CA FOUNDATION

MARATHON

JUNE 2024

Business Economics

By- LOVE KAUSHIK SIR

Chapter Name

short-Trick

Nature and Scope of Business Economics

Topic: Unit – 1 (Introduction)

(1) Economics owes its origin to the greek word **"Oikonomia" which means management of household.**

(2) There are 2 Fundamental fact of Economy

(i) Human wants are unlimited

(ii) Means to satisfy these unlimited wants are relatively scarce

Resources

Wants > Resources → Limited

(3) Business Economics : It is application of economic analysis to make decisions in business operations. This concept was given by Joel dean in 1951.

QUESTION

#Q. What implication(s) does resource scarcity have for the satisfaction of wants?

A. Not all wants can be satisfied

B. We will never be faced with the need to make choices

C. We must develop ways to decrease our individual wants

D. The discovery of new natural resources is necessary to increase our ability to satisfy wants

QUESTION

#Q. Human wants are in response to satisfy their wants?

A Unlimited

B Limited

C Scarce

D Multiple

Topic: Unit – 1 (Introduction)

Business Economics means decision making.

(i) Business economics means use the economic analysis to make decisions involving the best use of an organisation's scarce resources.

(ii) Business economics are also known as Managerial economics.

(iii) Business economics is also useful for **NGO and Non-profit organisation as well.**

Topic: Unit – 1 (Introduction)

Types of Economics

Micro Economics

OR

Theory of pricing

OR

Theory of slicing

Macro Economics

OR

Theory of Income & Employment

OR

General Equilibrium Analysis

OR

Theory of Lumping

MICRO

individual

MACRO

Aggregate → overall

Totality

Topic: Micro Economics/Price theory

1. Study at individual level
2. We focus on small number of groups
3. We mainly study the following factors
   (a) Product pricing
   (b) Consumer behaviour
   (c) Factor pricing
   (d) Economic condition of a section of people
   (e) Behaviour of Firm
   (f) Location of Industry

Industry | mkt.
↓
Single good

Topic: Macro Economics

1. Study of Economy ~~at its~~ as a whole level
2. Aggregate study
3. We study mainly the following factors
   (a) Overall level of output ⇒ GDP
   (b) National Income
   (c) General price level
   (d) Interest rate
   (e) Balance of trade ⇒ $V_x - V_m$
   (f) Balance of payments
   (g) External value of currency → foreign Exchange Rate
   £ 84 : $ 1

Topic: Macro Economics

(h) Overall level of savings

(i) Overall level of investment

(j) Level of employment

(k) Rate of economic growth

(l) Export, Import and foreign investment

Topic: Macro Economics Vs Macro Economics

Micro Economics	Macro Economics
(1) It is study of individual economic unit of an economy	It is the study of economy as a whole and its aggregates
(2) It deals with individual income, individual prices and individual output etc.	It deals with national income, general price rural and national output etc.
(3) Its central problem is price determination and allocation of resources	Its central problem is determination of rural income
(4) Its main tools are demand and supply of particular commodity / factor	Its main tools are aggregate demand and aggregate supply of economy as a whole.
(5) It discusses how equilibrium of a consumer, a producer or an industry is attained.	It is concerned with determination of equilibrium level of income and employment.

1776 → Adam Smith

Political Economy → Economics

Topic: Nature of Business Economics (SPAM-MINT)

- **Business Economics is a Science**
  1. Science means Systemized body of knowledge which establishes cause and effect relationship.
  2. Economics provides tools like statistics, econometrics, mathematics etc.
  3. Business economics integrates the tools in to decision making

- **Business economics is an art**

  It involves practical application of rules and principles.

Topic: Nature of Business Economics (SAMP-MINT)- Love sir's way of learning

- Business Economics largely Based on Micro Economies
- Business Economics incorporates tools of Macro economics (doesn't operate in vacuum)
- Business Economics use the theory of markets and private enterprise

DD & SS

QUESTION

#Q. Business Economics largely based on _____.

A Micro Environment

B Macro Environment

C Both (A) and (B)

D None of the above

QUESTION

#Q. Business Economics involves the elements of _____.

A. Micro Environment

B. Macro Environment

C. Both (A) and (B)

D. None of the above

C

Topic: Nature of Business Economics (SAMP-MINT)- Love sir's way of learning

- **Business Economics is inter-disciplinary in approach**

  It uses multiple tools such as :

  (a) Mathematics

  (b) Operational Research

  (c) Management theory

  (d) According, marketing, finance

  (e) Statistics and econometrics

- **Business Economics is Pragmatic in approach** as it tackles practical problems which the firm faces in the real world.

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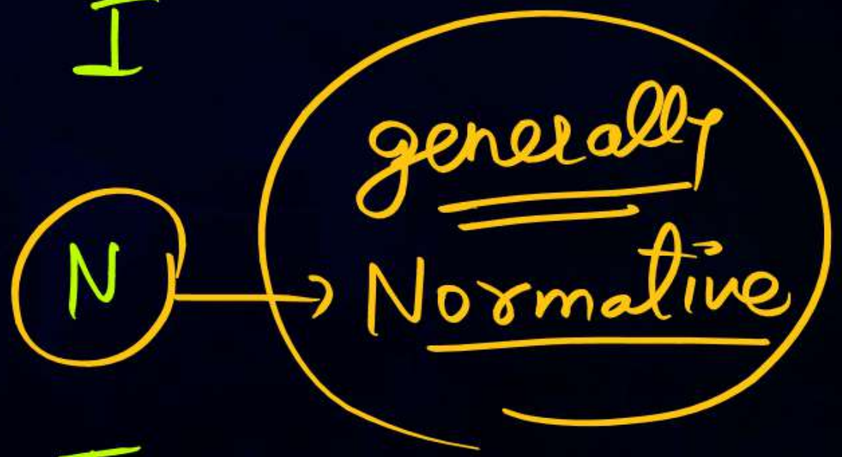

QUESTION

#Q. The Business Economics incorporates tools from other disciplines such as Mathematics, operations Research, Management theory, Accounting, etc. Therefore, Business Economics is

(A) Intra-disciplinary

(B) Inter-disciplinary

(C) Multi-disciplinary

(D) Flexi-disciplinary

QUESTION

#Q. Business Economics is _____ in its approach as it tackles practical problems which the firm faces in the real world.

A Scientific

B Pragmmatic ★ B

C Theoretical

D Mathematical

Topic: Nature of Business Economics (SAMP-MINT)- Love sir's way of learning

- **Business Economics are positive and Normative in Approach.**

Positive Economics	Normative Economics
1. It refers to the economics studies "What is"	It refers to the economics studies "What should be" or "What ought to be"
2. Its statements can empirically verified	Its statements may or may not be verified
3. It depends upon scientific logics or facts	It depends on ethical logic or values.
4. It studies the cause & effect relationship.	It depends on ethical logic or values
5. It is objective & quantitative in nature.	It is subjective & descriptive in nature
6. **Example** (i) India is over populated (ii) Demand falls when price rises	**Example** (i) Rich people should be more taxed (ii) Govt. should increase expenditure on health care.

Scope ⇒ दायरा

↓

Area of use

Topic: Scope of Business Economics

(i) Internal Issues (Operational Issues) → MICRO

(ii) External Issues (Environmental Issues) → MACRO

- **Internal Issues**

1. Also known as operational issues
2. Issues arise with in the organisation
3. With in the control of management
4. Internal in Nature

Topic: Scope of Business Economics

Internal

5. Issues :

(a) Choice of Business

(b) Size of business

(c) Productive decision

(d) Technology

(e) Pricing

(f) Sales promotion

(g) Financial management of investment

(h) Management of inventory etc.

