

**K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,**

**Vidyavihar, Mumbai- 400077**

**Program: PGDM-FS (Batch2016-18), Trimester-I**

**Subject: Applied Micro Economics**

**(End Term Examination)**

**Maximum Marks: 50  
hours**

**Sept 24, 2016**

**Duration: 3**

**Answer any Five of the following.**

**All questions carry equal marks.**

1 If the Demand function =  $2,000 + 400P$  and

The Supply function =  $1,400 + 500 P$

- a) What is the market equilibrium price and quantity?
  - b) If supply function shifts to  $1800 + 450P$ , then what is the equilibrium quantity?
  - c) Explain consumer's equilibrium condition with the help of indifference curve approach.
2. What is meant by efficient or optimum factor combination in production and how does a producer achieve this combination of factors?
- 3a. Explain the conditions of long run equilibrium of a firm operating under conditions of perfect competition. A firm operating in this market tends to be of optimum size. Explain
- b) Write a short note on Expansion Path.
- 4a) How would a benevolent social planner, who cares about total surplus determine his price and output when compared to monopolist.
- b) List out the ways through which policy makers can respond to the inefficiencies caused by monopolies.

5. A firm operating in a monopolistically competitive market faces the following demand function

$$P = 8,000 - 4Q$$

Long run average cost function of the firm is

$$LAC = 8,000 - 7Q + 0.002Q^2$$

- a) Find profit maximizing price and output for the firm. What is the profit at this output?
  - b) Is the industry in equilibrium? Give reasons to validate your answer.
  - c) What causes excess capacity under monopolistic competition? Why is it undesirable?
6. Study the case given below and answer the following questions

### **India's Telecom Wars with Reliance Jio's Debut**

India's hyper-competitive telecom market, which has notched up 1 billion wireless subscribers to date, will have to contend with the big bang entry of a new player with deep pockets. India's richest person, Mukesh Ambani, announced the imminent rollout today of much-awaited 4G phone service Jio.

Jio, which represents an investment of more than \$20 billion—"the biggest in Reliance's history"—is all set to cause a disruption in the telecom market by offering free domestic voice calls and messaging, and data plans with monthly rates starting at just over \$2—"the lowest in the world" as per Ambani.

Shares of rivals Bharti Airtel controlled by billionaire Sunil Mittal and Idea Cellular, part of billionaire Kumar Birla's Aditya Birla Group, fell today on fears of an inevitable price war hurting their profitability. Idea declined by more than 10%, while Bharti was down by 6.4%. Shares of Reliance Communications, controlled by Ambani's younger sibling Anil Ambani, with whom Jio will also compete, too suffered close to a 9% fall. Reliance and its rivals have already been engaged in a war of words with the two sides accusing each other of foul play.

- a) Identify the market structure and assess the market in terms of its characteristics and explain diagrammatically the price and output determination.

b) Why is it that in such markets sellers are more likely to match a price cut than a price increase by a competitor.

7. Write a short note on the following

b) Price and Output determination under cartel

c) The case of Dumping

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