K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH, Vidyavihar, Mumbai- 400077

Program: ***PGDM –FS (Batch2018-20), Trim I***
Subject: Applied Micro Economics
(End Term Exam)

Maximum Marks: 50 **Duration: 3 hours** **Date: 21/09/2018**

QUESTION I: Answer any Three from the following 15 Marks

a. "Economies of scale persist limitlessly". Do you agree with the statement? Explain your answer.
b. Explain why prices may remain sticky in Oligopoly structure with the help of a graph.
c. Will the price elasticity of demand be larger or smaller for Godrej refrigerator as compared to refrigerator as a product? Explain your answer.
d. Explain the concept that two indifference curves cannot intersect.
e. What is a production function? How does a long-run production function differ from a short-run production function?

QUESTION II: Numerical problems (Any Three) 15 Marks

1. Arvind Garments has a stall on a fashion street where it sells T-shirts. In the month of January 2018, it sold 500 T-shirts at Rs. 200 each. It's purchase cost in the wholesale market was Rs. 100 each. It spend Rs. 21 for designing art work on each T-shirt. It has to pay monthly rent Rs. 2000 for the stall. The interest payment of the bank comes to Rs. 500 per month.

   a. Find out the breakeven quantity and breakeven revenue.

   b. What should be the breakeven quantity if the company has to earn minimum Rs. 10,000?

   c. What would be the breakeven quantity if the price reduce by 25 %?

2. Manipal Enterprises is a small firm in steel office chairs industry which is perfectly competitive. The market price of each chair is Rs. 100. The cost function is
   $TC = 50,000 + 40Q + 0.04Q^2$

   a. What is the profit maximizing output?
   b. What is the average cost at this output?

c. What is the profits/loss earned by Manipal Enterprises?
d. If this firm is a typical one in the industry, is the industry in equilibrium? Why?

3. Fill in the blanks in the following table.

Units of output	Total cost	Total fixed Cost	Total Variable Cost	Average Cost	Average Fixed Cost	Average variable cost	Marginal Cost
0	1200						
1				265			
2			204				
3				161			
4							86
5			525				
6				120			
7						97	
8			768				
9						97	
10							127

15. A firm sells in two markets and has constant marginal cost of production equal to Rs. 2 per unit. The demand and marginal revenue equations for two markets are as follows:

$P1 = 14 – 2\ Q1$ ---- Market 1
$P2 = 10 – Q2$ -------- Market 2

Using the third degree price discrimination, what are the profit maximizing prices and quantities in each market?

QUESTION III: Answer any Two of the following 10 Marks

a. Explain to which market structure following industry belong to along with their peculiar characteristics?

1. Unorganized retail market

2. Airline industry

b. “Sometimes Monopoly can bring out socially desirable outcomes” Do you agree with the statement? Explain.

c. Explain the difference between sunk and incremental cost with the help of an example. Which one of these is relevant cost? Why?

QUESTION IV: Answer any One of the following: 10 Marks

a. Explain the concept of Price discrimination with the help of an example. What are the conditions necessary for price discrimination?

b. Explain the difference between Economies of Scale, Economies of Scope and Learning Curves with the help of an example.

c. What are the determinants of price elasticity of demand? How will you use the concept of elasticity for managerial decisions?

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