Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–I • EXAMINATION – WINTER 2013

Subject Code: 810002 **Date: 27-12-2014**

Subject Name: Economics for Managers

Time: 10.30 am – 01.30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1	**(a)**	The study of economics has many facets and the field is unified by several central ideas regarding decision making of peoples, their interaction and the working of economy as a whole- Explain.	**07**
	(b)	Explain economies and diseconomies of scale and explain why they might arise.	**07**
Q.2	**(a)**	Why do competitive firms stay in business if they make zero economic profit? Discuss.	**07**
	(b)	What is the slope of the Aggregate-Demand and Aggregate-Supply curve in the short run and in the long run? What shifts both these curves?	**07**
		OR	
	(b)	Draw the Circular Flow diagram and Explain why an economy's income must equal to its expenditure?	**07**
Q.3	**(a)**	Define and explain the income elasticity of demand and the cross price elasticity of demand with a suitable example.	**07**
	(b)	Sandwich and coffee are complementary goods because they are often enjoyed together. When the price of coffee rises, what happens to the supply, demand and the price of the sandwich market? Support your explanation with a graph.	**07**
		OR	
Q.3	**(a)**	A price change causes the quantity demanded of a good to decrease by 25%, while the total revenue of that good increases by 10 percent. Is the demand curve elastic or inelastic? Justify your answer with a suitable example and diagram.	**07**
	(b)	What is CPI? List the steps involved in calculation of CPI. Briefly explain the three problems in measuring the cost of living.	**07**
Q.4	**(a)**	For each of the three theories for the upward slope of SRAS curve, explain the following, (i) How the economy recovers from a recession and return to its long-run equilibrium without any policy intervention? (ii) What determines the speed of that recovery?	**07**
	(b)	How the Phillips curve is related to the model of aggregate demand and aggregate supply?	**07**
		OR	
Q.4	**(a)**	Describe the determinants of productivity. Does higher rate of saving lead to higher growth temporarily or indefinitely? Explain.	**07**

(b) Prestige restaurant has the following cost schedule: **07**

Quantity	0	10	20	30	40	50	60	70
Variable cost	0	400	700	930	1100	1400	1900	2500
Total cost	1000	1400	1700	1930	2100	2400	2900	3500

Calculate the AVC, ATC & MC. Explain the relationship. Draw the Marginal Cost and Average Total Cost Curves and explain why the curves have the shapes that they do and why they cross where they do.

Q.5 **(a)** Define Duopoly and explain collusion and cartel. How and size of an oligopoly affects market outcome? **07**

(b) Differentiate between Monopolistic Competition and Perfect Competition. **07**

OR

Q.5 **(a)** Explain the following concept **07**

1. Purchasing Power Parity
2. Real Exchange Rate & Nominal Exchange Rate

(b) What is the Prisoners Dilemma & What does it have to do with Oligopoly? Give Example other than Oligopoly to show how the Prisoners Dilemma helps to explain behavior. **07**

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