

Navrachana University
School of Business and Law
BBA/BBA-LLB
End-Semester Examination NOVEMBER 2017
FY BBA/BBA-LLB Semester I
MICRO ECONOMICS (EC101)

Date: 21st November 2017 (Tuesday)
Time: 8 am to 10 am (2 hours)

Marks: 40

Instructions:

- Write each answer on a new page and use of a simple calculator is permitted.
- Write the main and sub-question numbers clearly.
- Draw the diagrams with a pencil only. Label them properly.
- **Do not write anything on the question paper.**

Q1. Read the following case lets and answer the questions:

(5 x 1 = 5 marks)

1. Marquee Ltd. is engaged in the production of drugs. It releases the residuals which are mostly hazardous chemicals in the water bodies located nearby its plant which is damaging the water quality and aquatic life. Identify the cost.
2. Ms.Q's demand for mobile recharge coupons – Her frequency of recharge increased to 5 recharges a month when the service provider offered discount of 10% per coupon. The next month, when she saved some money out of the household budget, she purchased 6 coupons. Which one will be called as demand expansion and why?
3. There are 8 firms working in the toy industry. Out of these 8 firms, "Fun n Joy" rules the market in terms of market share, brand image and profits. The rest of the 7 firms follow the price decisions that are adopted by "Fun n Joy". Identify the type of pricing method adopted by the 7 firms.
4. Royal lighting is engaged in the manufacturing of bulbs, tube lights and electric lanterns. They wanted to target the rural market rapidly and then shift to urban market. As a step towards this, they launched their products at ultra-low prices in the market. What is this pricing strategy known as?
5. The Average Total Cost of producing product X (at 70% plant capacity) is Rs.20. Out of this, Rs.7 is the fixed component. At present 100 units are produced. The product is sold at Rs.23 in the market. Ms.Q orders 200 units and quotes her price at Rs.12. Should the producer accept her offer? Why?

Q2. Solve the following numerical examples:

(2 x 5 = 10 marks)

1. The initial price for product X was Rs.100 and 20 units were demanded then. The price increased by 20% and this led to a fall in demand by 30%. Calculate the price elasticity of demand for product X. Construct a rough graph for the same.

2. Complete the following table: (Write the formula and show working notes)

OUTPUT (UNITS)	FC (RS.)	VC (RS.)	TC (RS.)	TR (RS.)	PROFIT (RS.)
0			10000		
10			18000		4000
15		10000			5000

Q3. Construct and explain the diagram for the following situations:

(2 x 5 = 10 marks)

A) The market for a particular good is such that there are many numbers of buyers and sellers trading in a homogenous product. Moreover, the firm is the price taker, there are no barriers to entry and exit and the firms can vary the amount of labour and raw material (and no other factor of production). The firm is enjoying a supernormal profit. Demonstrate the firm's equilibrium.

B) Due to the adverse climatic conditions, the market for saffron became extremely tight which made it difficult for the common people to consume it. It was found that the prices of saffron went up from Rs.2500 per 10 grams to Rs. 4500 per 10 grams in a span of just 2 months. It was felt necessary by the Government to intervene and take the control of the situation. The government came up with a price of Rs.1000 per 10 grams for saffron. Any price charged above this level would be considered illegal.

Q4. What are the features of Oligopoly? Comment on the price rigidity that is observed when the oligopolists are found competing with one another. (5 marks)

OR

Q4. Explain "Internal Economies of Scale" with examples. (5 marks)

Q5. From the following case lets, identify the market structure. Also, justify your answer. (5 x 2 = 10 marks)

1. OPEC is a group of 14 countries which are the major suppliers of crude oil in the world market. The group is responsible for pricing and output decisions concerned with oil.

2. Shampoos sold by Patanjali, HUL, Garnier, Vaadi herbals, Lotus herbals, Himalaya, Fab India etc. are similar yet different. Moreover, each brand charges different prices for its shampoo from the consumers.

3. At the Inox movie hall, "MySnacks" is the sole supplier of pop corns, chips and cold drinks. The people who come to watch the movies are not allowed to carry their own food products inside. Also, "MySnacks" sells the snacks at 15% margin.

4. Mr.P operates his business in a mechanism where the firm is itself the industry!

5. There are many number of auto rickshaw drivers that offer their service in the Baroda city. Also, there are many passengers who commute on a daily basis through auto rickshaw. Moreover, the service offered is same to all the passengers and no auto driver can charge a different price from his fellow driver.

~~~~All the best~~~~