

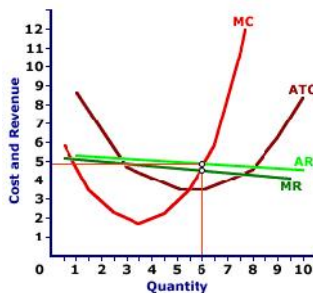
Internal Assessment Test – III

Sub:	Economics for managers						Code:	16MBA12	
Date:	DD / MM / YYYY	Duration:	90 mins	Max Marks:	50	Sem:	I	Branch:	MBA

1 a) Monopoly: A monopolist is a single seller in the market. The firm dominates the price and output since being the single firm and also resorts to maximum profit. Monopolist also engages in price discrimination and tries to extract the maximum consumer surplus.

b) The role of advertisement in monopolistic firms:

Advertising is commonly used by firms operating under monopolistic competition as a way to create product differentiation and thus to acquire some degree of market control and thus charge a higher price.



2. Inflation is defined as persistent rise in prices in the economy. While this may not be a good news for consumers, however the mainstream economist explain inflation or moderate rise in prices to be essential to trigger the growth in the economy.

Moderate rise in prices act as an incentive to the manufacturers and traders to engage in productive activities with an aim of earning higher income.

The two main types of inflation are demand –pull inflation and cost push inflation.

Indian economy till recently faced cost push inflation because of structural rigidities in the economy.

However after the fruits of liberalization and the advent of service sector India also has been witnessing demand pull inflation which is due to the excessive purchasing power the hands of middle and upper middle income groups.

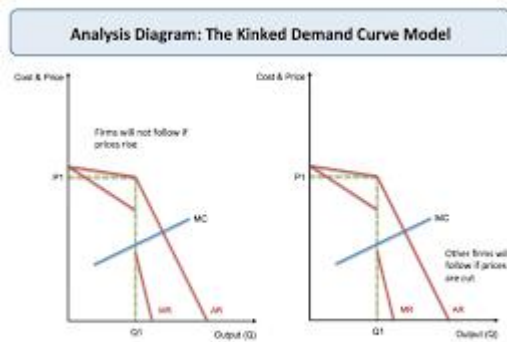
3 a) Fiscal and monetary policy:

Fiscal policy refers to the policy of the government with regard to public expenditure, revenue and public debt.

Monetary policy refers to the policy of the apex bank with regard to credit supply and growth and economic stabilization policies.

b) Kinked demand curve: oligopolistic industries exhibit an appreciable degree of price rigidity or stability. In other words, in many oligopolistic industries prices remain

sticky or inflexible, that is, there is no tendency on the part of the oligopolists to change the price even if the economic conditions undergo a change. The demand curve facing an oligopolist, according to the kinked demand curve hypothesis, has a 'kink' at the level of the prevailing price. The kink is formed at the prevailing price level because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic.



If the firm raises the price there is a fear of losing the customers and if reduces the prices the other firms would follow and the share of profits for all the firms would decline .hence the prices remain sticky.

#### 4 ) Role played by small scale industries in India

In a developing country like India, the role and importance of small-scale industries is very significant towards

- a) poverty eradication,
- b) Employment generation,
- c) Rural development
- d) And creating regional balance in promotion and growth of various development activities.

It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small-scale sector is more than five times to that of the large-scale sector.

5 a) A cartel is an organization created from a formal agreement between a group of producers of a good or service to regulate supply in an effort to regulate or manipulate prices.

## **b) Methods of national income:**

### 1. Product method.

First, we estimate the gross value of domestic output in the various sectors of production; then we determine the cost of materials used and of services rendered to these sectors by other sectors of production and also the annual value of the physical depreciation of the plants and equipment used in these sectors; and then we deduct these costs and depreciation value from the gross value of production to derive the net value of domestic output.

### 2. Income method.

Earnings of the self-employed persons, dividends of the shareholders and undistributed corporate profits, rent of land, factories and business premises, interest on capital and earnings of public enterprises. The income so estimated under the various heads are then added together to arrive at an estimate of the total national income.

### 3. Expenditure method.

a) Personal consumption expenditure of households;

(b) The gross private domestic investment, i.e. business spending on capital goods;

(c) The net foreign investment, i.e. net spending by foreign nationals, firms and governments for the country's goods and services.

## **Section B**

1. Demonetization in India put a cap on the Rs 500 and Rs 1000 note .This required the people to submit their old notes in the Banks.

The effect of this was that banks were flooded with the deposits which has been reflected in the form of lower interest rates.

2. Fiscal measures by government included

a) No toll tax in national highways.

b) Zero withdrawal charges in ATMs.

c) parking at the airports wavered.