Name: **Enrolment No:**	

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2018
Course: Micro Economics
Semester: I
Programme: B.Com(Hons.), B.Com(Hons.) Taxation, B.Com(Hons.) Banking, Management &Insurance
Time: 03 hrs.   CC:ECON 1101   Max. Marks: 100
Instructions: Read carefully all the instructions in all sections before you answer

SECTION A
Answer all questions

S. No.	Multiple Choice Questions	**Marks**	**CO**
Q 1	A. The slope of the total variable cost curve equals a. Average variable cost b. Marginal Cost c. Average Cost d. Marginal physical product	**2**	**CO1**
	B. In the short run, diminishing marginal returns are implied by- a. Rising marginal cost b. Rising average cost c. Rising average variable cost d. All of these	**2**	**CO1**
	C. Determine the P/V ratio if sales is Rs. 100,000. Fixed Cost is Rs. 30,000 and Profit is Rs. 20,000 a. 25% b. 50% c. 45% d. None of the above	**2**	**CO2**
	D. In the long run, a profit maximizing firm will choose to exit a market when a. Fixed Cost exceed sunk costs b. Average fixed cost is rising c. Revenue from production is less than total costs d. Marginal cost exceeds marginal revenue at the current level of production	**2**	**CO3**

	E. In a perfectly competitive market, the process of entry and or exit ends when a. Firms are operating with excess capacity b. Firms are making zero economic profits c. Firms experience decreasing marginal revenue d. Price is equal to marginal cost	**2**	**CO3**
	F. Product Differentiation a. Means that monopolistically competitive firms can compete on quality and marketing b. Occurs when a firm makes a product that is slightly different from that of its competitors c. Makes the firm's demand curve downward sloping d. All of the above	**2**	**CO1**
	G. In the long run, a monopolistically competitive firm's economic profits are zero because of- a. product differentiation b. the lack of barriers to entry c. Excess capacity d. the downward sloping demand curve of each firm.	**2**	**CO3**
	H. The output where diminishing returns to production begin is also the output where- a. Marginal cost is at a minimum b. Average total cost is at a minimum c. Average variable costs is at a minimum d. Marginal and average cost intersect	**2**	**CO3**
	I If a firm's revenue just covers all its opportunity costs, then a. Normal profit is zero b. Economic profit is zero c. Total revenues equals its explicit costs d. Total revenues equals its implicit costs	**2**	**CO2**
	J A firm which is a price taker is:	**2**	**CO1**

	a. Perfect Competition b. Monopoly c. Both a and b d. Oligopoly		
	SECTION B		
1.	Draw a diagram showing that on a linear demand curve, price elasticity of demand decreases continuously at the price axis to zero at the quantity axis.	**2**	**CO1**
2.	Colgate sells its standard size toothpaste for Rs. 25. Its sales have been on an average 8000 units per month over the past year. Recently, its close competitor Binaca reduced the price of its same standard size toothpaste from Rs. 35 to Rs. 30. As a result, Colgate Sales declined by 1500 units per month. (a) Calculate the cross elasticity between the two products. (b) What does your estimate indicate about the relationship between the two products?	**2**	**CO3**
3.	State and explain the law of Diminishing Marginal Utility? How is the law of demand related to it?	**2**	**CO1**
4.	"Rajeev likes oranges better than bananas." What would be the shape of his indifference curves relating to these goods? Does it mean he will consumer only oranges?	**2**	**CO2**
5.	What are the ridge lines? Explain the economic region of product using isoquant map	**2**	**CO1**
6.	What is the difference between explicit costs and implicit costs? Should both be considered for optimal business decision making by the firm?	**2**	**CO3**
7.	When the law of diminishing returns operates, the TVC rises at a decreasing rate. True or False? Give reasons	**2**	**CO2**
8.	What is meant by product differentiation?	**2**	**CO1**
9.	Define oligopoly. Explain its two features.	**2**	**CO1**

