

Semester: July – November 24		
Maximum Marks: 50	Examination: ETE Exam	Date: 11/11/2024
Duration: 2hrs		
Programme code: 01	Class: FY	Semester/Trimester: I
Programme: MBA		
College: K. J. Somaiya Institute of Management		Name of the department/Section/Center: Economics
Course Code: 317P01C107	Name of the Course: Microeconomics	
Instructions: Attempt any 5 questions		

Question No.		Max. Marks
Q 1	<p>A. Due to technological advancements, there has been a significant increase in the production of electric vehicles (EVs). Assuming no change in the demand (or shift in the demand curve), explain with the help of a diagram the new equilibrium in the market due to increased production of EVs. Also, assume that EVs are considered a luxury good.</p> <p>i. Examine the impact of increased production on consumers and producers alike with the help of a diagram?</p> <p>ii. What policy intervention (price floor or ceiling) would you recommend to prevent any negative impacts on societal welfare.</p> <p>B. A local grocery store raises the price of organic vegetables from ₹100 to ₹130 per kg, causing sales to decrease from 1,000 kg to 600 kg.</p> <p>i. Calculate the price elasticity of demand for organic vegetables and explain what it indicates about consumer preferences.</p> <p>ii. How would the concept of cross-price elasticity apply if the price of regular vegetables changes? Discuss its relevance in this context.</p>	10 (5+5)
Q 2	<p>A. Explain diagrammatically the assumptions, properties, uses, and limitations of indifference curve (IC) analysis.</p> <p>B. Explain with a diagram how a production manager, knowledgeable in Isoquants analysis, would optimize the use of two key inputs – labour and capital, given varying input costs, while producing different levels of output, assuming constant technology, competition, and regulation.</p>	10 (5+5)
Q 3	<p>A. Explain the concept of economies of scale and how it affects a firm's cost structure. Provide real-world examples from an industry of your choice to illustrate your answer.</p> <p>B. Ravi owns a small furniture manufacturing unit in a suburban area, catering to local demand. Due to an economic downturn, his sales have dropped, and his revenue has been lower than usual. He has fixed costs (rent, staff salaries, equipment maintenance) and variable costs (raw materials, worker wages). His accountant advises him to consider the shutdown point to decide whether to keep operating.</p> <p>i. If Ravi's total revenue is less than his variable costs, should he continue production in the short run? Explain using a diagram.</p> <p>ii. If his revenue covers variable costs but not fixed costs, should he keep operating or shut down? Why?</p>	10 (5+5)
Q 4	<p>A. The coastal town of Mangalore has many fishermen who catch and sell fish in a perfectly competitive market. The current market price for fish is ₹200 per kg, while each fisherman has an average total cost of ₹150 per kg. Discuss with the diagram the short-term and long-term behaviour of fishermen in this market. What will happen if fishermen continue to earn economic profits?</p> <p>B. For a firm operating in a perfectly competitive market, the total revenue is given by $TR = 12Q$ and the total cost is $TC = 800 + 3Q + 0.02Q^2$. Determine the output level that maximizes the firm's profit. Also, calculate the total profit at the equilibrium output level.</p>	10 (5+5)
Q 5	<p>Case Study</p> <p>"Aqua Pure's Monopoly: A Thirst for Change"</p> <p>Aqua Pure Ltd. is a water purification company that holds a monopoly in a small town, having been granted exclusive rights by the local</p>	10

	<p>government to purify and distribute clean drinking water due to public health concerns. Over the years, Aqua Pure has established itself as the sole provider, and high regulatory barriers, along with significant initial investment requirements, prevent other companies from entering the market.</p> <p>Recently, lower-income households have expressed concerns about the increasing difficulty of affording clean water. Aqua Pure's pricing strategy has raised alarms among public officials and economists, who argue that the company is exploiting its monopoly power by charging excessively high prices. This monopolistic behavior is believed to create deadweight loss, reduce societal welfare, and negatively impact the community.</p> <p>The local government now faces a dilemma: Should it intervene to regulate Aqua Pure's pricing, or should it allow the company to operate freely?</p> <ol style="list-style-type: none"> i. Examine the concepts of deadweight loss and exploitative pricing in the context of Aqua Pure's monopoly using a diagram. ii. Analyse how Aqua Pure's monopoly affects societal welfare in the town and suggest ways the local government could address these issues. iii. If Aqua Pure operated in a competitive market instead of a monopoly, how would prices and output likely differ? Explain your reasoning. 	
<p style="text-align: center;">Q 6</p>	<p>Discuss how interdependence among firms in an oligopoly can lead to collaborative behaviours in price fixing and output determination, particularly in the context of cartels and price leadership. Illustrate your explanation with relevant diagrams for both (cartels and price leadership).</p>	<p style="text-align: center;">10 (5+5)</p>
<p style="text-align: center;">Q 7</p>	<p>Write short notes on <i>any two</i>:</p> <ol style="list-style-type: none"> a) Which branch of economics, "positive" or "normative", offers greater benefits to business and industry? Justify your answer. b) Explain the role of economics in managerial decision-making, using any three microeconomic concepts. Provide suitable examples. c) Explain with diagram the prevalence of 'excess capacity' in monopolistic competition d) What is a sunk cost, and why is it irrelevant to future business decisions? e) Explain the law of variable proportion and its significance in production 	<p style="text-align: center;">10 (5*2)</p>