This question paper contains 2 printed pages.   Your Roll No..................

1884   **A**

PGDIM / I Sem.

Paper I – Managerial Economics

Time : 3 hours   Maximum Marks : 70

Write your Roll No. on the top immediately on receipt of this question paper.
Question Nos. *1* and *6* are compulsory.
Answer *three* out of the remaining four questions.

1. Give short answers (attempt any *four*):   (5X4)

   a. "The applications of principles of managerial economics ensure that resources are allocated efficiently within the firm and that the firms make appropriate reactions to changes in the economic environment." Elucidate.

   b. "Indifference curves are downward sloping and bowed inwards." Why?

   c. Explain the meaning of a Nash Equilibrium with the help of an example.

   d. The marginal product of a factor is greater than its average product at a given level of employment. Is the average product increasing or decreasing? Explain.

   e. Q always spends 25% of her income on clothes. What are her price and income elasticities respectively for demand for clothes?

   f. In econometric forecasting what are the exogenous and endogenous variables? What are structural, definitional and reduced form equations?

2.
a. Explain the steps involved in the estimation of a demand equation by regression analysis.   (6)

b. What are time series data? What are the possible sources of variation in time series data?   (4)

3.
a. The demand equation for a good X is estimated to be $5 - 0.3P_X + 0.2 P_o$, where P_o is the price of some other good. The average values of P_X and P_o are 30 and 60 respectively. Find the price elasticity of demand at the given average values of P_X and P_o. What is the cross elasticity at the average values of P_X and P_o? What is the relationship between the two

100

goods? How should the price of the good be changed to increase the total revenue?

(1,1,1,2)

b. Briefly distinguish between economies of scale, economies of scope and learning curves.

(5)

4.

a. "Perfect Competition leads to greater efficiency as compared to Monopoly". Explain.

(5)

b. What is meant by the terms peak-load pricing, two-part tariff, tying, bundling and skimming?

(5)

5.

a. State the basic difference between using a subsidy to induce producers to install antipollution equipment and a tax on producers who pollute.

(6)

b. What are the factors that influence the location and expansion of firms throughout the global economy?

(4)

6.

a. The demand equation for a monopolist is given by: $P = 500 - 20Q$. The marginal cost is constant and equal to 100.

i. Find the profit maximising price and output for the monopolist. Find the corresponding level of profit as well.

ii. Find the profit maximising price and output if the monopolist is forced to act as a perfectly competitive firm. Find the corresponding level of profit as well.

iii. If the monopolist decides to maximise total revenue instead of profit, find the corresponding levels of price, output and profit. (3,3,3)

b. Suppose that the production function for a commodity is given by
$$Q = 10 \ K^{0.8}L^{0.6}$$

i. If the firm increases only the quantity of capital used by 10 per cent, how much would the output increase?

ii. If the firm increases only the quantity of labour used by 10 per cent, how much would the output increase?

iii. If the firm increases both the quantity of labour and capital used by 10 per cent, how much would the output increase? (2,2,2)

c. Given the total cost function $TC = 25000 + 0.15Q + 0.1Q^2$

i. Determine the equations for TVC, FC, AVC, AFC, AC, MC

ii. Determine the rate of output that will minimise average cost. (3,2)