Topic: Scope of Business Economics

- **Micro economics applied to Resolve internal issues:**
  - (a) Demand analysis and forecasting
  - (b) Production and cost analysis
  - (c) Inventory management
  - (d) Market structure and pricing policies
  - (e) Resources allocation
  - (f) Theory of capital and investment decisions
  - (g) Profit analysis
  - (h) Risk and uncertainty analysis

Topic: Scope of Business Economics

- **External Issues**
  1. Also known as Environmental issues
  2. Environmental factors affect the performance of business
  3. Micro Economics applied to Resolve these issues
  4. Following macro theories deals with external issues.

QUESTION

#Q. The operational or internal issues to which economic theories can be directly applied are related with.

A Micro Environment

B Macro Environment

C Business Economics

D Environmental Economics

Topic: Scope of Business Economics

Macro-economic theory is applied to solve external issues.

1. Types of Economic System
   - Capitalist
   - Socialist
   - Mixed
2. Stages of Business cycle
3. Government policies and Regulations
4. Banking policies and Regulations
5. Social and political environment
6. Trend in national income/employment/prices/savings etc.
7. Foreign Trade policies, fiscal policies

Unit-2

Chapter-1

- Central Problems
  - Solve
- Type of Economic System

Topic: Central Problems of an Economy

The central economic problem is further divided into four basic economic problems. These are.

(1) What to Produce? → choice of good

(2) How to Produce? → Technology → LIT (L>C), CIT (C>L)

(3) For whom to produce? → Rich, Poor

(4) What provisions (if any) are to be made for economic growth?

↓

Saving > Investment

Topic: Economic Systems & Its Types

Three types of economy: page no. 1.18

(1) Capitalist Economy

(2) Socialist Economy

(3) Mixed Economy

QUESTION

#Q. Administered prices refer to:

A. Prices determined by forces of demand and supply

B. Prices determined by sellers in the market

C. Prices determined by an external authority which is usually the government

D. None of the above

C.

↓ govt.

QUESTION

#Q. Profit motive is a key characteristic of

A Socialism

B Capitalism

B

C Mixed economy

D None of the above

QUESTION

#Q. The interference of the government is very limited in-

A Socialist economy

B Capitalist economy

C Mixed economy

D All the above

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CHAPTER 2/3/4

By - Jasmeet Sir

Chapter Name

THEORY OF DEMAND AND SUPPLY

UNIT 1 – LAW OF DEMAND AND ELASTICITY OF DEMAND

Topic : Meaning of Demand

- Desire
- Means to purchase
- Willingness to use those means for that purchase
- Quantity demanded is expressed at a given price.
- Quantity demanded is flow

Topic : Meaning of Demand

What determines demand?

- Price of the commodity

  Price increases → Demand decreases)

- Price of related commodities

  Substitute Goods → Tea Price increase and coffee Demand decrease

  Positive relation

  Complementary Goods → Pen Price increase and ink Demand increase

  Negative relation

- Disposal income of the consumer

  Income increase → Normal goods Demand Increase→Positive relation,

  Income increase → Inferior goods Demand decreases → negative relation}

Topic : Meaning of Demand

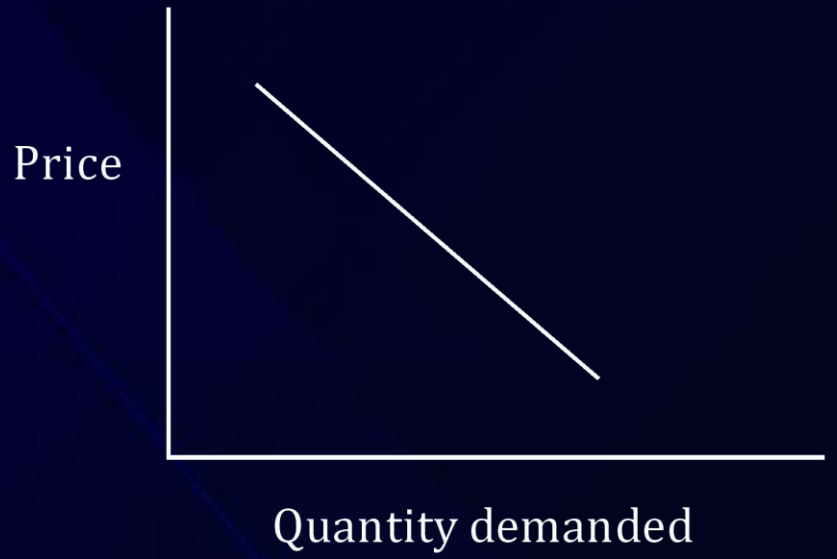
- Taste and preference of buyers
  - Demonstration effect – people buy or have things because they see that other people are able to have them.
  - Bandwagon effect – demand for a commodity is increased due to the fact that others are also consuming the same commodity.
  - Snob effect – demand for a consumer's good is decreased owing to the fact that others are also consuming
  - Veblen effect – highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption.

Topic : Meaning of Demand

- Consumer's expectations - consumer expects increase in future prices, increases in income and shortage in supply, more quantities will be demanded and vice versa.
- Other factors
  - Size of population
  - Age distribution of population
  - The level of national income and its distribution
  - Consumer credit facility and interest rates
  - Government policies and regulations

Topic : Law Of Demand

There is a inverse relationship between price and quantity demanded, ceteris paribus.



Topic : Demand function

The Demand Schedule

- ✓ Individual demand schedule - single buyer
- ✓ Market demand schedule – two or more buyer

Topic : Demand function

Rationale of the Law of Demand

- ✓ Price effect of a fall in price – already discussed above
  - Substitution effect
  - Income effect
- ✓ Utility maximising behaviour of consumers – with reduction in price consumer will more commodity as law of diminishing marginal utility concept apply.
- ✓ Arrival of new consumers – more consumer more demand
- ✓ Different uses – more uses more demand

