximum in 3-4 lines | | | (20 marks) |
| 1 | Under which market structure can 'airline sector' in India be classified? Why? | [2] | CO3 |
| 2 | Define bounded rationality. | [2] | CO1 |
| 3 | It is said that perfect competition is not possible in real world. Is it then unnecessary to study this market structure? | [2] | CO2 |
| 4 | 'Tesla', 'Virgin Galactic' and a few more firms are trying to venture into 'space tourism'. At present, what market structure can they be classified? Why | [2] | CO3 |

| | | | |
|----|---|-----|-----|
| 5 | As per 'Cournot's model', how much share will each firm will have when both the firms are in equilibrium. | [2] | CO1 |
| 6 | Why does Oligopoly market structure has so many different models as compared other structures in which equilibrium can be explained with a specific definite relationship? | [2] | CO2 |
| 7 | Define 'Marginal rate of technical substitution'. | [2] | CO1 |
| 8 | "Zenith hostel of boys has been upgraded", reflects billboard on the right hand side when you cross the bridge just before Kandoli campus. Under which market structure would you place the company (Zenith). What kind of Demand curve would such market structure face and why? | [2] | CO3 |
| 9 | Mention two distinct features of 'monopolistic competition' that differentiate it from other market structures. | [2] | CO1 |
| 10 | State the difference between 'stable' and 'unstable' equilibrium. | [2] | CO1 |

Section-C

Attempt any 5 questions

[35 marks]

| | | | |
|----|--|-----|-------|
| 1. | "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? | [7] | CO3,4 |
| 2. | Define 'selling costs'. What is objective of selling cost (advertisement) in monopolistic competition? State the difference between 'selling cost' and 'production cost'. | [7] | CO2,3 |
| 3 | State the difference between 'Micro' and 'Macro' economics. | [7] | CO1,2 |
| 4 | State and explain law of variable proportion. Which is the economic region of production? Why? | [7] | CO1,3 |
| 5 | How consumer does attains equilibrium? State the two necessary conditions for equilibrium with the help of diagram. | [7] | CO2 |
| 6 | How is price determined in perfectly competitive market? Do they attain supernormal profits in long run? Explain the reason and equilibrium with the help of diagram. | [7] | CO2,3 |

Section D

[25 marks]

All the questions are compulsory

| | | | |
|---|--|----|---------|
| 1 | <p>Case Study:</p> <p>De Beers is a South Africa based company that, until the late 1990s, had a near monopoly on the sale of diamonds worldwide. De Beers 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, De Beers maximized profits by reducing</p> | 15 | CO2,3,4 |
|---|--|----|---------|

the quantity of diamonds sold, thereby raising prices. As one might expect, as a near monopolist in the market for newly mined diamonds, De Beers made enormous profits for many years.

New developments since that time have threatened De Beers' monopoly. De Beers also had the rights to sell diamonds mined in the Soviet Union. However, when the Soviet Union collapsed, De Beers was unable to enforce those agreements. The flow of Russian diamonds increased dramatically, outside of De Beers' control. Several jewelry companies, including Tiffany integrated backward into mining to avoid acquiring diamonds from De Beers. In 2004 Namibia passed a law requiring miners to sell a percentage of their diamonds to local polishers, also outside of De Beers' influence. Other African nations were increasingly challenging the dominance of De Beers over the distribution and sale of such a valuable commodity mined in their countries. De Beers' market share has gradually decreased over time.

A new development may be of even greater concern for De Beers; 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 De Beers. Worse still for De Beers, 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 has sentimental value. The market price of synthetic diamonds for jewelry is about 30 per cent of the price of the natural diamonds. However, preferences 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, De Beers will lose a large part of its market power. De Beers 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)

Answer the following questions based on case study:

1. Under which market structure is De Beers operating in the case study. State and define that market structure while mentioning its main characteristics.
2. How does De Beers decide the quantity to be produced and priced?
3. What kind of profits is De Beers earning in the present situation mentioned in the case? Explain with the help of a diagram.


