

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: Managerial Economics  
Semester-I (Batch: 2016-18)

MBA End Semester Examination: October-2016

Date: 20<sup>th</sup> October, 2016

Duration: 3 hours

Max. Marks: 60

**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 <b>any five</b> of the following questions with reasons or examples and draw diagrams wherever necessary. (in approximately 30-50 words)		(5x3= 15)
(a) Impact of tax on the seller:		
(i) What will be the incidence of taxation when supply is inelastic and the demand curve is normal?		
(ii) What will be the incidence of taxation when demand is perfectly elastic and the supply curve is normal?		
(b) Discuss the following case studies.		
(i) In 2010, many towns around Boston found themselves without drinking tap water. Explain this case briefly with the perspective of Government intervention.		
(ii) Describe the case study by Venkatram and Deodhar in 1999 with respect to demand for coffee in India		
(c) 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.		
(d) Discuss the following case studies:		
(i) 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.		
(ii) How does a seat belt law effect auto safety? (use the concept of incentive)		
(e) (i) Why is supply curve upward sloping in relation to price? (explain this phenomenon by using the concept of marginal cost and marginal productivity).		
(ii) You win 5000 rupees prize in an essay competition. You have a choice between spending the money now or putting it away for a year in a bank account that pays 3 percent interest. What is the opportunity cost of spending the 5000 rupees now?		
(f) Draw the diagrams of following concepts:		
(i) Indifference curve for Perfect substitutes goods and Perfect complements goods.		
(ii) Indifference curve for both "Bad" Commodity.		

- Q.2 Write short notes on **any four** of the following questions and illustrate with a diagram. (4x5=20)  
(in approximately 150 – 175 words) (Each Question= 5 Marks)
- (a) What are the three stages of the short-run production function? Why does it not make any economic sense to produce in stage 1 and 3?
  - (b) Explain the Law of Diminishing Marginal Utility and Law of Equi-Marginal Utility with an example.
  - (c) Explain Hick's theory of compensating variation in income in the case of Inferior Good.
  - (d) Explain the principle of maximum social advantage.
  - (e) (i) In a comparison of Insulin vs. Caribbean Cruises: Suppose the prices of both of these goods rise by 20%, then for which of these goods quantity demand will be reduced significantly and Why? (2 Marks)  
(ii) Can good news for farming be bad news for farmers? Explain. (2 Marks)  
(iii) Describe the concept of 'Advertisement is convincing'. (1 Marks)

### Part-B

- Q.3 Answer **any five** of the following questions, along with diagrams, wherever applicable. (5x5=25)
- (a) Explain the efficient liability system as an efficient exchange system by examining the principles of efficient cost, efficient price and efficient quantity?
  - (b) Explain how the protection of property and the ability to transfer property rights promotes social welfare in the context of the Social contract theory.
  - (c) Explain the importance of critical thought using some recent examples in the divergence between economic policy and the actual economic impacts.
  - (d) Explain Coase theorem and give examples of how can law increase efficiency (given high transaction costs) by lubricating bargaining.
  - (e) What are productive, allocative and distributive efficiency? Explain in terms of a monopolistic market with regard to patents.
  - (f) Explain the various components of costs of crime and illustrate the relation between expected punishment and the decision to commit a crime when the expected punishment dips below perfect disgorgement.

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