Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA– SEMESTER –I-EXAMINATION – WINTER-2023

Subject Code:4519202 **Date: 12-01-2024**

Subject Name: Economics for Manager

Time:10:30 AM TO 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.**
4. **Use of simple calculators and non-programmable scientific calculators are permitted.**

Q. 1 Define the following: 14

1. Consumer Surplus
2. Marginal Propensity to Consume
3. Product Differentiation
4. Determinants of Productivity
5. Nominal and Real Exchange Rates
6. Monetary Neutrality
7. Philips Curve

Q. 2 (a) Discuss the principles of economics pertaining to interaction of people and the working of economy as a whole 07

Q. 2 (b) Pharmaceutical drugs have an inelastic demand and computers have an elastic demand. Suppose that technological advance doubles the supply of both products (that is the quantity supplied at each price is twice what it was) Answer the following questions with the help of diagrams. 07

a) What happens to the equilibrium price and quantity in each market?
b) Which product experiences a larger change in price ?
c) Which product experiences a larger change in quantity ?
d) What happens to total consumer spending on each product?

OR

Q.2 (b) In each of the following cases, do you think the price elasticity of supply is (i) Perfectly elastic; (ii) perfectly inelastic; (iii) elastic, but not perfectly elastic; or (iv) Inelastic, but not perfectly inelastic? Explain using a diagram. 07

a. An increase in demand this summer for luxury cruises leads to a huge jump in the sales price of a cabin on the Queen Mary 2.
b. The price of a kilowatt of electricity is the same during periods of high electricity demand as during periods of low electricity demand.
c. Fewer people want to fly during February than during any other month. The airlines cancel about 10% of their flights as ticket prices fall about 20% during this month.
d. Owners of vacation homes in Maine rent them out during the summer. Due to the soft economy this year, a 30% decline in the price of a vacation rental leads more than half of homeowners to occupy their vacation homes themselves during the summer.

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Q.3 (a) What is Dead Weight Loss? How does it affect societal welfare? 07

Q.3 (b) Explain diagrammatically the cost-output relationship during short run. Following is the cost–output table of a Dutch Company producing Cosmetics with a Fixed Expenditure of US $ 1000. Complete the table with TFC, AFC, AVC, ATC, MC and Arc MC 07

Quantity	0	10	20	30	40	50	60	70
Variable Cost (US $)	0	400	700	930	1100	1400	1900	2500

OR

Q. 3 (a) Calculate equilibrium price and output and quantity at which total revenue is maximum, given $MR = 170\text{-}5Q$, $MC = 100+30Q$ and $P = 200\text{-}20Q$. State whether the given equations satisfy the conditions of a perfect competitive firm or monopoly firm? Justify your answer. 07

Q.3 (b) What is prisoner's dilemma? How is it related with the decision making strategy of Oligopolistic firms. Explain it with the help of Prisoners Dilemma matrix 07

Q.4 (a) Explain the reasons why aggregate demand curve is sloping downwards. 07

Q.4 (b) List out the steps in the construction of a Cost of Living Index. Based on the following information, construct a cost of living index (base year 2015) & Inflation rate for the year 2016 and 2017. 07

Year	Commodity X		Commodity Y	
	Price	Quantity	Price	Quantity
2015	10	40	20	20
2016	20	50	30	60
2017	30	80	40	80

OR

Q.4 (a) Explain the Principle of Effective Demand. 07

Q.4 (b) Below are some data for an X economy, which produces only two goods A & B. 07

Year	Commodity A		Commodity B	
	Price	Quantity	Price	Quantity
2015	10	100	20	100
2016	20	150	30	150
2017	30	250	40	200

Calculate Nominal GDP, Real GDP & GDP Deflator for each year, using 2015 as a base year

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Q.5(a) As the twentieth century drew to a close, the U.S. economy was experiencing some of the lowest rates of inflation and unemployment in many years. In 1999, for instance, unemployment had fallen to 4.2 percent, while inflation was running a mere 1.3 percent per year. As measured by these two important macroeconomic variables, the United States was enjoying a period of unusual prosperity. Some observers argued that this experience cast doubt on the theory of the Phillips curve. Indeed, the combination of low inflation and low unemployment might seem to suggest that there was no longer a tradeoff between these two variables. Yet most economists took a less radical view of events. As we have discussed throughout this chapter, the short-run tradeoff between inflation and unemployment shifts over time. In the 1990s, this tradeoff shifted leftward, allowing the economy to enjoy low unemployment and low inflation Simultaneously. What caused this favorable shift in the short-run Phillips curve? Part of the answer lies in a fall in expected inflation. Under Paul Volcker and Alan Greenspan, the Fed pursued a policy aimed at reducing inflation and keeping it low. Over time, as this policy succeeded, the Fed gained credibility with the public that it would continue to fight inflation as necessary. The increased credibility lowered inflation expectations, which shifted the short-run Phillips curve to the left. In addition to this shift from reduced expected inflation, many economists believe that the U.S. economy experienced some favorable supply shocks during this period. (Recall that a favorable supply shock shifts the short-run aggregate-supply curve to the right, raising output and reducing prices. It therefore reduces both unemployment and inflation and shifts the short-run Phillips curve to the left.) Here are three events that may get credit for the favorable shift to aggregate supply:

Declining Commodity Prices. In the late 1990s, the prices of many basic commodities fell on world markets. This fall in commodity prices, in turn, was partly due to a deep recession in Japan and other Asian economies, which reduced the demand for these products. Because commodities are an important input into production, the fall in their prices reduced producers' costs and acted as a favorable supply shock for the U.S. economy.

Labor-Market Changes. Some economists believe that the aging of the large baby-boom generation born after World War II has caused fundamental changes in the labor market. Because older workers are typically in more stable jobs than younger workers, an increase in the average age of the labor force may reduce the economy's natural rate of unemployment.

Technological Advance. Some economists think the U.S. economy has entered a period of more rapid technological progress. Advances in information technology, such as the Internet, have been profound and have influenced many parts of the economy. Such technological advance increases productivity and, therefore, is a type of favorable supply shock.

Questions:

a) What are the main events that get credit for the favorable shift to the aggregate supply? Which event is most important? 07

b) What is the sacrifice ratio? How might the credibility of the Fed's commitment to reduce inflation affect the sacrifice ratio? 07

OR

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a) Explain the trade off between Inflation and Unemployment with the Help of Philips Curve. How short run Aggregate Demand and Aggregate Supply as connected to Short run Philip Curve 07

b) What are the components of Aggregate Demand and explain what can be done with Aggregate Demand Function to activate an upward economic momentum in developing countries. 07

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