[3]

[2]

[6]

| | | | |
|--|---|-----|--|
| | 4. Which factors are affecting market share of DeBeers? How will this effect profit of DeBeers over a period of time? | [4] | |
|--|---|-----|--|

| 2 | Complete the following table on the basis of the figures given: | [10] | CO1,2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | <table border="1"> <thead> <tr> <th>Output</th> <th>TC Total cost</th> <th>TFC Total fixed cost</th> <th>TVC Total Variable cost</th> <th>AFC Average fixed cost</th> <th>AVC Average variable cost</th> <th>AC Average Cost</th> <th>MC Marginal cost</th> </tr> </thead> <tbody> <tr> <td>0</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1</td> <td>200</td> <td></td> <td>100</td> <td></td> <td></td> <td></td> <td>100</td> </tr> <tr> <td>2</td> <td>290</td> <td></td> <td></td> <td></td> <td>95</td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>123</td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>110</td> <td>70</td> </tr> <tr> <td>5</td> <td></td> <td></td> <td>420</td> <td>20</td> <td>84</td> <td></td> <td>80</td> </tr> <tr> <td>6</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>103.8</td> <td></td> </tr> <tr> <td>7</td> <td>751</td> <td></td> <td></td> <td></td> <td></td> <td>107</td> <td>128</td> </tr> <tr> <td>8</td> <td></td> <td></td> <td>801</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>9</td> <td>1098</td> <td></td> <td>998</td> <td></td> <td></td> <td></td> <td>197</td> </tr> <tr> <td>10</td> <td></td> <td></td> <td></td> <td>10</td> <td>123.2</td> <td></td> <td></td> </tr> </tbody> </table> | Output | TC Total cost | TFC Total fixed cost | TVC Total Variable cost | AFC Average fixed cost | AVC Average variable cost | AC Average Cost | MC Marginal cost | 0 | | | | | | | | 1 | 200 | | 100 | | | | 100 | 2 | 290 | | | | 95 | | | 3 | | | | | | 123 | | 4 | | | | | | 110 | 70 | 5 | | | 420 | 20 | 84 | | 80 | 6 | | | | | | 103.8 | | 7 | 751 | | | | | 107 | 128 | 8 | | | 801 | | | | | 9 | 1098 | | 998 | | | | 197 | 10 | | | | 10 | 123.2 | | | | |
| Output | TC Total cost | TFC Total fixed cost | TVC Total Variable cost | AFC Average fixed cost | AVC Average variable cost | AC Average Cost | MC Marginal cost | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| 1 | 200 | | 100 | | | | 100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | 290 | | | | 95 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | | | | | | 123 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | | | | | | 110 | 70 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | | | 420 | 20 | 84 | | 80 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 | | | | | | 103.8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 | 751 | | | | | 107 | 128 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 | | | 801 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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Section A

Multiple choice question & ‘True’ or ‘ False’ (20 marks)

Instruction: Only write A/B/C/D Or ‘T’/’F’

| | | | |
|----|---|-----|-----|
| 1. | In a perfectly competitive market, a firm in the short run operates at a. AC=MC b. AR=MR c. P=AR=SMC=LPMC=SRAC=LRAC d. None of the above | [1] | CO1 |
| 2. | Subject matter of Microeconomics includes mainly b. General equilibrium analysis b. Growth in GDP and employment c. Partial equilibrium analysis d. Value judgments | [1] | CO1 |
| 3. | Elasticity of demand curve under monopoly market structure is a. equal to 1 b. less than 1 c. greater than 1 d. equal to zero | [1] | CO1 |
| 4. | Formation of monopoly due to economies of scale is known as: b. A natural barrier b. A legal barrier c. A structural barrier d. An efficiency barrier | [1] | CO1 |
| 5. | Product homogeneity does NOT include; e. minor changes in the same generic product f. no change in the same generic product g. preference over any one product h. different prices for different product. | [1] | CO1 |
| 6 | In case of super normal profit, position of AC curve is e. Above price line f. Below price line g. Tangent to price line h. Parallel to price line | [1] | CO1 |
| 7 | In monopoly market structure, slope of AR is e. Equal to slope of MR f. Twice the slope of MR g. Thrice the slope of MR h. Half the slope of MR | [1] | CO1 |
| 8 | The ----- the demand curve, the higher is price elasticity (b) Steeper b. flatter c. straight d. both ‘b’ and ‘c’ | [1] | CO1 |

