

GUJARAT TECHNOLOGICAL UNIVERSITY**M. B. A. 1ST Semester Remedial Examination –July- 2011****Subject code: 810002****Subject Name: Economics For Managers****Date: 07/07/2011****Time: 02:30 pm – 05:30 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 cost of producing DVD players has fallen over the past several years. Let's consider some implications of this fact. **07**
- i. Draw a supply-and-demand diagram to show the effect of falling production costs on the price and quantity of DVD players sold.
 - ii. In your diagram, show what happens to consumer surplus and producer surplus.
 - iii. Suppose the supply of DVD players is very elastic. Who benefits most from falling production costs?
- (b)** Several studies have found that the overall demand for automobiles has an elasticity of about 1.3 **07**
- i. How do you interpret this coefficient?
 - ii. After knowing about these results, a Ford dealer in Ahmedabad cut his price by 10 percent and sold 22 percent more cars. What is the elasticity of demand in this case? Does this mean the estimate of 1.3 is incorrect? Explain.
- Q.2 (a)** Explain the circular flow of income model. Identify the parts of the model that correspond to the flow of goods and services and flow of money for each of the following activities. **07**
- i. Leena buys onion for Rs. 10.
 - ii. Mr. Sameer is paid Rs. 2000 as an honorarium for delivering a guest lecture at an MBA institute.
 - iii. Perna pays Rs. 100 at Fun Republic to watch a movie.
- (b)** What are the determinants of an individual demand and an individual's supply of a commodity? **07**
- OR**
- (b)** Define total cost, average total cost and, and marginal cost. How are they related? **07**
- Q.3 (a)** What is prisoner's dilemma and what does it have to do with Oligopoly? **07**
- (b)** Explain how the higher rate of savings, investment and policy of open economy influence the GDP growth? **07**
- OR**
- Q.3 (a)** Under what conditions a competitive firm shuts down temporarily and exits permanently? Explain with help of a diagram. **07**
- (b)** Describe the four components of GDP, giving example of each. **07**

- Q.4 (a)** Explain the following concepts: **07**
 i. Stagflation
 ii. Catch-up effect
- (b)** Explain the difference between nominal and real variables and give two example of each. According to the principle of monetary neutrality, which variables are affected by changes in the quantity of money? **07**
- OR**
- Q.4 (a)** Explain the following concepts: **07**
 i. Crowding out
 ii. Inflation Tax
- (b)** Describe the economic logic behind the theory of purchasing – power parity. **07**
- Q.5 (a)** Explain the short run trade-off between inflation and unemployment. **07**
- (b)** What is government budget deficit? How does it affect interest rate, investment and economic growth? **07**
- OR**
- Q.5 (a)** Why are some economists against a target of zero inflation? **07**
- (b)** Explain the three theories in brief for the upward sloping aggregate supply curve. **07**
