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# **Pre-board Examination - 2024**

**Subject: ECO 206: Economics for Business FM: 100**

**Semester: BIM 4th Semester Time: 3 hrs**

Candidates are required to answer the questions in their own words as far as practicable.

**Group “A”**

**Brief Answer Questions: [10 x 2 = 20]**

1. Microeconomics is also known as Price Theory. Why?

2. Write any of the four determinants of supply.

3. Define economic efficiency.

4. Prepare a list of properties of the equal product curve.

5. Define advertisement elasticity of demand.

6. Consider the isocost equation: rK + wL = C and interpret the components.

7. What is an exchange rate?

8. Let the autonomous demand be 5 and the slope of the demand curve be 3. Derive linear

demand curve.

9. Write any of the four causes for the shift in the supply curve.

10. What does scarcity mean in economics?

**Group “B”**

**Short Answer Questions: (Attempt any SIX Questions) [6 x 5 = 30]**

11. Describe the relationship between price elasticity of demand and revenue.

12. Calculate GDP at factor cost and market price from the following data.

Description Rs in billion

Compensation of Employees 800

Rental income 60

Net interest 175

Proprietor's income 200

Corporate profit tax 150

Retained earnings 115

Dividend 450

Capital consumption allowance 80

Indirect tax 250

Subsidy 30

13. The market demand function and supply function for a product are given below:

Demand function, Qd = 500 - 5P and

Supply function, Qs = 100+5P where Q is the quantity and P is the price.

a) Compute demand and supply at prices: Rs 30, 35, 40, 45 and 50.

b) Compute price elasticity of demand and supply at equilibrium price.

14. Explain the concept of accounting profit and economic profit with suitable examples.

15. Explain the scope of macroeconomics.

16. Explain the quantitative instruments of monetary policy.

17. Given Q = 100K1/2L1/2, C = Rs 1000, W = Rs 50 and r = Rs 40. Determine the quantity of labor and capital that the firm should use to maximize output. What is the level of output?

**Group “C”**

**Long Answer Questions:(Attempt any THREE Questions) [3 x 10 = 30]**

18. How is the equilibrium price determined? What will be the effect on the equilibrium price

due to an increase in demand and supply simultaneously?

19. Identify the factors that cause inflation, demand-pull or cost-push, in the Nepalese economy and explain them.

20. The following data shows the quantity produced and their respective market prices of two

goods A and B that a hypothetical economy produces:

**Year Output of A Price of A (Rs) Output of B Price of B (Rs)**

2019 450 2,000 1,500 25

2020 470 2,200 1,200 30

2021 470 2,300 1,400 30

2022 480 2,100 1,700 35

a. Compute nominal GDP, real GDP, GDP Deflator, and rate of inflation.

b. Why is real GDP a better measurement of welfare than nominal GDP? [8+2]

21. Consider the following cost schedule:

Output(Q) 0 1 2 3 4 5 6 7 8

Total variable cost (TVC) 0 40 72 96 128 200 320 496 720

a. At TFC = Rs 300, compute TC, AFC, AVC, AC and MC

b. Using a cost schedule, show the relationship between AFC, AVC, and AC.

c. Graph TVC and TC and explain their relation.

**Group “D”**

**Comprehensive Answer / Case / Situation Analysis Questions: [20]**

22. Read the following case carefully and answer the questions that follow:

Price discrimination refers to a pricing strategy in which a monopoly firm charges a different price from different segments of consumers. Consumers are discriminated against concerning price based on their income, age, sex, etc. Nepal Electricity Authority (NEA) is legally empowered by the government to enjoy a monopoly in the country like other firms such as Kathmandu Upatyaka Khanepani Limited (KUKL), Nepal Oil Corporation (NOC), etc. All these natural monopolies practice the policy of price discrimination. Besides these firms, other public as well as private organizations also follow the policy of price discrimination as in Movie Theatre, Hospitals, Public Transport, Telecommunication, etc. Business firms also follow the policy of wage discrimination.

NEA follows a price discrimination policy with its consumers, which varies widely. The categories are billed as household, industries, export, etc. Even within these categories, Household includes 6 different categories in terms of its consumptions under

the 60 Ampere category: Sometimes monopolies may charge high prices to increase their profit. In such cases consumers may be manipulated, having no alternatives, as a result, people will have adverse effects

regarding monopolies. Consumers, therefore, prefer a competitive business environment.

Questions:

a. Give examples of price discrimination practiced in the public transportation and education sectors. Is it justifiable? [5]

b. Is it justifiable to follow price discrimination in telecommunication services? Give your critical comments. [5]

c. Why does the government endorse the policy of price discrimination? [5]

d. Why do business firms follow wage discrimination? [5]