Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA(PART TIME) SEMESTER– I EXAMINATION – WINTER 2019

Subject Code: 4519905 **Date: 31-12-2019**

Subject Name: Economics for Managers (EFM)

Time: 10:30 AM TO 1.30 PM **Total Marks: 70**

Instructions:

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

Q. No.		Question Text and Description	Attribute / Type	Marks
Q.1		Definitions / terms / explanations / short questions based on concepts of theory/practical (a) Price elasticity of Demand (b) Deadweight loss (c) Price Discrimination (d) Cartel (e) Sunk Cost (f) Market (g) Law of supply		**14**
Q.2	**(a)**	Explain in detail any three principles of economics with example.		**07**
	(b)	What are the supply schedule and the supply curve and how are they related? Why does the supply curve slope upward?		**07**
		OR		
	(b)	Is the price elasticity of supply usually larger in the short run or in long run? Why?		**07**
Q.3	**(a)**	Define total cost, average total cost and marginal cost. How are they related?		**07**
	(b)	Define economies of scale and explain why they might arise. Define diseconomies of scale and explain why they might arise.		**07**
		OR		
Q.3	**(a)**	Why is a monopolist's marginal revenue less than the price of good? Can marginal revenue ever be negative? Explain.		**07**
	(b)	Draw the long-run trade-off between inflation and unemployment. Explain how the short-run and long-run trade-offs are related.		**07**

Q.4 **CASE STUDY:**
ADVERTISING AND THE PRICE OF EYEGLASSES

What effect does advertising have on the price of a good? On the one hand, advertising might make consumers view products as being more different than they otherwise would. If so, it would make markets less competitive and firms' demand curves less elastic, and this would lead firms to charge higher prices. On the other hand, advertising might make it easier for consumers to find the firms offering the best prices. In this case, it would make markets more competitive and firms' demand curves more elastic, and this would lead to lower prices.

In an article published ill the Journal of Law and Economics in .1972, economist Lee Benham tested these two views of advertising. In the United States during the 1960s, the various state governments had vastly different rules about advertising by optometrists. Some states allowed advertising for eyeglasses and eye examinations. Many states, however, prohibited it. F~r example, the Florida law read as follows:
It is for any person, firm, or corporation to advertise either directly or indirectly by any means whatsoever any definite or indefinite price or credit terms on prescriptive or corrective lens, frames, complete prescriptive or corrective glasses, or any optometrist service . This section is passed in the interest of public health, safety, and welfare, and its provisions shall be liberally construed to carry out its acts and purposes.

The results were striking. In those states that prohibited advertising, the average price paid for a pair of eye glasses was $33. (This number is not as low as it seems, for this price is from 1963, when all prices were much lower than they are today. To convert 1963 prices into today's dollars, you can multiply them by 5.) In states that did not restrict advertising, the average price was $26. Thus, advertising reduced average prices by more than 20 percent. In the market for eyeglasses, and probably in many other markets as well, advertising fosters competition and leads to lower prices for consumers.

	(a)	Explain in detail the type of market in the case.	**07**
	(b)	What effect does advertising have on the price of a good?	**07**
		OR	
Q.4	(a)	If there is prohibition on the advertisement, what will be the impact on the product/goods?	
	(b)	What is the impact of advertisement on the consumer?	**07**

Q.5 **CASE STUDY:**

THE DEBEERS DIAMOND MONOPOLY

A classic example of monopoly that arises from the ownership of a key resource is De beers, the South African diamond company. The company was founded in 1888 by Cecil Rhodes, an English business man (and benefactor for the Rhodes scholarship), when he merged two of the biggest mines in the country. Rhodes then proceeded to use his profits to continue buying mines, consolidating his market power. Today, De Beers controls about 80% of the world's production of diamonds. Although the firms share of the market is not 100%,it is large enough to exert substantial influence over the market price of diamonds.

How much market power does De Beers have? The answer depends in part on whether there are close substitutes for its products. If peoples view Emeralds, rubies and sapphires as good substitutes for diamond, then De Beers have relatively little market power. In this case, any attempt by De Beers to raise the price of diamonds would cause people to switch to other Gemstones. But people view this others stones as very different from diamonds. Then De Bees can exert substantial influence over the price of its product.

De Beers pay for large amount of advertising. At first this decision might seem surprising. If a monopoly is the sole seller of its product, why does it need to advertise? One goal of the De Beers ads is to differentiate diamonds from other gems in the minds of consumer. When their slogan tells you that" A diamond is forever", you are meant to think that the same is not true of emeralds, rubies and sapphires.(And the notice that the slogan is applied to all diamonds, not just de Beers diamonds-a sign of De Beers monopoly position.)If the ads are successful consumer will view diamonds as unique, rather than as one among many Gemstones, and this perception will give De Beers greater market power.

	(a)	How much market power does DeBeers have?	**07**
	(b)	If a monopoly is the sole seller of its product, why does it need to advertise?	**07**

OR

Q.5	(a)	As more businesses and nations enter the diamond industry, why does De Beers retain such a significant share of the market?	**07**
	(b)	Before other nations began mining for diamonds, did De Beers have a geographic monopoly, or was it part of a monopolistic competition?	**07**

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