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COMMONWEALTH EXECUTIVE MBA/MPA PROGRAMME

Term-End Examination

December, 2010

E - 5 : MANAGERIAL ECONOMICS

Time : 3 hours

Maximum Marks : 100
(Weightage 70%)

Note : *Answer any five questions. All questions carry equal marks.*

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1. (a) Why is the individual demand curve for a commodity sloped downward ? Explain.

   (b) How does the substitution effect contribute to the downward slope of the consumer's demand curve ? Illustrate.

   (c) How does the income effect contribute to the downward slope of consumer's demand curve ? Illustrate.

2. Establish the relationship between average product, marginal product and total product in the short run. How do these illustrate the application of the law of variable proportion to the firm ?

3. (a) Discuss the relationship between Managerial Economics and Macro economics.

   (b) How does the theory of the firm differ from short - term profit Maximization ? Explain.

4. A firm's demand function is $Q = 16 - P$ and its total cost function is defined as $TC = 3 + Q + 0 - 25Q^2$. Use these two functions to form the firm's profit function and then determine the level of output that yields the profit maximum. What is the level of profit at the optimum ?

5. The total and marginal cost functions for a firm are :

   $TC = 200 + 5Q - 0.04Q^2 + 0.001Q^3$

   $MC = 5 - 0.03Q + 0.003Q^2$

   The president of the company determines that knowing only these equations is inadequate for decision making. You have to do the following.

   (a) Determine the rate of level of fixed cost (if any) and equations for average total cost, average variable cost and average fixed cost.

   (b) Determine the rate of output that results in minimum average variable cost.

   (c) If fixed costs increase to Rs.500 what output rate will result in minimum average variable cost ?

6. What are the features of a perfectly competitive market ? Explain the perfectly competitive industry when :

   (a) firms enter the industry.

   (b) firms leave the industry.

7. Write short notes on the following :

   (i) Risk premium.

   (ii) Production in the short run.

   (iii) Isoquants.

   (iv) Single Firm versus the market.

   (v) First degree price discrimination.