

FOURTH SEMESTER M.A. DEGREE EXAMINATION, JUNE 2016

(CUCSS)

Economics

Optional 6—BUSINESS ECONOMICS

(2010 Admissions)

: Three Hours

Maximum : 36 Weightage

Part A

*Answer all questions.**Each bunch of four questions carries a weightage of 1.*

A) Multiple choice :

- 1 If the amount of a commodity purchased remains unchanged when the price of another commodity changes, the cross elasticity of demand between them is :
 - (a) Negative.
 - (b) Positive.
 - (c) Zero.
 - (d) One.
- 2 Which of the following would increase a firm's average total costs ?
 - (a) Economies of scale.
 - (b) An increase in input prices.
 - (c) An improvement in technology.
 - (d) An increase in demand for the firm's product.
- 3 The period-by-period changes in net cash flows that are due to an investment project is known as :
 - (a) Incremental cash flows.
 - (b) Net present value.
 - (c) Internal rate of return.
 - (d) Net working capital.
- 4 Price discrimination under which a monopolist set the prices on the basis of the quantity purchased is known as :
 - (a) First-degree price discrimination.
 - (b) Second-degree price discrimination.
 - (c) Third-degree price discrimination.
 - (d) Transfer pricing.

(B) Multiple choice :

5 Which of the following is an intuitive judgmental approach to forecasting that is useful when based on unbiased, informed opinion ?

- (a) Quantitative analysis.
- (b) Qualitative analysis.
- (c) Time series analysis.
- (d) Growth trend analysis.

6 If the income elasticity of demand is greater than 1, the commodity is :

- (a) A necessity.
- (b) A luxury.
- (c) An inferior good.
- (d) A non-related good.

7 Which of the following statements is false ?

- (a) There are no fixed costs in the long run.
- (b) Total costs are equal to total fixed costs plus total variable costs.
- (c) In the short run all inputs are variable inputs.
- (d) A fixed cost is a cost that does not change as output changes.

8 The profitability index used in capital budgeting shows :

- (a) The benefit/cost ratio.
- (b) The discount rate.
- (c) Internal rate of return.
- (d) Net present value.

(C) Fill in the blanks :

9 The decline in the long-run average costs as a result of expansion of output is known as _____.

10 _____ are the period-by-period changes in net cash flows that are due to an investment project.

11 A map of a sequential decision-making process is called _____.

12 The planning process in which a business determines and evaluates potential expenses or investments that generate long term cash flows is known as _____.

D) State True or False :

13 When economists say the demand for a good is highly inelastic, they mean that consumers will respond to a change in the price of the good by purchasing substantially more of it.

14 When a firm separates its customers into several classes and sets a different price for each customer class result in third-degree price discrimination.

15 The learning curve shows the decline in the average cost of production with rising cumulative total outputs over time.

16 The survey method of forecasting predicts values of a time series on the basis of some average of its past values only.

Part B (Short Answer Questions)

Answer any ten questions not exceeding one page each.

1. Describe the main advantages and limitations of survey data.
2. What is trend projection, and why is this method often used in economic forecasting?
3. Differentiate accounting cost and economic cost with an example.
4. How do firms determine the optimum level of inventory?
5. Discuss the basic principles of capital budgeting.
6. What is capital rationing? Why do company's resort to capital rationing? How do they do it?
7. What is the payback method of investment appraisal? How might the payback period be determined?
8. Discuss Horwicz's optimism-pessimism criterion.
9. What is sensitivity analysis?
10. What are the prerequisites for price discrimination by a monopolist?
11. Explain peak-load pricing with suitable examples.
12. What are the factors determining the level of profit mark-up by firms?
13. Describe discounted cash flow methods.
14. The U-shapes of the short-run and long-run average costs curves are both based on the operation of the law of diminishing returns. Explain.

(10 × 2 = 20 weightage)

Part C (Essay Questions)

Answer any three questions not exceeding three pages each.

1. Why do the NPV, PI, and IRR capital budgeting decision rules sometimes provide conflicting rank orderings of investment project alternatives?
2. Explain the decision tree analysis. What is the value of decision trees in managerial decision-making?
3. What are the criteria for a good forecasting method? Explain the various methods of demand forecasting with their relative merits and demerits.
4. Discuss at least five types of pricing strategies followed by imperfectly competitive firms.
5. Evaluate the various approaches to dealing with the problem of uncertainty in appraising investment proposals.

(3 × 4 = 12 weightage)