

POST-GRADUATE COURSE
Term End Examination :
December, 2014 / June, 2015
COMMERCE

Paper-II : Managerial Economics

Time : 2 Hours

Full Marks : 50

(Weightage of Marks : 80%)

Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.

MODULE – I

Group - A

Answer any *one* question : 15 × 1 = 15

1. a) Does optimisation in economic analysis necessarily mean maximisation ? Substantiate your answer by mentioning a couple of suitable examples. With respect to the problems of economics, distinguish, in simple language, between unconstrained and constrained optimisations.
- b) Find the optimising values of x_1 and x_2 for the function :

$$F(x) = 24x_1 + 18x_2 - 4x_1^2 - 3x_2^2.$$

(2 + 4 + 5) + 4

2. Briefly discuss the major steps of regression analysis. With the help of a suitable diagram, distinguish between explained and unexplained variations of observations. 10 + 5

Group - B

Answer any *one* question. 10 × 1 = 10

3. a) Give brief definitions of
 - (i) an isoquant
 - (ii) marginal rate of technical substitution
 - (iii) elasticity of substitution between inputs.
- b) Diagrammatically present the following, mentioning corresponding values of marginal rate of technical substitution and elasticity of substitution :
 - (i) Linear isoquant
 - (ii) Leontief isoquant. 6 + 4
4. a) Define fixed and variable costs of production.

b) Explain how cost elasticity and scale elasticity are related to average and marginal costs of production. 4 + 6

5. What are the major reasons for falling average costs in certain industries ? Explain how a learning curve may be useful for firms in such industries. 2 + 8

MODULE – II

Group - C

Answer any *one* question : 15 × 1 = 15

6. Define degree of monopoly power. Explain how a dominant firm deals with fringe suppliers and sets its price in a monopoly market. 5 + 10
7. Do you think that market imperfection leads to Pareto suboptimal state of affairs ? What are the major options available to the state to deal with monopoly power ? Discuss the merits and demerits of these forms of market intervention by the state. 2 + 3 + 10

Group - D

Answer any *one* question. 10 × 1 = 10

8. a) What are the basic assumptions of Cournot model of duopoly ?
- b) Given that the market demand function is $P = 12 - Q$, where $Q = Q_1 + Q_2$. Here, Q_1 and Q_2 are the levels of output produced by firms 1 and 2 respectively. The two firms are identical and each has a marginal cost of Rs. 2 and zero fixed cost. Find, under Cournot assumptions :
- (i) equilibrium outputs of the two firms
- (ii) market price of the product. 4 + (3 + 3)
9. What are the major points of difference between conventional neo-classical theory of firm and Baumol's sales maximization theory ? Using a suitable diagram, explain the basic features of Baumol's model. 4 + 6
10. Write short notes on any *two* of the following : 5 × 2 = 10
- a) Basic features of perfect competition.
- b) Behavioural theories of firm.
- c) Advertising and economic welfare.
- d) Mark-up pricing.