(101) FY B.com/ Paper / Subject Code: 76107 / Business Economics II / 38

(108)

Q.P. Code: 31605

[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. A perfectly competitive firm will maximise the profit at the quantity where its marginal revenue equals ___________.
   a) Average variable cost b) Average cost
   c) Average revenue d) Marginal cost

ii. The demand curve faced by a monopoly firm is ___________.
   a) Upward sloping b) Downward sloping
   c) Horizontal d) Rectangular hyperbola

iii. A monopolist firm has control over ___________.
   a) Both price and output b) Only price
   c) Only output d) Either price or output at a time

iv. The striking difference between perfect competition and monopolistic competition is __________.
   a) Product differentiation c) Lesser profit
   c) Monopoly element d) Supply management

v. A firm in a monopolistic market requires to incur __________.
   a) Production costs b) Selling costs
   c) Both (a) & (b) d) Opportunity cost

vi. Oligopoly is characterised by __________.
   a) Single seller b) Many sellers
   c) Few sellers d) Many buyers

vii. Price discrimination is profitable, if elasticities are ___________ in two markets.
   a) Same b) Perfectly elastic
   c) Different d) Perfectly inelastic

viii. Multiple - product pricing can be for ___________.
   a) Complementary goods b) Joint products
   c) Substitutes d) All of these

ix. Transfer pricing is regulated by ___________.
   a) Government b) MNCs
   c) Private sector d) None of these

x. Capital budgeting relates to ___________ investment.
  a) Short term   b) Medium term
  c) Long term   d) Regular

xi. The major steps involved in investment appraisal are ___________.
  a) Search of new proposal   b) Project classification
  c) Cost benefit analysis   d) All of these

xii. A project would be rejected, if its NPV is ___________.
  a) Zero   b) Negative
  c) Positive   d) One

1. B. State whether the following statements are True or False. (Any Ten) 10

i. Homogeneous price prevails in perfectly competitive market.
ii. Perfectly competitive markets incur huge advertisement expenditure due to severe competition.
iii. In monopoly, Price = MR = MC.
iv. Product differentiation leads to some degree of monopoly power.
v. Group is a collection of firms producing homogeneous goods.
vi. Price leadership is related to collusive oligopoly.
vii. Dumping is a case of international price discrimination.
viii. Public enterprises may charge a price equal to their marginal costs.
ix. Transfer pricing is used to maximise the profits of only one unit of the firm.
x. Capital budgeting decisions are often reversible.
xi. Pay-back period method is based on the principle of discounting.
xii. A project will be accepted if IRR is equal to market rate of interest.

2. Attempt A and B or C and D.

A. Explain long run equilibrium of a firm and industry under perfect competition. 08
B. Discuss the features of monopoly. 07

OR

C. Diagrammatically explain short run equilibrium under monopoly. 08
D. Read the paragraph below and answer the following questions. 07

The credit card market in India has exponentially grown at 25 to 30% annually. About 30 banks are chasing customers with credit cards. Most cards are similar in appearance. Entry and exit from the credit card market is easy as new banks can enter and old banks can leave selling their accounts to other credit card suppliers. The prices are more or less same as banks keep the price equal to marginal revenue.

i. Name the market structure described in the paragraph above.
ii. Describe the features of the market structure identified.

3. Attempt A and B or C and D.

A. Discuss short run equilibrium of a firm under monopolistic competition. 08
B. Explain the features of oligopoly. 07

OR

C. Discuss price rigidity situation in an oligopoly market with the help of kinky demand curve. 08
D. Read the paragraph below and answer the following questions. 07

In Britain, fast food consumers have a very wide choice. There are different brands to choose from. New firms enter the industry with great frequency and new products are launched quite often. As both entry and exit barriers are low, the industry often experiences shake outs due to intense competition among firms. If any new product is successful other firms launch very similar products with some minor changes. In the fast food industry there are consumer segments with different tastes and preferences. Firms keep adding new products to meet the changing preferences of customers.

i. What type of market structure does the fast food industry in Britain exhibit?
ii. Discuss the characteristics of the market structure identified.

4. Attempt A and B or C and D.

A. Describe the degrees of price discrimination. 08
B. Write a note on multiple product pricing. 07

OR

C. Discuss marginal cost pricing method. 08
D. A multinational company wants to determine price of its product. If the mark up is targeted at 25%, average variable cost is Rs. 50 and average fixed cost is Rs. 40. Calculate the full cost price of the product. 07

5. Attempt A and B or C and D.

A. Discuss meaning and importance of capital budgeting. 08
B. Explain pay-back period method. Discuss its merits and demerits. 07

OR

C. Write a note on net present value method of project evaluation. 08
D. Galaxy Company has the following proposals under consideration: 07

Project	Initial Investment (Rs.)	Annual Cash Flows (Rs.)
A	10000	2000
B	8000	1000
C	4000	1000
D	5000	1125
E	6000	2400

i. Calculate pay-back period and rank the projects.
ii. On the basis of the pay-back period criteria, which project would you recommend?

6. Attempt A and B or write Short Notes on any four.

A. 'Perfect competition and monopoly models are two extreme cases'. Discuss. 10
B. Discuss selling costs under monopolistic competition with suitable diagram. 10

OR

6. Write short notes (Any Four). 20

i. Sources of monopoly power
ii. Role of advertising
iii. Cartels
iv. Conditions for price discrimination
v. Cost plus pricing method
vi. Internal rate of return method

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