

Tutorial Sheet

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Module 3: Capital Market, Investment Decisions and Monopoly Basics

Course: PoE [ECON F211]

16 Mar 2021

Question 1: Name the factor that household supply to the market indirectly as one of the factors of production?

Answer: Savings – works as a capital for the business

Question 2: If capital goods and intermediate goods are used as inputs in the production, and both are used to produce further goods then can we say that both are same?

Answer: No, because intermediate goods are those inputs which once used cannot be used for the second time. It is finally consumed during one production process. However, the capital goods will remain there and continuously used in the production process for more than one time or till it's decay.

Question 3: Give an example of social capital which is contributing in economic growth?

Answer: Roads, used as inputs in production process while transporting inputs to the factory and output to the markets to sell.

Question 4: As per the class discussion, monopoly is one extreme market situation and perfect competition is another. Welfare is maximized in perfect competition not in monopoly. What is reason behind less welfare in Monopoly? Discuss.

Answer: In perfect competition, output produced is maximum and price charged is the least, at profit maximizing condition.

Question 5: What is the difference between capital and investment? Give an example.

Answer: Capital is a stock concept and investment is a flow concept. Capital stock is measured at a point of time and investment is a flow concept and investment adds to the total capital stock.

Question 6: When investment is there total capital stock increase. Is this always true?

Answer: Not always. Depending upon the rate of depreciation. In case the new investment is lesser than the depreciated capital then overall capital stock declines.

Question 7: Name any five companies who are ready to come out with IPOs this week in the market to raise investment from the market.

Answer: “Craftsman Automation and Laxmi Organics Industries will launch their initial share-sale programmes on Monday while that of Kalyan Jewellers India will open on Tuesday. IPOs of Suryoday Small Finance Bank and Nazara Technologies will begin on Wednesday, information with the exchanges showed”. **Source:** Economic Times of 15th March 2021. (<https://economictimes.indiatimes.com/markets/stocks/news/five-ipos-to-hit-markets-this-week-seek-to-raise-rs-3764-crore/articleshow/81492343.cms>)

Question 8: Given that person A has INR 1200 to invest. The market Rate of Interest available on savings is 10 percent per annum. If Person A deposits the available amount in the Bank at the market rate of interest for five years and did not withdrew any amount in between then what would be the final amount after five years?

Answer: 1200 deposit in the bank at 10 % RoI annually

Deposit 1200	Deposit amount + RoI on It	Amount at the end of Each Year
At the end of First Year	1200 + 120	1320
At the end of Second Year	1320 + 132	1452
At the end of Third Year	1452 + 145.2	1597.2
At the end of Fourth Year	1597.2 + 159.72	1756.92
At the end of Fifth Year	1756.92 + 175.692	1932.612

Question 9: A Limited company can also source its capital from its profits which is known as internal financing. What is the other name of such available funds?

Answer: Retained earnings. These funds are the part of profits not paid by the firm to stockholders as dividends.

Question 10: What factor restrict the monopolist to charge high price? Give an example.

Answer: Kind of product and its elasticity; attraction of new firms towards high profits

Question 11: Nowadays, there exist many such services companies who are looked at other sellers, selling substitute or similar goods and services, to fix the price. Name two-three and discuss.

Answer: UBER and OLA; Flipkart and Amazon; Cola and Pepsi

Question 12: Patent is used to promote the R&D in to the country. How it is used and how it promotes the monopoly practices?

Answer: Patent is to promote the R&D but at the same time it promotes monopoly practices. The negative side can be discussed but after the patent period the cost of monopoly can be compensated through the benefits from advanced technology available to all. The only thing is that patent time must be reduced at times when technology is expanding so rapidly.

*******All the Best*******