

The LNM Institute of Information Technology

Department of HSS

Economics for Engineers HSS 201

Mid Term Exam

Time: 90 minutes**Date:** 26/02/2018**Max. Marks:** 30

Instructions: Attempt the paper in sequence and answer new question on a new page. Give examples and draw diagrams wherever necessary. No partial credits. Marks will be deducted for rewriting or change of response in the answers. Write the paper legibly and neatly. NO clarifications will be entertained. Apply your own discretion based on the class room discussion.

PART I [1x6=6 marks]

1. An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a large amount of capital goods and a small amount of consumer goods. This is most likely to be a:

- a) "Poor" country because such a nation has difficulty devoting many resources to the production of consumer goods.
- b) "Rich" country because such a nation can afford to sacrifice.
- c) Country with a free market.
- d) Country with a command economy.

2. Marginalism is:

- a) The best alternative that we forego when making a decision.
- b) The study of how societies choose to use scarce resources.
- c) A market situation in which profit opportunities are eliminated almost instantaneously.
- d) The process of analyzing the additional costs or benefits arising from a decision.

3. A company decides to install more machines and lay off workers. Which basic economic problem is addressed directly? **HOW**

4. Identify micro or macro-economics statement?

That said, this isn't the first time Samsung is attempting to gain dominance in the online e-commerce space. Samsung has online-exclusive series of smartphones in India and it recently launched the Galaxy A8+ via Amazon for Rs 32,999. With the new pricing, Samsung has a better chance of competing against Xiaomi as the company is focusing on aggressive pricing for feature-packed phones. **MICRO ECONOMICS**

5. Identify the fallacy.

You always have math problems to work in class whenever you forget to bring your calculator to school. Concluding that forgetting your calculator causes your professor to assign math problems is an example of the: **POST HOC FALLACY**

6. Identify positive or normative statement.

The reoccurrence of contagious diseases should be significantly lower in a technically advanced nation such as the United States. This statement is best described as: **NORMATIVE**

PART – II (24 marks)

Q1. About 60% of the market for stents is shared by multinational companies such as Abbott, Medtronic, Meril Lifesciences and Boston Scientific. The Union government in July 2016 added coronary stents to the national list of essential medicines (NLEM) 2015, effectively bringing them under price control. The medical devices industry said the inclusion of stents in the NLEM and the consequent price cap could stop manufacturers from introducing technologically advanced stents in India.

Is the above example refers to price ceiling or floor price? Explain what happens to price, quantity demanded, quantity supplied along with a diagram. **PRICE CEILING** [6]

Q2. Refer the data of the following table and answer the question.

Machine	Labour	Total No. of Sports Shoes
1	1	15
1	2	40
1	3	69
1	4	80
1	5	90

Is the firm is now in **short-run** or long-run production period? Why? Explain which law of production can be illustrated by the above data. **LAW OF VARIABLE PROPORTION** [6]

Q3. The price for a cup of coffee is likely to rise in the future. Coffee consumption worldwide is increasing, not only in the rich developed countries but also in the emerging market economies. It's a simple fact. More people are drinking coffee. Why? Rising incomes and changing consumer tastes. It used to be that the developing world made coffee and the developed world drank it. But now, countries like Brazil, which traditionally only produced coffee, are starting to consume it too. But there's more bad news for coffee consumers. Last month, the worst drought in decades hit Brazil's coffee belt region (where most of the world's coffee comes from), destroying crop yields and causing the price of coffee to shoot up by more than 50 per cent so far this year.

- a) Explain two factors that could affect the supply of coffee. [2]
 1. a change in the costs of production
 2. a change in natural factors such as the weather
 3. a change in technology
 4. a change in the number of producers.
- b) Explain whether coffee is a normal good in the global market. **NORMAL, since an increase in world income would increase the demand for coffee.** [2]
- c) Use the demand and supply diagram to show the effect of a drought on the coffee market. Explain what happens to the market price and quantity of coffee. [4]

A drought would decrease supply and shift the supply curve to the left.

New equilibrium at a higher price and lower quantity.
- d) Draw and give the example of Income elasticity of demand > 1 and Negative Income elasticity of demand. [4]