

SASTRA DEEMED UNIVERSITY

(A University under section 3 of the UGC Act, 1956)

End Semester Examinations

July 2022

Course Code: MGT131

Course: FUNDAMENTALS OF ECONOMICS

Question Paper No. :U0679

Duration: 3 hours

Max. Marks:100

PART-A

Answer all the questions

10 x 2 = 20 Marks

1. Define 'Giffin Paradox' with appropriate example.
2. Illustrate the 'effects of a price ceiling' with example.
3. List the implications of freedom of entry and exit of firms under perfect competition.
4. A consumer consumes two goods X and Y. What will happen if MU_x/P_x is greater than MU_y/P_y ?
5. Discuss the condition of equilibrium of a monopoly firm based on marginal cost and marginal revenue.
6. Let the production function of a firm be $Q = 3L^2K^2$.
 - (a) Find out the maximum possible output that the firm can produce with 5 units of L and 3 units of K.
 - (b) What is the maximum possible output that the firm can produce with 10 units of L and zero units of K?
7. State the objectives of monetary policy.

8. Recall consumption function with a graph.
9. In a closed economy with no government, a £1 billion increase in investment leads to a £5 billion increase in consumption. What is the value of the marginal propensity to consume?
10. Suggest some policy measures to reduce unemployment.

PART – B

Answer any four questions

4 x 15 = 60 Marks

11. Rajeev is a farmer who produces paddy in his 10 acres of land. He is trying to increase his total output by increasing the quantity of only one of his inputs – say labor. Which law of production explains this situation? What will be the effect on his total output? Give your suggestion to Rajeev with a suitable diagram.
12. Gireesh cultivates paddy on a piece of land. He employs laborers successively and total product is given here.

Laborer	TP
1	2
2	5
3	9
4	12
5	14
6	15
7	15
8	14
9	12

- (a) Complete the given table.
- (b) Plot TP, APL and MPL on the same set of axis.
- (c) At what level of total product, the producer stops further employment? (Suggest from schedule)
- (d) Give reasons.

13. The following table shows the demand curve facing a monopolist who produces at a constant marginal cost of \$10:

Price	Quantity
18	0
16	4
14	8
12	12
10	16
8	20
6	24
4	28
2	32
0	36

- (a) Calculate the firm's marginal revenue curve.
(b) What are the firm's profit-maximizing output and price? What is its profit?
(c) What would the equilibrium price and quantity be in a competitive industry?
14. Classify unemployment based on its cause. Describe and give examples for each. Which of the three do you think is the most desirable?
15. Explain the methods of computation of national income and its difficulties.
From the following data calculate (a) Gross Domestic Product at Factor Cost, and (b) Gross Domestic Product at Market price

Items	Rs (in Crores)
Gross national product at factor cost	6,1500
Net exports	(-)50
Compensation of employees	3000
Rent	800
Interest	900
Profit	1,300

Net indirect taxes	300
Net domestic capital formation	800
Gross domestic capital formation	900
Factor income to abroad	80

16. Economies go through cycles. Substantiate and draw a graph that shows the cycles of the economy, labeling each of the following:

- recession
- recovery
- peak
- trough
- expansion

Be sure you have labeled your axes. On our graph, where is the Indian economy today?

PART – C

Answer the following

1 x 20 = 20 Marks

17. The director of a theater company in a small college town is considering changing the way he prices tickets. He has hired an economic consulting firm to estimate the demand for tickets. The firm has classified people who go to the theater into two groups and has come up with two demand functions. The demand curves for the general public (Q_{gp}) and students (Q_s) are given below:

$$Q_{gp} = 500 - 5P$$

$$Q_s = 200 - 4P$$

- (a) Graph the two demand curves on one graph, with P on the vertical axis and Q on the horizontal axis. If the current price of tickets is Rs.35, identify the quantity demanded by each group.
- (b) Find the price elasticity of demand for each group at the current price and quantity.
- (c) Is the director maximizing the revenue he collects from ticket sales by charging Rs.35 for each ticket? Explain.
- (d) What price should he charge each group if he wants to maximize revenue collected from ticket sales.

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