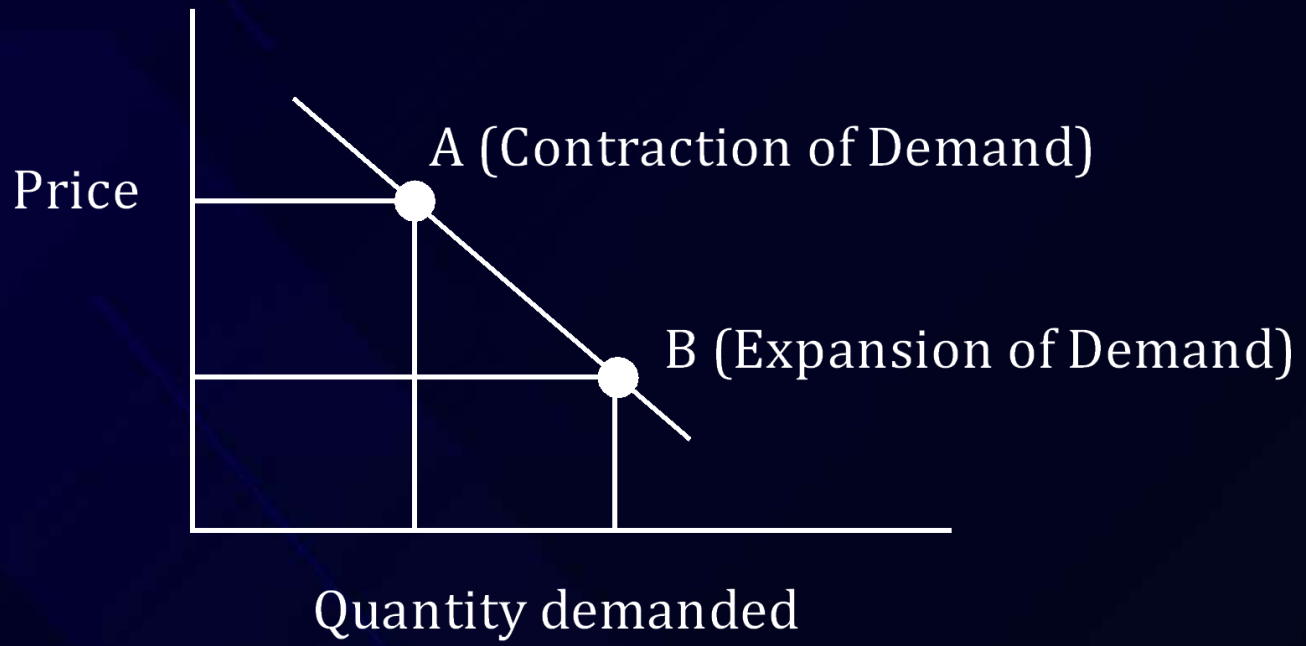
Topic : Demand function

Exception to the Law of Demand (P increases D increases)

- Conspicuous goods – prestigious goods
- Giffen goods – Sir Robert Giffen named some inferior goods as giffen goods.
- Conspicuous necessities – necessities of life
- Future expectations about prices
- Incomplete information and irrational judgement
- Demand for necessaries
- Speculative goods

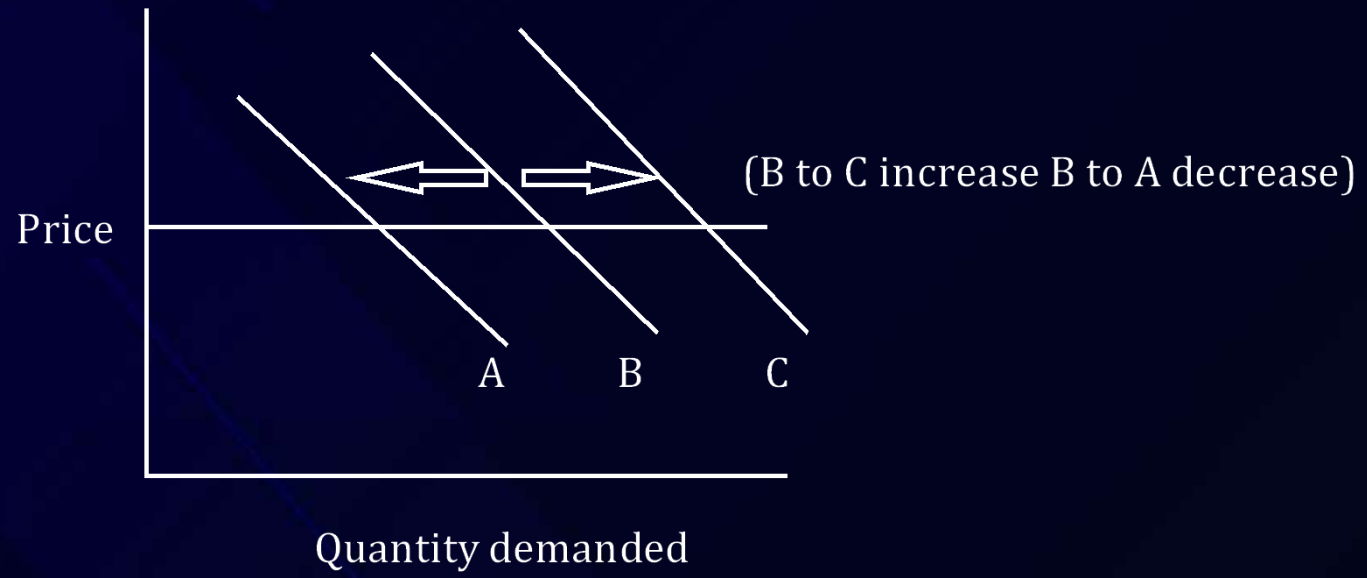
Topic : Demand function

Expansion and Contraction of Demand/movement along the demand curve (due to change in price)



Topic : Demand function

Increase and decrease in Demand/shift in Demand curve (due to other determines other than price)



Topic : Elasticity of Demand

Elasticity of demand is defined as the responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends. More precisely, elasticity of demand is the percentage change in quantity demanded divided by the percentage change in one of the variables on which demand depends.

Topic : Price Elasticity of Demand

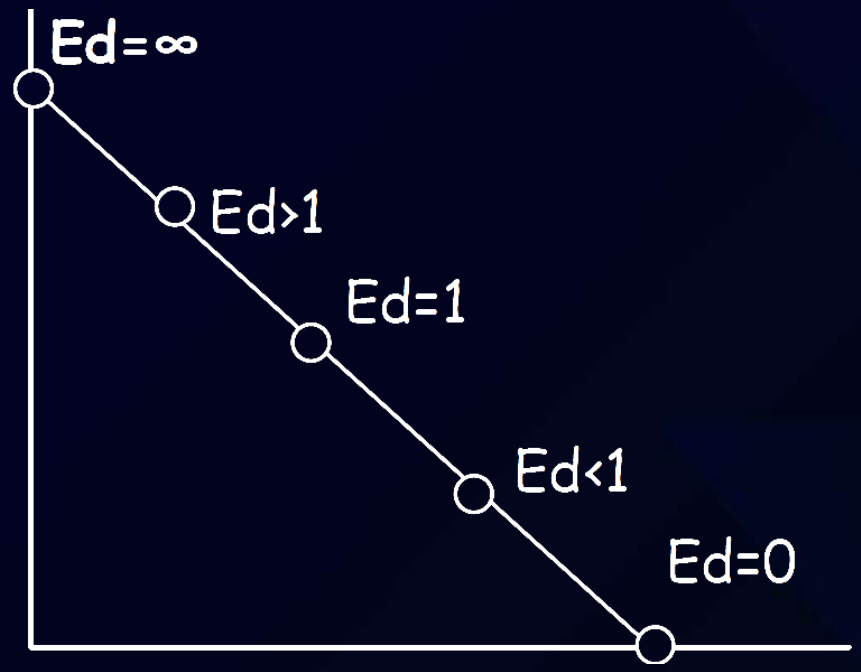
$$\text{Ep} = \frac{\%change\ in\ Quantity\ Demand}{\%\ change\ in\ Price}$$