10.	Distinguish between economic costs and accounting costs. Which should be taken into account for calculating the economic profits of the firm?	**2**	**CO2**
	SECTION-C **Answer all questions**		
Q 1	Explain the laws of returns to scale. Show with the help of Isoquants diagrammatically.	**6**	**CO1**
Q2	Explain the determination of price and output in the short run under monopoly. Show with the help of diagrams	**6**	**CO1**
Q3	What is meant by demand forecasting? Explain the methods of Demand Forecasting.	**6**	**CO1**
Q4	Show the consumer's equilibrium position using indifference curve analysis. Explain in detail	**6**	**CO1**
Q5	Define supply of a commodity. What are the factors which determine supply of the commodity?	**6**	**CO1**
	SECTION-D(Case Study)		
Q1	**How Ford Decided on the characteristics of its Taurus** Firms can learn about consumers' preferences by conducting or commissioning marketing studies to identify the most important characteristics of a product, say styling and performance for automobiles, and to determine how much more consumers would be willing to pay to have more of each attribute, and how they would trade off more of one attribute for less of another. This approach to consumer demand theory, which focuses on the characteristics or attributes of goods and on their worth or hedonic prices rather than on the goods themselves was pioneered by Kelvin Lancaster. This is in fact how the Ford Motor Company decided on the characteristics of its 1986 Taurus. Specifically, Ford determined by marketing research that the two most important characteristics of an automobile for the majority of consumers were styling (i.e . design and interior features) and performance(i.e acceleration and handling) and then produced its Taurus in 1986 that incorporated those characteristics. The rest is history (the Taurus regained in 1992 its status of the best selling car in America- a position that it had lost to the Honda Accord in 1989.) Ford also used this approach to decide on the characteristics of the all new 1996 Taurus, the first major overhaul	**30**	**CO3**

since its 1986 launch, at the cost of $2.8 billion, as well as in deciding the characteristics of its world cars. Focus launched in 1998 and Mondeo introduced in 2000. Other automakers, such as General Motors, followed similar procedures in determining the characteristics of their automobiles. During the past few years, U.S. automakers have shifted somewhat toward producing “sports wagons” which are a cross between sedans and sport utility vehicles(SUVs) to reflect recent changes in consumer tests.

Markets studies can also be used to determine how consumers’ tastes have changed overtime. In terms of indifference curves, a reduction in the consumer’s tastes for commodity X (hamburgers) in relation to commodity Y(soft drinks) would be reflected in a flattening of the indifference curve indicating that the consumer would now be willing to give up less of Y for each additional unit of X. The different tastes of different consumers are also reflected in the shapes of their indifference curves. The consumer who prefers soft drinks to hamburgers will have a flatter indifferences curve than a consumer who does not.

Questions (Each question carries 10 marks)

1. What are the special features of Taurus and how it allured the customers?
2. What are indifference curves? Explain their properties.
3. “Difference in tastes also affects indifference curves” Comment. Explain with the help of a diagram.

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SECTION A
Answer all questions

S. No.	Multiple Choice Questions	Marks	CO
Q 1	A. The opportunity cost of receiving ten dollars in the future as opposed to getting that ten dollars today is- a. The foregone interest that could be earned if you had the money today b. The taxes paid on any earnings c. The value of $10 relative to the total income of that person d. The value of $10 relative to the total income of all persons.	**2**	**CO3**
	B. What will be the impact on the break even point if variable costs are reduced? a. Decrease b. No change c. Increase	**2**	**CO2**
	C. What will be the break even point if variable cost ratio is 70% and fixed cost is Rs. 36,000? a. Rs. 3,20,000 b. Rs. 2,20,000 c. Rs. 1,20,000 d. None of the above	**2**	**CO2**
	D. Bilateral Monopoly means- a. Two rival monopolies b. Two rival buyers only c. A monopolist buying his input from many suppliers	**2**	**CO1**

	d. A monopolist facing a monopsonist		
	E. Which of the following statements is true for both monopolistically competitive and Oligopolistic Industries? a. It is impossible for new firms to enter the industries b. There are few firms c. Producers cannot benefit from knowing other firms plans d. Firms have some degree of control over prices	**2**	**CO2**
	F. In the long run, a monopolistically competitive firm’s economic profits are zero because of- a. Product Differentiation b. The lack of barriers to entry c. Excess Capacity d. The downward sloping demand curve of each firm	**2**	**CO2**
	G. Which of the following falls under Micro Economics? a. National Income b. General Price Level c. Factor Pricing d. National Saving and Investment	**2**	**CO1**
	H. Production Possibility Curve is also known as- a. Demand Curve b. Supply Curve c. Indifference Curve d. Transformation Curve.	**2**	**CO1**
	I. Which of the following would not cause an economy’s production possibilities curve to shift to the right? a. The discovery of new super conductivity materials, which makes manufacturing more efficient b. A decrease in unemployment c. Improvements in Technology d. Widespread application of irrigation to agricultural land.	**2**	**CO2**

