

2007

COMMERCE

FIRST PAPER

(Managerial Economics)

Full Marks: 80

Time: 3 hours

The figures in the margin indicate full marks for the questions

PART-A

Answer all questions

1. Indicate the most appropriate answer from the multiple choices given below each question: 2×5=10

- (a) Opportunity cost is a term which describes
- (i) a bargain price for a factor of production
 - (ii) costs related to an optimum level of production
 - (iii) average variable cost
 - (iv) None of the- above
- (b) According to 'profit maximisation theory' of the firm, management decides
- (i) output level which maximises revenue
 - (ii) output level which minimizes cost
 - (iii) output level which maximises the difference between revenue and cost
 - (iv) None of the above
- (c) Demand for a product should have the following prerequisite
- (i) Desire for the commodity
 - (ii) Ability to buy
 - (iii) Willingness to pay
 - (iv) All of the above
- (d) The Cobb-Douglas production function assumes that the elasticity of substitution is
- (i) one
 - (ii) two
 - (iii) three
 - (iv) None of the above
- (e) Shut-down point is one where a firm
- (i) cannot reach a no-profit-no-loss position
 - (ii) can cover only the fixed cost
 - (iii) cannot cover the variable cost
 - (iv) cannot cover the fixed cost

2. Write short notes on any four:

3×4=12

- (a) Incremental cost

- (b) Cross-elasticity of demand
 - (c) Sunk cost
 - (d) Economic order quantity
 - (e) Cost-plus pricing
3. Answer any two questions: 5×2=10

- (a) Distinguish between Economic profit and Accounting profit.
- (b) What are the limitations of pay-back period method of investment appraisal?
- (c) Distinguish between Autonomous demand and Derived demand.

PART-B

Answer any three questions

4. "Managerial economics bridges the gap between economic theory and business practises." Discuss. 16
5. Why is demand analysis important for successful production planning and capital expansion? Discuss. 16
6. Explain the concept of production function and give its economic significance. 12+4=16
7. What are the determinants of cost behaviour? Enumerate the different approaches for estimating cost functions. 6+10= 16
8. Is 'perfect competition' a possible market situation in any of the economies of the world? Give reason in support of your answer. 16
9. The initial investment of a project is Rs1,00,000 and it generates cash in flows as follows .

		Rs
1st	year	40,000
2nd	"	30,000
3rd	"	50,000
4th	"	20,000
5th	"	15,000

You are required to-

- (a) find out the pay-back period;
- (b) calculate the accounting rate of return;
- (c) calculate the net present value at 10% discount. 4+4+8= 16