2019

COMMERCE

Paper : CC-202

(Managerial Economics)

Full Marks : 40

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Answer ***any four*** questions, taking ***any two*** from ***each module***.

Module - I

1. (a) "The distance between two indifference curves is immaterial, the only relevant issue is which one is higher and which one is lower." — Explain the statement.

(b) Assume that pollution is bad and automobiles are good. Draw an indifference curve in a pollution-automobile commodity space.

(c) Explain the relation between the Slope of Price Consumption Curve and the price elasticity of demand. 3+2+5

Or,

(a) Define Managerial Economics.

(b) Consider a consumer who is in a two-commodity (X & Y) world, such that $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$.

Show how the consumer will take his decision for attaining equilibrium.

(c) Let the Utility function of a consumer be U = (X + 2) (Y +1). The Money income of consumer is M = ₹ 51 and the price per unit of X (P_X) is ₹ 2 and that of Y (P_Y) is ₹ 5. Derive the demand functions of the consumer. 2+2+6

Or,

(a) What is a Price Consumption Curve (PCC)? How do you derive it graphically?

(b) Prove that the sum of the own price elasticity of demand, the cross price elasticity of demand and the income elasticity of demand for a commodity is equal to Zero. (2+4)+4

2. (a) The production function is given by $q = \sqrt{K.L}$, such that w (wage rate) = 2 and r (rate of interest) = 4. If the firm wants to produce 90.50 units of output (q), find the minimum cost.

(b) Explain (graphically) the shape of long-run industry supply curve under perfect competition, when the industry operates under increasing cost condition. 5+5

3. (a) Let the total cost function of a competitive firm be $TC = q^3 - 14q^2 + 69q + 100$.

(i) Derive the supply curve of the firm.

(ii) What is the industry supply curve when the industry has 100 firms?

(iii) Find out the equilibrium quantity supplied by the firm when $p = 37$.

(b) Show that a Monopolist has no supply curve and explain the same. (3+2+1)+4

Or,

(a) A Monopolist's demand curve is $P = 250 - 3q$. Find out the MR function.

(b) What is the relation between the slopes of AR, MR Curves?

(c) Find out the maximum profit of a Monopolist whose total cost function is $C = 10 + 15x$ and demand functions of two markets are :

$P_1 = 55 - 2x_1$

$P_2 = 25 - 5x_2$

(d) Explain the Cournot model of Oligopoly. 2+1+2+5

4. Write short notes on ***any two*** of the following : 5×2

(a) Short-run equilibrium under monopolistic competition.

(b) Relation between returns to scale and long-run cost function of a firm.

(c) Production function and Isoquant.

(d) Larner Index of Monopoly power.

(e) Expansion path.

Module - II

5. (a) Consider a lottery with three possible outcomes :

(i) ₹ 125 will be received with probability 0.2

(ii) ₹ 100 will be received with probability 0.3

(iii) ₹ 50 will be received with probability 0.5.

Find out the expected value of the lottery and the variance of the outcomes.

(b) A risk averse person is offered a choice between a gamble of paying ₹ 1,000 with probability 0.25 and ₹ 100 with probability 0.75 or a certain payment of ₹ 325. Which one should he choose and why? (2+2)+6

Or,

What is preference pattern of a risk averter? Show how an investor will make optimum trade-off between risk and return when he divides his fund between treasury bill (risk free) and stocks (risky asset). 3+7

6. Explain how the traditional theories of managerial decision making differ from modern theories. Discuss briefly the Cyert and March model of managerial decision making. 3+7

Or,

Explain the Willamson's Simplified Model of managerial discretion. 10

7. Show how the equilibrium price and quantity of a factor are determined when there is perfect competition in both the factor and commodity markets. Why is the demand for input called derived demand? 8+2

8. Explain different kinds of externalities pertaining to production and consumption. Explain with the help of a suitable diagram how the Pareto efficient state can be reached in production, commodity distribution and resource allocation. 4+6

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