sem-II FYBCom 13/04/17 (11)
Bus. Eco

Q.P. Code :04843

[Time: Three Hours] [Marks:100]

Please check whether you have got the right question paper.

N.B:
1. All questions are compulsory.
2. All questions have internal choice.
3. Draw neat diagrams wherever necessary.
4. Use of simple calculator is permitted.
5. Figures to the right indicate full marks.

1. A. **Select the best answer from the given options and rewrite the statement. (Any Ten).** 10

i. Perfectly competitive firms face _________ demand curves.
a. horizontal b. positively sloped
c. vertical d. negatively sloped

ii. The firm will choose to shut down when __________.
a. revenues no longer cover variable costs
b. losses are larger than fixed costs
c. both a and b
d. neither a nor b

iii. Economists call a market that has only one producer: _________.
a. perfect competition b. monopoly
c. monopolistic competition d. oligopoly

iv. Group equilibrium in monopolistic competition assumes_________.
a. uniformity b. symmetry
c. both a and b d. none of the above

v. Oligopoly is a form of market in which there exists__________.
a. a single firm b. two firms
c. few firms d. many firms

vi. Paul Sweezy's model has a__________demand curve.
a. vertical b. horizontal
c. diagonal d. kinked

vii. Mark-up pricing is__________for a firm trying to enter a market.
a. not suitable b. suitable
c. appropriate d. eligible

viii. Under marginal cost pricing__________.
a. P = MC b. P = MR
c. P = AC d. all of the above

ix. Price discrimination is used in the case of __________.
a. bus tickets b. electricity charges
c. sports events d. all of the above

x. Investment to replace obsolete equipment is generally done for____________.
a. expansion of production capacity
b. expansion into new markets
c. diversification into new production lines
d. none of the above

xi. Payback period method is more suitable to __________.
a. the short run
b. the long run
c. both a and b
d. neither a nor b

xii. A project is profitable if the IRR is ________.
a. greater than the market rate of interest
b. less than the market rate of interest
c. equal to the market rate of interest
d. all of the above

1. B. **State whether the following statement are True or False (Any Ten).** 10
i. The necessary condition for profit maximization is that MC is equal to MR.
ii. The equilibrium price of the monopolist is always higher than that of the firm in perfect competition.
iii. The monopoly firm is a price maker.
iv. The demand curve for a firm in monopolistic competition is vertical.
v. An oligopoly market has only one seller.
vi. Cartels control price and supply of products.
vii. Companies use transfer pricing to avoid taxes.
viii. Full cost pricing provides a guaranteed profit.
ix. Multiple product pricing is based on product relationships.
x. When NPV is positive the project is rejected.
xi. Payback period method favours projects with quick recovery.
xii. The IRR method rejects a project if the market rate of interest is greater than the IRR.

2. Attempt A and B or C and D
A. Describe the characteristic features of perfect competition. 08
B. Explain equilibrium of a monopoly firm earning supernormal profit in the short run. 07

OR

C. Explain the equilibrium of the firm and industry in the long run under perfect competition. 08
D. Read the paragraph below and answer the following questions. 07
More than 90% of personal computer users in the world use the Windows Operating System. This is ensured by barriers to entry such as heavy advertising and frequent introduction of new variants of the software. There are no other close substitutes of the Windows Operating System.
i) Name the market structure being described in the paragraph above.
ii) Describe the characteristic features of the market identified by you in question(i)

3. Attempt A and B or C and D
A. Discuss selling costs as a feature of monopolistic competition. 08
B. Using a diagram explain why prices are rigid in oligopoly. 07

OR

C. Analyze equilibrium of a firm in monopolistic competition in the short run. 08

D. Read the paragraph below and answer the following questions. 07

In Mumberg there are few sellers who are dominant firms in the electronics market. The remaining sellers make their decisions on the basis of decisions taken by the dominant sellers in the market. This results in rivalry and the firm which is successful is the one that can predict the rival's reaction to its own action. For analysis of the market situation the firm may use game theory.

i) Name the market structure being described in the paragraph above.

ii) Describe the characteristic features of the market identified by you in question (i).

4. Attempt A and B or C and D

A. Describe the conditions under which price discrimination is possible. 08

B. Write a note on marginal cost pricing. 07

OR

C. Explain the multiple product pricing method. 08

D. i) Examine the merits and demerits of the full-cost pricing method. 07

ii) Assuming a desired mark-up of 14%, if average variable cost is Rs. 65 and average fixed cost is Rs.25, calculate the full cost price of product Z of firm Zip Zap Zoom.

5. Attempt A and B or C and D

A. What is capital budgeting? Explain its importance. 08

B. Write a note on the Net Present Value method. 07

OR

C. Explain the IRR method. 08

D. In the following table are four projects with their initial investments and their annual cash inflows. Calculate the payback period for each project and rank the projects. 07

Project	Initial Investment	Annual Cash Flow
A	30,000	7,500
B	20,000	4,000
C	15,000	7,500
D	10,000	10,000

6. Attempt A and B OR Write short notes on any four.

A. Explain the equilibrium of firms in the short run in perfect competition under conditions of differential cost. 10

B. Debate the role of advertising. 10

OR

6. Write short notes. (Any Four). 20

i) Sources of monopoly power

ii) Excess capacity

iii) Distinction between monopolistic competition and perfect competition

iv) Degrees of price discrimination

v) Transfer pricing

vi) Steps in capital budgeting