$$Ep = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

Topic : Point elasticity

Measurement of Elasticity on a Linear Demand Curve – Geometric Method

$$= \frac{lower\ segment}{Upper\ segment}$$



Topic : Point elasticity

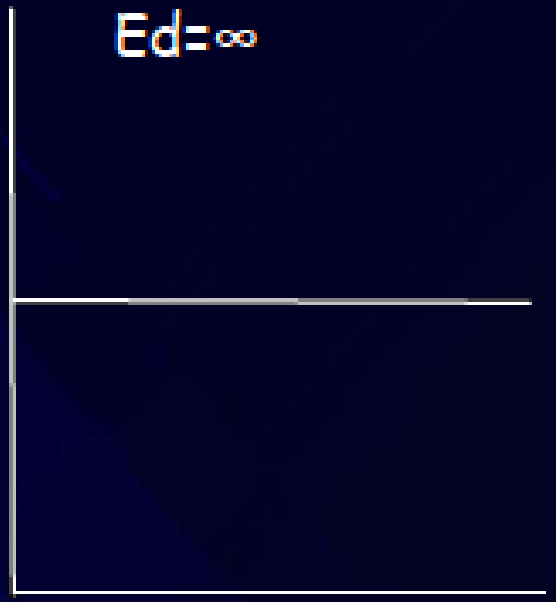
Arc Elasticity

$$\text{Ep} = \frac{Q2-Q1}{Q2+Q1} \times \frac{P2+P1}{P2-P1}$$

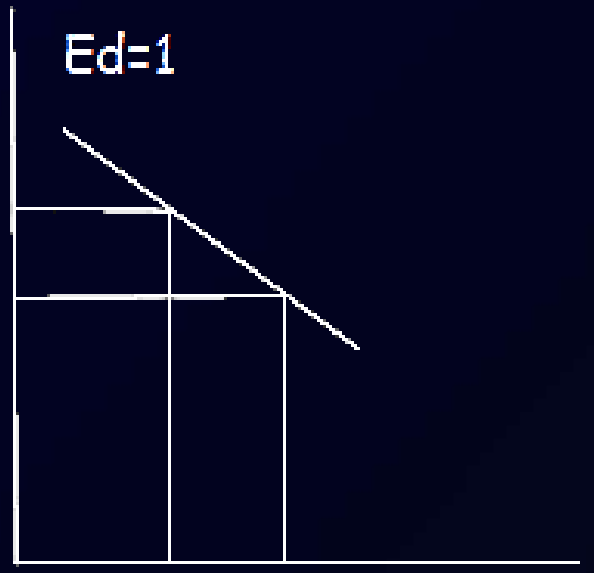
Topic : Price Elasticity of Demand

Interpretation of the numerical values of Elasticity of Demand

Perfectly inelastic



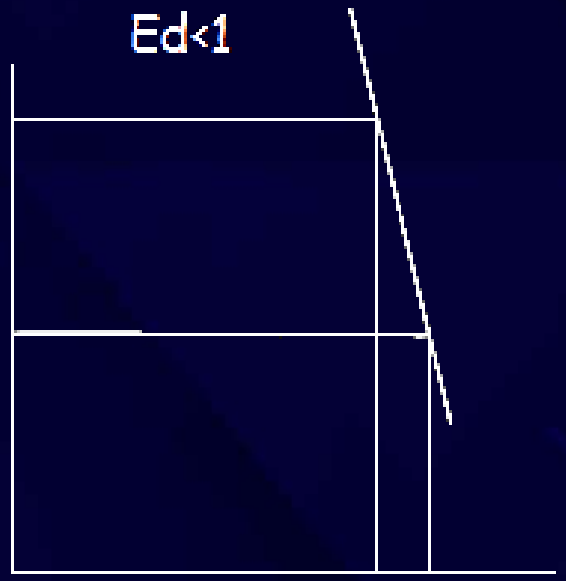
Perfectly inelastic



Unitary

Topic : Price Elasticity of Demand

Interpretation of the numerical values of Elasticity of Demand



Relatively Inelastic

Relative Elastic

Topic : Total Outlay Method of Circulating Price Elasticity

- ✓ Ed = 1 → Price increases and total revenue/total expenditure remains same
- ✓ Ed › 1 → Price increases and total revenue/total expenditure falls
- ✓ Ed ‹ 1 → Price increases and total revenue/total expenditure increase

Topic : Determinants of Price Elasticity of Demand

- Availability of substitute – more substitute elastic demand, no substitute inelastic
- Position of a commodity in the consumer budget – greater income spent more elastic and vice versa
- Nature of the need that a commodity satisfies – luxury goods elastic and necessities goods inelastic
- Number of uses to which a commodity can be put – more uses more elasticity and vice versa
- Time period – longer period elastic and short period inelastic
- Consumer habits – habit then inelastic and no habit elastic
- Tied demand – goods with very high or low range inelastic demand, middle range elastic demand
- Minor complementary goods – cheap goods with costlier goods demand is inelastic.

Topic : Income elasticity of demand

Ei = $\frac{\%\text{change in Quantity Demanded}}{\%\text{ change in income}}$

Ei = $\frac{\Delta q}{\Delta y} \times \frac{y}{q}$

Topic : Relationship between income elasticity for a good and the proportion of income spent.

- Proportion of income spent on a good remains same as income increases, the income elasticity for that good is equal to one
- Proportion of income spent on a good increases as income increases, the income elasticity for that good is greater than one
- Proportion of income spent on a good decreases as income rises, the income elasticity for that good is positive but less than one.

Income elasticity is positive then its normal goods.
If income elasticity is negative then its inferior goods.

Topic : Cross price elasticity of demand

1. Substitute product and demand –
   Price increases (X) Demand increases (Y) → upward sloping curve

2. Complementary goods
   Price increases (X) D decreases (Y) → downward sloping curve
   Ec = $\frac{\%\text{change in Quantity Demanded of X good}}{\%\text{ change in price of Y good}}$

$$Ec = \frac{\Delta QX}{\Delta PY} \times \frac{PY}{QX}$$

Topic : Cross price elasticity of demand

- Goods are perfect substitute, cross elasticity is infinite
- Goods are close substitute, cross elasticity will be positive and large
- Goods are not close substitute, cross elasticity will be positive and small
- Goods are totally unrelated, cross elasticity between them is zero

Topic : Advertising elasticity

Advertising elasticity is positive

Question

#Q. 2. Contraction of demand is the result of :

A decrease in the number of consumers.

B increase in the price of the good concerned.

C increase in the prices of other goods.

D decrease in the income of purchasers.

Question

the market demand of a commodity @ rs. 4per unit is 100 units. The price rises and as a result demand falls to 75 units. Ed = -1. find out new price

A 5

B 6

C 7

D 8

Question

#Q. Demand for a good is perfectly inelastic. What will be the change in demand if price falls from Rs.10 to Rs.5.

