

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: Managerial Economics
Semester-II (Batch: 2015-20)

End Semester Examination: April-May 2016

Date: 8th May, 2016

Duration: 3 hours

Max. Marks: 50

Instructions:

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.

Part-A**Marks**

- Q.1 Illustrate **any five** of the following questions with reasons or examples and draw diagrams wherever necessary. (word limit: 30-60 words) (5x3=15)
- (a) (i) Describe the concept of Advertisement is convincing.
 - (ii) Consider the following events: Scientists reveal that consumption of oranges decreases the risk of diabetes & cancer, and at the same time, farmers use a new fertilizer that makes orange trees more productive. Illustrate and explain what effect these changes have on the equilibrium price and quantity of oranges. Explain this with the help of demand and supply curve.
 - (b) Draw the diagram/Chart of the following concepts.
 - (i) Two sector circular flow of Income
 - (ii) Indifference curve for Perfect Substitutes and Perfect Complements goods
 - (c) Impact of tax on the seller :
 - (i) What will be the incidence of taxation when demand is elastic and the supply curve is normal?
 - (ii) What will be the incidence of taxation when demand is perfectly inelastic and the supply curve is normal?
 - (d) Describe the concept of Marginal Social Benefit and Marginal Social Sacrifice.
 - (e) Discuss the following case studies.
 - (i) In 2010, many towns around Boston found themselves without drinking tap water. Explain this case briefly in the perspective of government intervention.
 - (ii) Describe the case study by Venkatram and Deodhar in 1999 with respect to demand for coffee in India
 - (f) Describe the following Mankiw's principles of economics:
 - (i) Society faces a short-run trade-off between inflation and unemployment.
 - (ii) Rational people think at the margin.

- (g) Use a production possibility frontier to describe the idea of trade-offs, opportunity cost and economic growth.

Q.2 Write short notes on **any two** of the following questions and illustrate with diagram. (2x5=10)
(word limit: 200-225 words)

- (a) What are the three stages of the short-run production function? Why is it not economic feasible to produce in stage 1 and 3?
- (b) Explain the Law of Diminishing Marginal Utility and Equi-Marginal Utility with example.
- (c) Discuss the features of Monopolistic Competition versus Perfect Competition. Why will firm get normal profit in the long run in the both market structure? Explain

Part-B

Q.3 Write short notes on **any five** of the following questions and illustrate with diagram wherever necessary. (word limit: 175-225 words) (5x4=20)

- (a) Explain the Coase theorem in terms of cooperative and non-cooperative outcomes.
- (b) Explain the formation of Social contract with the help of bargaining theory.
- (c) Explain how subsidy addresses the problem of suboptimal production for a good having positive externality.
- (d) Explain the first and second law of deterrence.
- (e) Explain the principles of Pareto efficiency and trace out the contract curve and mention its important applications
- (f) Explain game theory as applicable to the prisoner's dilemma.
- (g) Explain the application of Indifference curve to explain consumer welfare in case of food subsidy and cash transfer.

Q.4 Explain **any two** of the following questions with reasons or examples and draw diagrams wherever necessary. (word limit: 30-40 words) (2x2.5=5)

- (a) Explain bargaining with reference to efficient allocation of property rights.
- (b) Explain game theory with regard to contracts.
- (c) Explain free ridership and rent seeking behavior.
- (d) Explain Normative Coase and Hobbes theorem
