**Asian School of Management and Technology**

(Affiliated to Tribhuvan University)

Gongabu, Kathmandu

**Full Marks: 100**

**Time: 3 Hrs.**

**SET A**

**Preboard** **Examination 2080**

**BIM / Fourth Semester / ECO 206: Economics for Business**

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

**Group A**

**Brief Answer Questions**

**Attempt all questions. (10 ×2 = 20)**

1. Why microeconomics is also called price theory?
2. Define consumer’s surplus.
3. What will happen to demand for tea when price of coffee rises?
4. What is marginal rate of technical substitution (MRTSL,K).
5. Define economies of scale.
6. Let, production function, Q = 10L + 5L2 - L3, compute marginal product.
7. Write any four features of oligopoly.
8. Calculate the profit of the firm when P = Rs. 30, Q =10 units and AC = Rs. 25
9. Define consumption function.
10. Distinguish between GDP and GNP.

**Group B**

**Short Answer Questions**

**Attempt any six questions. (6×5 = 30)**

1. Describe about the basic economic issues: scarcity, alternatives and choice.
2. Explain the equilibrium of firm under perfect competition by total revenue and total cost approach.
3. Explain the law of variable proportions.
4. What is price elasticity of supply? Explain its various types.
5. Why short run average cost curve is U – shaped?
6. What is monetary policy? Explain its objectives.
7. What is trade cycle? Explain the prosperity phase of trade cycle.

**Group C**

**Long answer questions**

**Attempt any three questions (3x10 = 30)**

1. The demand curve of a firm's product is given by an equation, Q = 28 – 0.5P while cost function is TC = 50 + 2Q + 0.25Q2. Find the profit maximizing output, price and total profit.
2. Find the arc cross elasticity of demand between hot dogs (X) and hamburgers (Y) and between hot dogs (X) and mustard (Z), for the data in the following table.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Commodity** | **Before** | | **After** | |
| **Price**  **($/unit)** | **Quantity**  **(units/month)** | **Price**  **($/unit)** | **Quantity**  **(units/month)** |
| Hamburgers(Y)  Hot dogs (X) | 3.00  1.00 | 30  10 | 2.00  1.00 | 40  8 |
| Mustard (jar(Z)  Hot dogs (X) | 1.50  1.00 | 10  15 | 2.00  1.00 | 9  12 |

1. Explain long run average cost curve.
2. Define demand pull inflation. And what are its causes?

**Group D**

**Situation Analysis**

1. **Read the situation given below and answer the questions that follow. (20)**

De Beers, the South African diamond company was founded in 1888 by Cecil Rhodes, an English businessman, when he merged two of the biggest mines in the country. Rhodes then proceeded to use his profits to continue buying mines, consolidating his monopoly power. Today De Beers control about 80% of world's production of diamonds. Although the firm's share of the market is not 100%, it is large enough to exert substantial influence over the market price of diamond.

How much market power does De Beers have? It depends in part on whether there are close substitute for its products. If people view emeralds, rubies, and sapphires as good substitute for diamonds, then De Beers has relatively little market power. In this case, any attempt to raise the price of diamond would cause people to switch to other gemstones. But if people view these other stones as very different from diamonds, De Beers can exert substantial influence over the price of its product.

De Beers pays large amount for advertisement. It might seem surprising at first. If a monopoly is the sole seller of its product, why it needs to advertise? One goal of De Beers advertisement is to differentiate diamonds from other gemstones in the minds of consumers. When their slogan tells you that "a diamond is forever," you are meant to think that the same is not true for emeralds or other gemstones. If the advertisements are successful, consumers will view diamond as unique, rather than other gemstones, and this gives De Beers greater market power.

**Questions**

1. Is De Beer a pure monopolist? Explain.

2. Is a slogan "a diamond is forever", appropriate for the 80% monopoly market for De Beers? If you were to make the slogan how would you do make it distinct.

3. Though the advertisement's slogan, "a diamond is forever" is beneficial for all diamond producers, why is it selected by De Beers? Explain.

4. Does a monopolist need advertisement? Explain.

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