A. No change in demand

B. Large change in demand

C. Medium Change in Demand

D. None of above

Question

#Q. 12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:

A Shift towards left since these are substitutes

B Shift towards right since these are substitutes

C Remain at the same level

D None of the above

Question

#Q. 14. A movement along the demand curve for soft drinks is best described as :

A. An increase in demand.

B. A decrease in demand.

C. A change in quantity demanded.

D. A change in demand.

Question

#Q. In case of Giffen Paradox, slope of demand curve is:

A. Parallel To X-Axis

B. Positive

C. Negative

D. Parallel To Y - Axis

Question

#Q. What will be the impact on the demand curve of Desktop Computer when the price of laptops increase

A. Downward Movement On Demand Curve

B. Shift to left

C. Upward movement on demand curve

D. Shift to right

UNIT 2 – THEORY OF CONSUMER BEHAVIOUR

Topic : Nature of Human Wants

- ✓ Nature of Human Wants
- ✓ Wants refers to wish, desire or motive
- ✓ Wants are unlimited
- ✓ Wants differ in intensity
- ✓ Wants is satiable
- ✓ Wants are competitive
- ✓ Wants are complementary
- ✓ Wants are subjective and relative
- ✓ Wants vary with time, place, and person
- ✓ Wants may become habits and customs
- ✓ Wants are affected by income, taste, fashion
- ✓ Wants arise from multiple causes

Topic : Classification of wants

- Necessaries – essential for living
- Comforts – makes life comfortable and satisfying
- Luxuries – which are superfluous and expensive

Topic : Utility

- Utility is thus the want satisfying power of a commodity.
- Utility is subjective and relative entity.
- Marginal utility analysis propounded by Alfred Marshall
- Indifference curve analysis propounded by J.R Hicks and R.G.D Allen

Topic : The Marginal Utility Analysis

- It is a quantitative measure
- Utility is the numerical score in terms of utils
- Total utility – as the sum of utility derived from different units of a commodity consumed by a consumer
- Marginal utility – it is the utility derived from the marginal or one additional unit consumed or possessed by the individual
- MUn = TUn – TUn-1

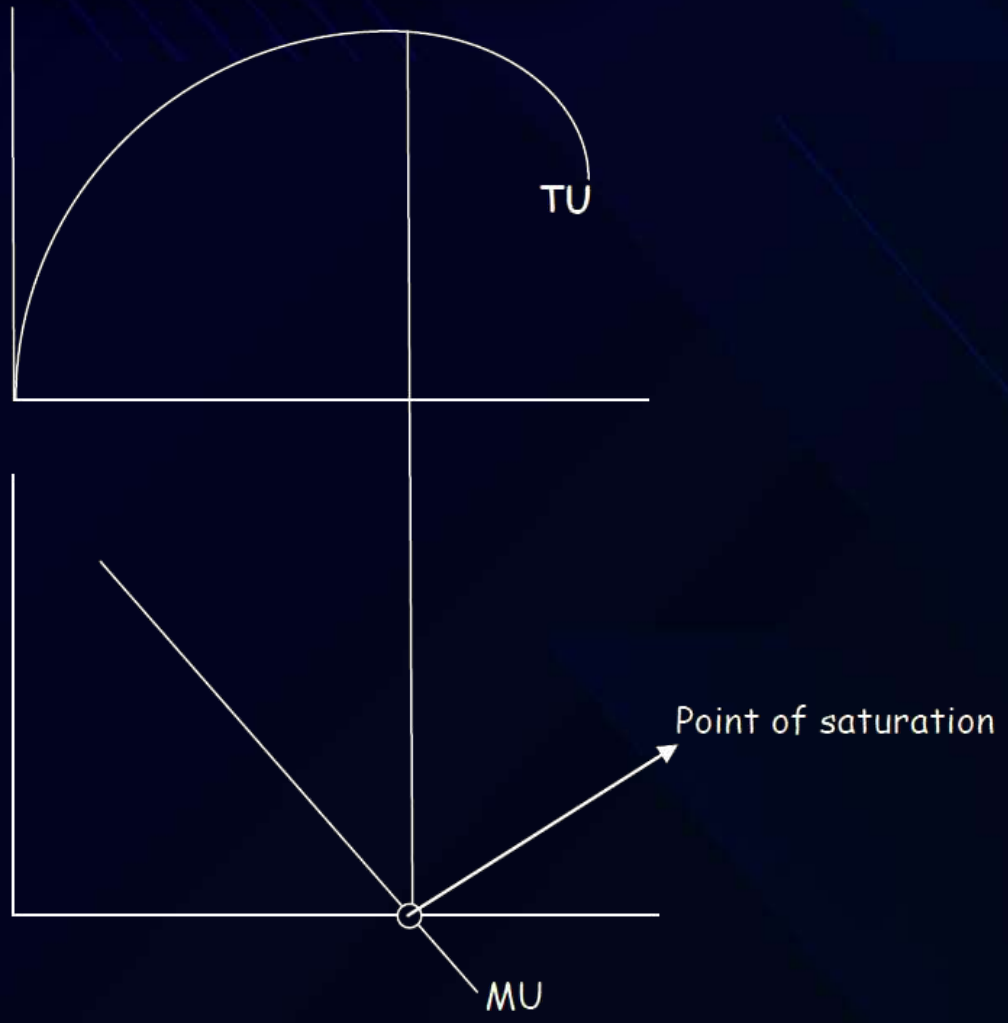
Topic : Assumption of marginal utility analysis

- ✓ Rationality
- ✓ Cardinal measurement of utility
- ✓ Money is the measuring rod of utility
- ✓ Theory assumes all the other factors constant
- ✓ Continuity in consumption
- ✓ Units are homogenous or identical in nature
- ✓ Standard units
- ✓ Marginal utility of money remains constant
- ✓ Independent utility
- ✓ Ignores complementarity between goods.

Topic : The Law of Diminishing Marginal Utility

As consumer increases the consumption of any one commodity keeping constant the consumption of all other commodity, the marginal utility of the variable commodity must eventually decline.

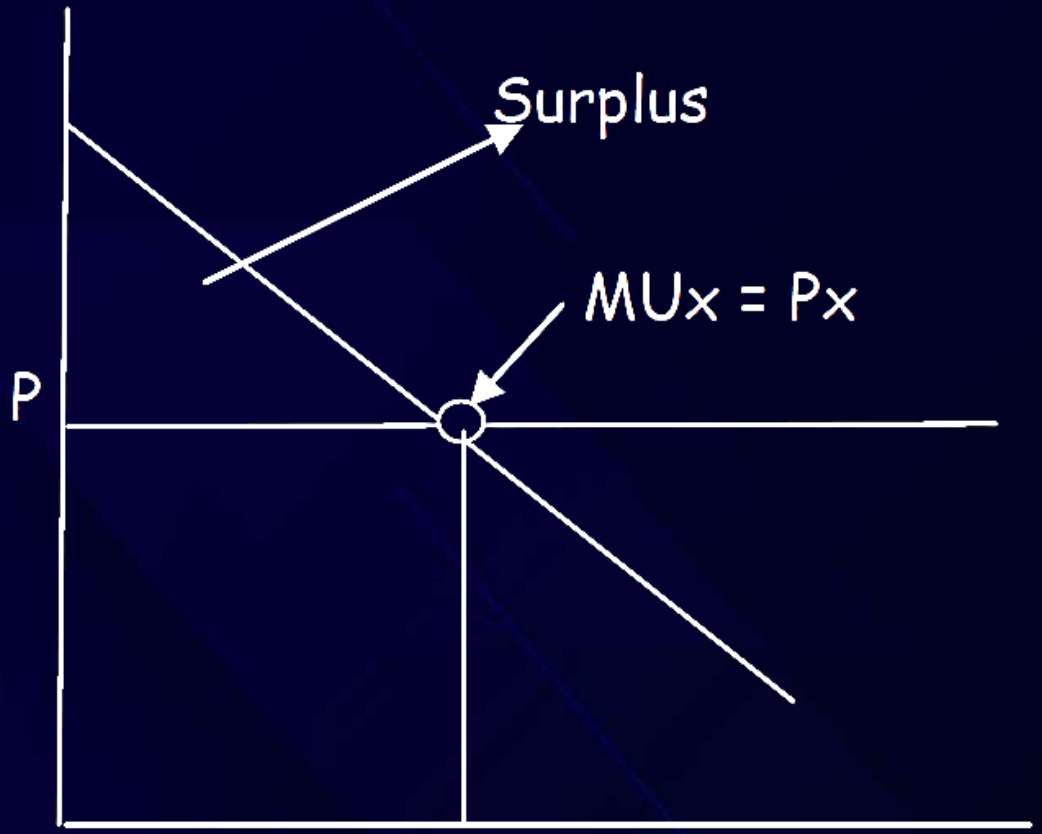
- ✓ TU rises as long as MU positive but at diminishing rate
- ✓ MU diminishes
- ✓ MU is zero TU is maximum (saturation point)
- ✓ MU is negative, TU is diminishing