| | | | |
|----|---|-----|-----|
| 9 | If demand equation is given by $D = 1000 - P$, and supply curve equation is given by $S = 100 + 4P$, price would be: b. 160 b. 180 c. 170 d. 200 | [1] | CO1 |
| 10 | Formation of monopoly due to economies of scale is known as a. Natural barrier b. Legal barrier c. Structural barrier d. Efficiency barrier | [1] | CO1 |
| 11 | All the following EXCEPT one pose a constraint in developing a model to explain oligopoly: a. Indeterminate demand curve b. Tendency to influence market conditions c. Formation of cartel d. Fear of price war | [1] | CO1 |
| 12 | Analyzing the second, third and fourth order effect of change in gas prices on its demand falls under the study of b. General equilibrium analysis b. Positive economics c. Microeconomics d. Normative economics | [1] | CO1 |
| 13 | Elasticity of Apple iPhone Xs a. increase over a period of time b. decrease over a period time c. No change over a period of time d. Infinite over a period of time | [1] | CO1 |
| 14 | A perfectly competitive firm would keep operating till a. $AVC < AR$ b. $AVC > AR$ c. $AVC = MC$ d. $AVC < MC$ | [1] | CO1 |
| 15 | Which of the following is NOT a long run concept? a. Expansion path b. Isoquant c. Returns to scale d. Law of variable proportion | [1] | CO1 |

State True (T) or False (F)

| | | | |
|---|---|-----|-----|
| 1 | In perfect competition, a firm fixes equilibrium price and quantity. | [1] | CO1 |
| 2 | The demand curve in oligopoly is more elastic above the kink and less elastic below the kink. | [1] | CO1 |
| 3 | A monopolistically competitive firm is similar to a perfectly competitive firm in terms of perfect knowledge of the market. | [1] | CO1 |
| 4 | Government itself may provide a franchise to a producer to provide service in particular area. | [1] | CO1 |
| 5 | A monopolist operates at the optimum level of output and charges highest price. | [1] | CO1 |

Section B

Answer maximum in 3-4 lines

(20 marks)

| | | | |
|---|---|-----|-----|
| 1 | What do you understand by 'Rational behavior'? | [2] | CO1 |
| 2 | Though perfect competition does not exist in real world still is extremely relevant to understand it as a concept. Why? | [2] | CO2 |
| 3 | Oligopoly market structure does not provides with a single model of equilibrium of the firm. Why? | [2] | CO3 |
| 4 | 'Tesla', 'Virgin Galactic' and a few more firms are trying to venture into 'space tourism'. At present, what market structure can they be classified? Why | [2] | CO3 |

| | | | |
|---|---|-------------------|---------|
| 5 | Define 'Marginal rate of substitution'. | [2] | CO1 |
| 6 | Define cross elasticity. How is it measured? | [3] | CO1 |
| 7 | Why does marginal cost curve falls (or rises) more sharply than average cost curve and reaches at minimum before? | [2] | CO1 |
| 8 | "Oxford caps hostel has been putting up billboards with attractive taglines" on the road from Silver heights to Bidholi. Under which market structure would you place the hostel (Oxford caps)? What kind of Demand curve would such market structure face and why? | [4] | CO2,3 |
| 9 | How concept of elasticity does helps to make decisions to sellers? | [1] | CO1 |
| Section-C | | | |
| Attempt any 5 questions | | [35 marks] | |
| 1. | 'Product differentiation' and 'Advertisement' are two crucial features of Monopolistic Competition. Explain the statement stating the relevance of these features with help of appropriate examples. | [7] | CO2,3 |
| 2 | How has definition of 'Economics' evolved over a period of time since? | [7] | CO1,2 |
| 3 | State the difference between 'Micro' and 'Macro' economics. | [7] | |
| 4 | On what basis does, a firm decides the economic region of the production. Explain with the help of short run production function. | [7] | CO1,3 |
| 5 | How consumer does producer attains equilibrium? State the two necessary conditions for equilibrium with the help of diagram. | [7] | CO1,2 |
| 6 | Discuss Cournot's Model with the help of diagram. On what basis do firms compete in this model and why? | [7] | CO1,2 |
| Section D | | | |
| All the questions are compulsory | | [25 marks] | |
| 1 | Compare the equilibrium level of price, output and profits between Perfect Competition and Monopoly market structures while discussing the assumptions of both the structures with the help of diagram. | 15 | CO1,2,3 |
| 2 | "If there is increase in the price of air tickets (economy class) by Jet Airways, others (Indigo/Spicejet/Air India/vistara), may not follow; and if there is decrease in the price of air ticket by Jet Airways, other airlines 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? | [10] | CO2,,3 |