

COMMONWEALTH EXECUTIVE
MBA/MPA PROGRAMME

Term-End Examination

June, 2010

E-05 : MANAGERIAL ECONOMICS

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

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

1. Construct the AFC and AVC curves of a firm. 20
Explain their slopes. Show how to derive the ATC curve from average fixed and average variable cost curves. If the price of the variable factor rises, how are the three cost curves affected. Explain.
2. Discuss the Laws of Returns to Scale and describe 20
the three stages of returns to scale.
3. (a) What are the basic differences between the 20
pure monopolist and perfectly competitive firm ? What basic assumptions do we make in order to determine the pure monopolist's best level of output ?

(b) Explain the kinked demand curve model of oligopoly.

4. A company has the following short run total cost schedules : 5x4=20

Q	0	1	2	3	4	5	6	7	8	9	10	11
TC	100	106	109	110	112	115	119	124	130	137	145	155

- (a) What is the firm's average fixed cost when $Q = 5$?
- (b) What is the firm's average variable cost when $Q = 4$?
- (c) What is the firm's average total cost when $Q = 4$?
- (d) What is the firm's marginal cost when $Q = 10$?
- (e) At what level of output does the firm begin to experience diminishing returns ?
5. The demand curves of commodities x and y are given by $P_x = 6 - 0.8q_x$ and $P_y = 6 - 0.4q_y$ respectively. Show that at price $p = 2$, the two curves have the same elasticity of demand. 20
6. Distinguish between income effect and substitution effect. Examine their impact on the demand for an inferior good. 20

7. Write short notes on the following : 4x5=20

- (a) Risk and Diminishing marginal utility.
 - (b) Factors that determine price elasticity.
 - (c) Economic profit versus accounting profit.
 - (d) Porter's five forces model.
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