Topic : Limitation and Exceptions of the Law of Diminishing Marginal Utility

- Rigorous assumption
- Not independent
- Law is not universal
- Prestigious goods
- Hobbies, rare collection, creative art, painting, music, poetry etc
- In case of habbit
- People with miserly behavior

Topic : Consumer equilibrium in single commodity case



$$\frac{MUx=MUx}{Px}$$

Topic : Consumer equilibrium in single commodity case

Consumer equilibrium in two commodity case (Equi-Marginal Utility)

$$\frac{MUX}{PX} = \frac{MUY}{PY} = \text{MUM}$$

Topic : Consumer surplus

Marshall defined the concept of consumer surplus as the “excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay”, is called consumer surplus.

Topic : Applications

- ✓ Consumer surplus is a measure of the welfare that people gain from consuming goods and services
- ✓ Helps in setting price
- ✓ Large scale investment decision involve cost benefit analysis which takes into account the extent of consumer surplus
- ✓ For raising price
- ✓ Guide to finance ministry

Topic : Limitations

- Cannot be measured precisely
- In case of necessaries, consumer surplus is infinite
- Consumer surplus is affected by availability of substitute
- No simple rule for deriving the utility scale
- Consumer surplus cannot be measured in terms of money
- Concept can be accepted only if it is assumed that utility can be measured in terms of money or otherwise.

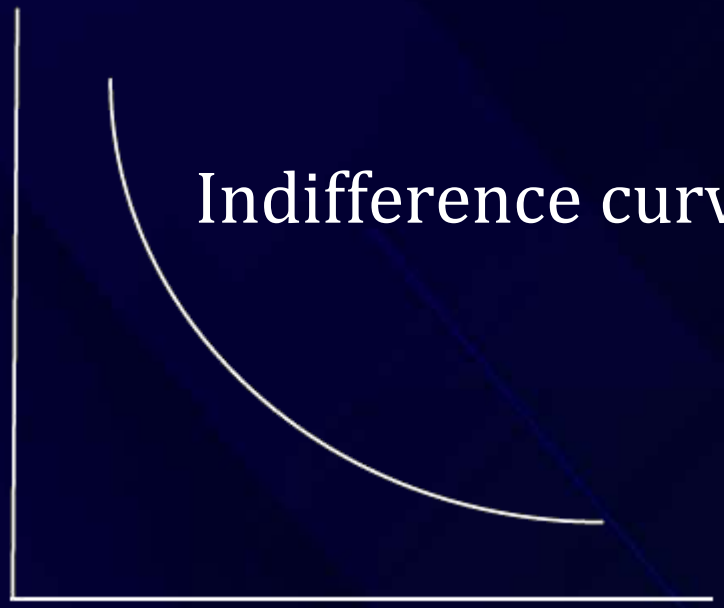
Topic : Indifference curve

Assumption underlying indifference curve approach

- Consumer knows his taste and preference
- Consumer is rational
- Ordinal concept
- Consumer choices are assumed to be transitive
- More is better assumption or the assumption of non-satiation

Topic : Indifference curves

- ✓ Is a curve which represents all those combination of two goods which give same satisfaction to the consumer
- ✓ It is also called as iso-utility curve or equal utility curve
- ✓ A set of indifference curve is known as indifference map



Topic : Marginal rate of Substitution (MRS)

- ✓ Is the rate at which a consumer is prepared to exchange goods X and Y, holding the level of satisfaction constant (i.e moving along the indifference curve)
- ✓ MRS is falling bcoz consumer want to gain more and sacrifice less. Two reasons for this –
  - ➢ Want for a particular good is satiable so that when a consumer has more of it, his intensity of want for it decreases.
  - ➢ Most goods are imperfect substitute of one another. If perfect substitute the MRS will be constant.

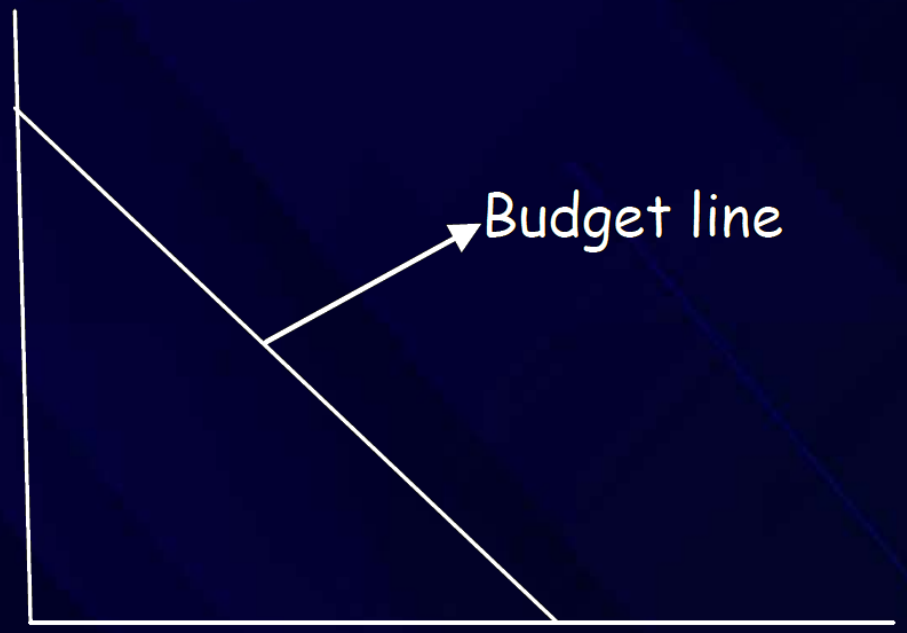
Topic : Properties of Indifference Curve

- ✓ Indifference curves slopes downward to the right
- ✓ Indifference curves are always convex to origin
- ✓ Indifference curve will be L shaped if two goods are perfect complementary.
- ✓ Indifference curve can never intersect each other
- ✓ A higher indifference curve represents a higher level of satisfaction than the lower indifference curve
- ✓ Indifference curve will not touch either axis – as it is combination of two goods.

