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**POST GRADUATE DIPLOMA IN GLOBAL  
BUSINESS LEADERSHIP (PGDGBL)**

**Term-End Examination**

**June, 2011**

**MGB - 006 : ECONOMIC FRAMEWORK FOR  
BUSINESS DECISIONS**

*Time : 3 hours*

*Maximum Marks : 100*

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*Note : Answer Any Five questions. All questions carry equal marks.*

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1. 'Effective information processing for decision making requires a fundamental understanding of basic economic relations.' How does economic analysis aid decision making in business ? 20  
Elucidate your answer in light of the above statement.
  
2. (a) How can the equimarginal utility principle help a student in deciding how to distribute his pocket money on various expenses for satisfying his wants ? 10  
(b) Draw an indifference curve for a risk-averse (avoiding risk) investor, and explain the features of the curve. 10

3. What can be the sources of economies of scale ? 20  
Under what conditions will returns to scale show a diminishing pattern ?
4. A company that manufactures ice-cream, on reviewing its pricing policy for two variants of its ice-cream, namely cones and bars, finds that it has been pricing cones at higher prices than bars, since it has traditionally cost the company more to produce ice-cream in cones. However, owing to the introduction of new technology, it has now become possible to produce ice-cream in cones at lesser cost than bars. Bars, on the other hand, have become costlier to produce. Accordingly, the company changes its price-structure, and increases the price of bars, while lowering the price of cones.  
Surprisingly, the company finds no increase in the sales of cones, whereas the sale of bars decreases. Use your knowledge of economics to analyse the strange response of the market to the price change. 20
5. Explain *any two* of the following : 10x2=20
- (a) Difference between GDP and GNP
  - (b) Real and Nominal GDP
  - (c) NNI and GNI

6. What are business cycles ? Can lead indicators in business cycles be used as predictors of price fluctuations ? 20
  7. What are price indices ? Explain any two price indices used in the Indian economy. 20
  8. Explain the importance of reserve ratios and bank rate, as well as repo/reverse repo rate as instruments of monetary policy. 20
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