

**COMMONWEALTH EXECUTIVE
MBA/MPA PROGRAMME**

Term-End Examination

December, 2007

**C-5 : ECONOMIC ENVIRONMENT OF
BUSINESS**

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

Note : Attempt any **three** questions from Section A and
all **four** questions from Section B.

SECTION A

1. What are the areas of business where you would like to accept government intervention ? Give reasons in support of your answer. 20

2. Explain the concepts of total cost, average cost and marginal cost. Comment on the shape of these cost curves spelling out the economic reasoning behind the shapes. 20

3. What do you think is the central idea behind the formulation of kinked demand curve model ? Show with the help of a diagram how equilibrium is attained in this model. 20

4. How would you use the insights gained through quantity theory of money to explain inflationary situation in an economy ? Discuss the process through which you arrive at your conclusion. 20

5. Discuss the use of aggregate demand and aggregate supply formulations in the determination of price level and real output (GDP).

20

SECTION B

6. (a) The following table gives the labour content in one unit of output of X and Y in two countries Home and Foreign. Find the commodities having comparative advantage for trade between the two.

Country	X	Y
Home	$\frac{1}{12}$	6
Foreign	1	$\frac{1}{12}$

- (b) From the data given below, compute (i) nominal and real GDP, and (ii) rate of inflation.

Commodity	Price (Rs.)		Quantity (Rs.)	
	Base year	Current year	Base year	Current year
Bread	1.00	1.25	100	100
Shirt	6.00	3.00	10	12

5+5

7. (a) Rate of exchange (E), Prices (P and P*) for home country and foreign country are given for two years in the following table. Find the real exchange rate appreciation or depreciation.

Year	E	P	P*
2005	1.7	1.3	1.4
2006	1.6	1.5	1.8

- (b) Find the break-even output and contribution to margin if you are given the total revenue (TR) and total cost (TC) and follows :

$$TR = 60 q$$

$$TC = 50 + 20 q$$

5+5

8. (a) Write short notes on the following :

- (i) Price discrimination
- (ii) Investment multiplier

- (b) Given the price and quantity demanded data in the following table, find the price elasticity in the range of demand 30 to 40.

Price (Rs.)	Quantity Demanded (kg)
4	10
3	20
2	30
1	40

5+5

9. (a) If you are given marginal rate of technical substitution of capital for labour to be 2 and marginal productivity of labour as 6, find the marginal productivity of capital.

- (b) Distinguish between economies of scale and economies of scope.

5+5