Topic : Budget line

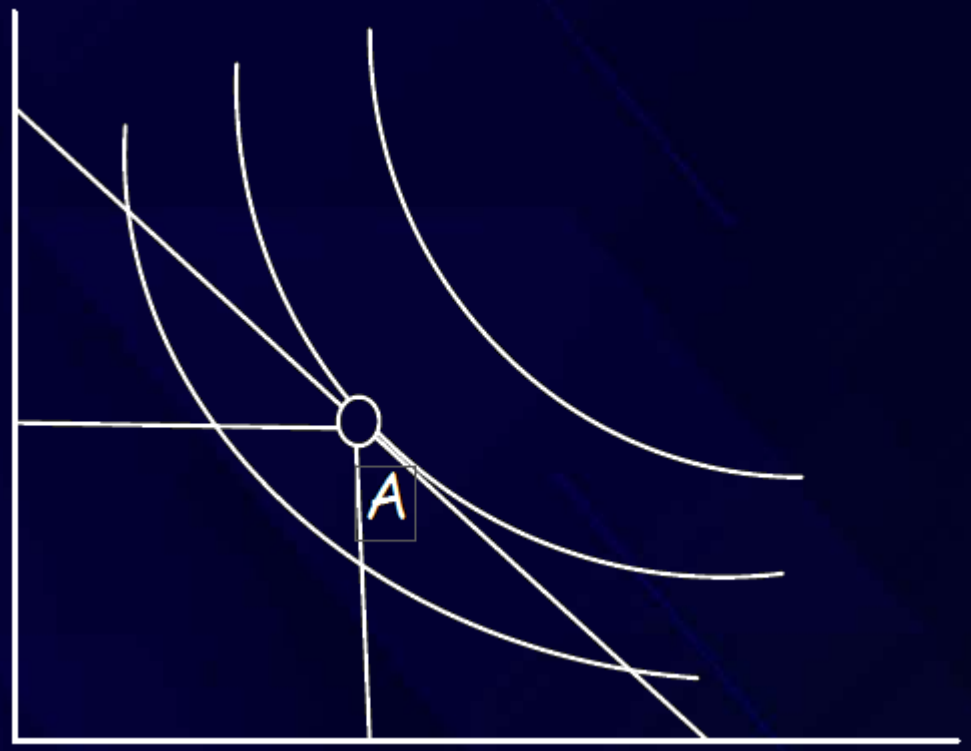
Budget line shows all the combination of two goods which the consumer can buy spending his given money income on the two goods at their given prices.

$$PxQx + PyQy = B \text{ (income)}$$



Budget line shift due to change in income and price of the goods.

Topic : Consumer equilibrium



Consumer is in equilibrium at the point where indifference curve touches the budget line

$$MRSXY=\frac{PX}{PY} \quad -$$

Topic : Assumptions:-

- Combination of two goods
- Fixed income to spent on two goods
- Prices of goods are fixed
- Goods are homogenous and divisible
- Consumer acts rationally and maximize his satisfaction

Question

#Q. Marginal Utility

A Is always Positive

B Is always Negative

C Can be Positive, Negative but not Zero

D Can be Positive or Negative or Zero

Question

#Q. Shape of Marginal Utility Curve is

A Upward Sloping

B Concave to origin

C Downward Sloping

D Straight Line

Question

#Q. What is called point of Satiety

A MU > 0

B MU < 0

C MU = 0

D None of above

#1 A consumer will purchase more of Good X than Good Y, only when

a) $\frac{MUx}{Px}$ = Mum

b) $\frac{MUx}{Px} < \frac{MUy}{Py}$

c) $\frac{MUy}{Py}$ = Mum

d) $\frac{MUx}{Px} > \frac{MUy}{Py}$

#Q. Every point on Budget line represents ….. spending by the consumer

(A) Over
(B) Under
(C) Full
(D) Any of the above

UNIT 3 – SUPPLY

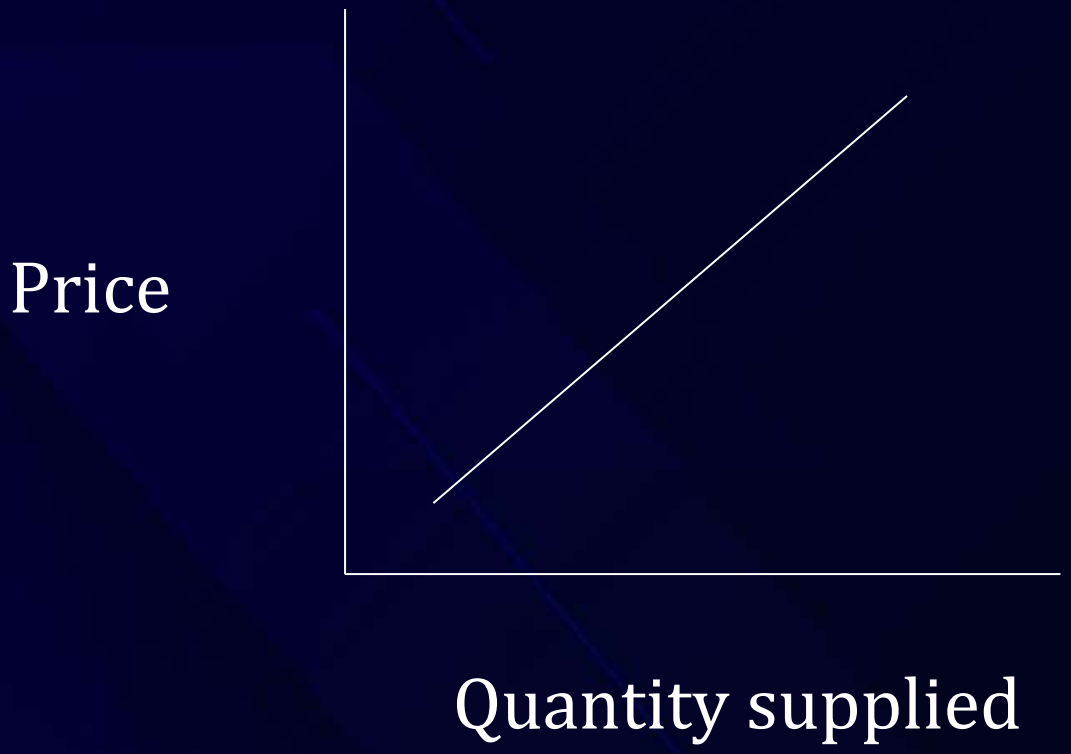
Supply refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a given period of time.

Topic : Determinants of supply

- ✓ Price of the good – Price increases Supply increases
- ✓ Prices of the related goods – Price increases of related goods, Supply increases of it
- ✓ Prices of factors of production – Cost increases Supply decreases
- ✓ State of technology – new technology Supply increases
- ✓ Government policy – taxes increases Supply decreases subsidy increases S increases
- ✓ Nature of competition and size of industry – competitive Supply increases
- ✓ Expectations – future price increase Supply decreases currently
- ✓ Number of sellers – more firms more Supply
- ✓ Other factors – govt. policies, natural factors etc.