	J. Choice is created by the – a. Abundance of resources b. Urgency of needs c. Non-availability of resources d. Scarcity of resources	**2**	**CO1**
	Section B		
1.	Define the principle of Diminishing Marginal Rate of Substitution.	**2**	**CO1**
2.	Explain the concept of Bilateral Monopoly.	**2**	**CO1**
3.	What role does price elasticity of demand play in decision making by business firms?	**2**	**CO3**
4.	Explain the relationship between total revenue of a firm and the price elasticity of demand for price reduction.	**2**	**CO1**
5.	Explain the Delphi Technique of demand forecasting.	**2**	**CO1**
6.	Draw and define isoquants	**2**	**CO1**
7.	Explain two factors affecting the optimum size of the firm.	**2**	**CO1**
8.	Give reasons for the U shape of long run average cost curve	**2**	**CO2**
9.	Draw and explain the diagram to show the break even point	**2**	**CO1**
10.	Why does the demand curve slope downwards towards the right?	**2**	**CO2**
	SECTION-C **Answer all questions**		
Q 1	Explain the price and output determination in the short run under monopolistic competition with diagrams	**6**	**CO4**
Q2	Write short notes on any two- a. Brain Drain b. Minimum wages c. Discriminating Monopoly d. Indifference Curves	**6**	**CO1**
Q3	Explain with a diagram the consumer's equilibrium in a one commodity case under Utility Analysis.	**6**	**CO1**
Q4	Explain the features of Oligopolistic Firm	**6**	**CO1**
Q5	Explain the determinants of Elasticity of Demand.	**6**	**CO1**

SECTION-D(Case Study)			
Q1	**<u>Case Study</u>** **<u>Barriers to Entry and Monopoly by Alcoa</u>** The Aluminum Company of America (Alcoa) is a classic example of how a monopoly was created and maintained for almost 50 years. The monopoly was created in the late nineteenth century when Alcoa acquired a patent on the method to remove oxygen from bauxite to obtain aluminum. This patent expired in 1906, but in 1903, Alcoa had patented another more efficient method to produce aluminum. This patent expired in 1906, but in 1903, Alcoa had patented another more efficient method to produce aluminum. The patent expired in 1909. By that time, Alcoa had signed long term contracts with producers of bauxite prohibiting them from selling bauxite to any other American firm. At the same time, Alcoa entered into agreements with foreign producers of aluminum not to export aluminum into each other's market. Alcoa even went as far as purchasing electricity only from those power companies that agreed not to sell energy for the production of aluminum to any other firm. In 1912, the courts invalidated all of these contracts and agreements. Nevertheless, Alcoa retained monopoly power by always expanding productive capacity in anticipation of any increase in demand and by pricing aluminum in such a way as to discourage new entrants. The monopoly was finally broken after World War II, when Alcoa was not allowed to purchase government-financed aluminum plants built during the war. This is how Reynolds and Kaiser aluminum came into existence. During the 1960s, Reynolds diversified into plastics, gold, and consumer products, while Alcoa stuck to pure aluminum. But on May 3, 2000, Alcoa acquired Reynolds Metal Company, thus remaining the world's largest producer of aluminum declined by almost 50% because of oversupply resulting in part from the sharp increase in aluminum exports by Russia, as internal demand by its military-industrial complex vanished after the collapse of communism. In response to this price collapse, the representatives of 17 nations, including Russia, the European Union countries, the United States, and other major aluminum exporters, agreed in January 1994 to voluntarily cut production for two years and this led to a partial recovery in aluminum prices. In agreeing to voluntarily cut	**30**	**CO3**

	production, the major exporting nations came very close to behaving like an international monopoly. Despite the relatively high concentration in the aluminum market (e.g. Alcoa and Canadian European APA, together have a 27.4% share of the world market), prices rose and fell during the rest of the 1990s and early 2000s primarily because of demand and supply considerations. **Questions (Each part carries 10 marks)** 1. Define monopoly. Explain its features. 2. Explain the price and output determination of Monopoly Market Structure with diagrams 3. Summarize the case.		