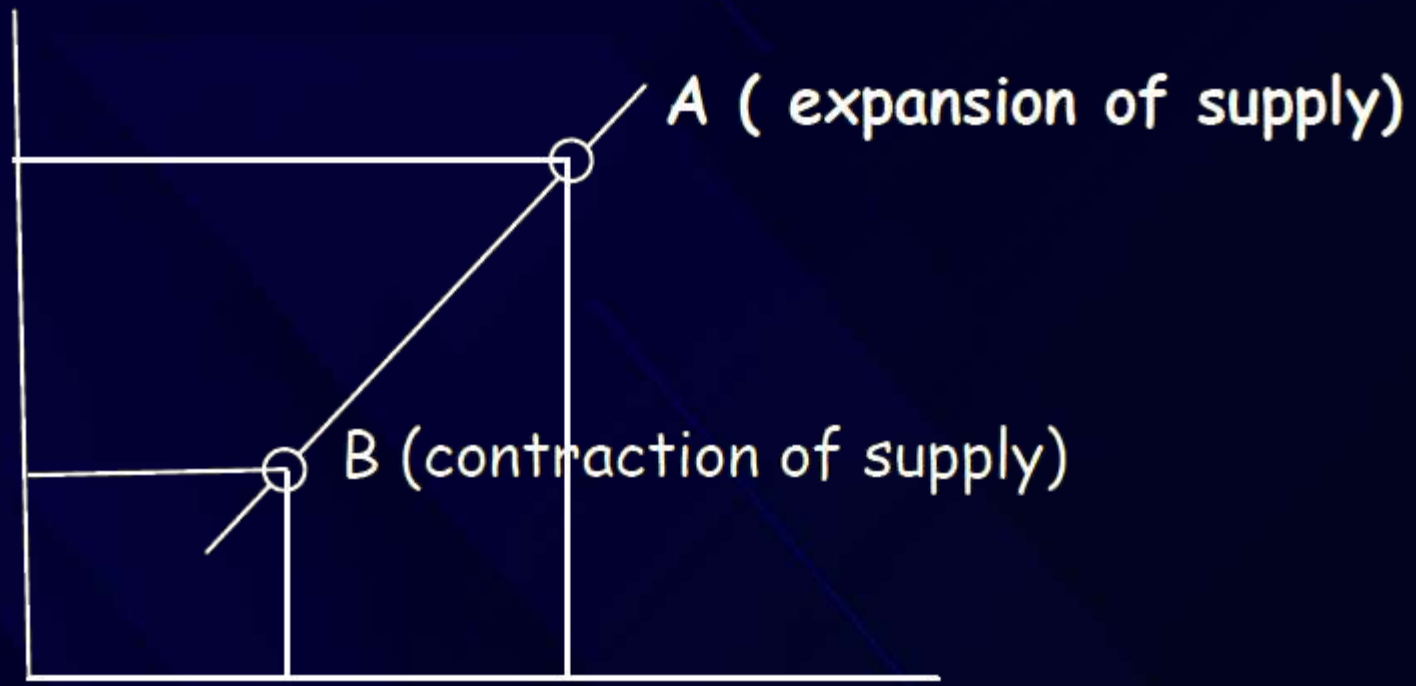
Topic : The Law of Supply

- ✓ Other things remain constant, P increases S increases and vice versa (positive relation)



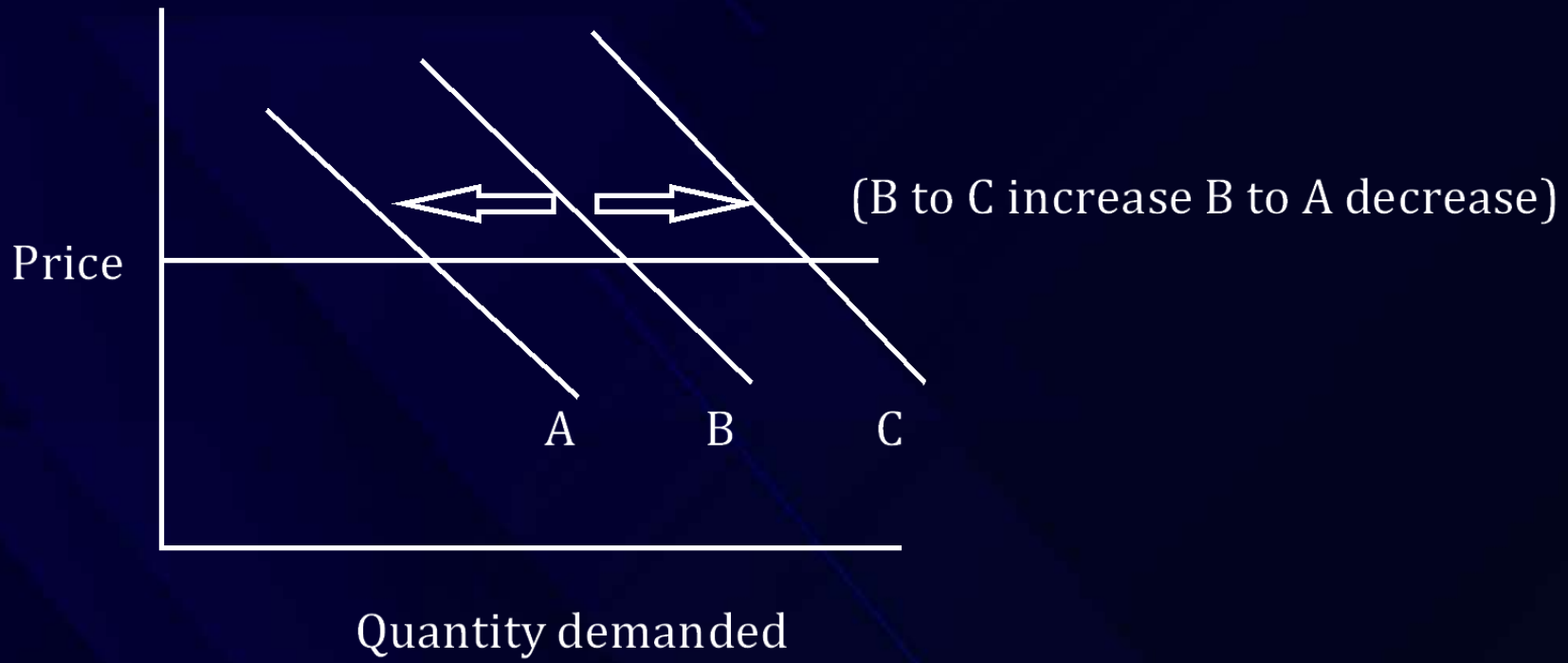
Topic : The Law of Supply

Movements on the supply curve – increase or decrease in the quantity supplied (due to price)



Topic : The Law of Supply

Shift in supply curve – increase or decrease in supply (due to change in other factors other than price)



Topic : Elasticity of supply

As the responsiveness of the quantity supplied of a good to a change in price.

$$\text{Es} = \frac{\%change\ in\ Quantity\ Supplied}{\%\ change\ in\ Price}$$

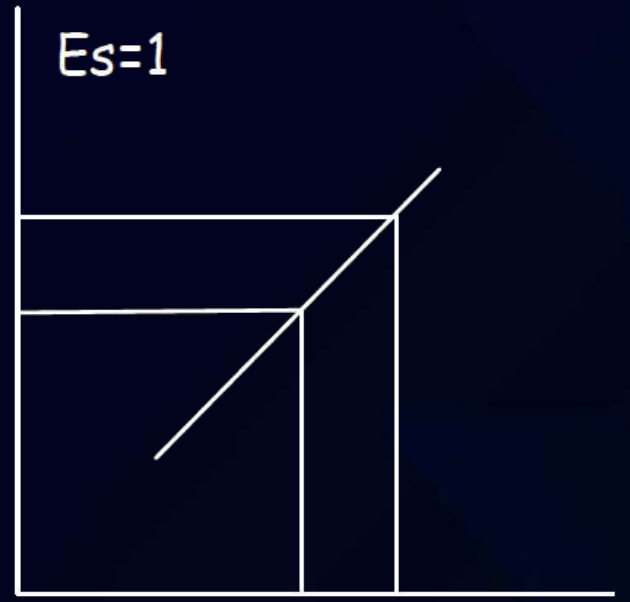
$$\text{Es} = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

Topic : Elasticity of supply

Types of supply elasticity

Perfectly inelastic

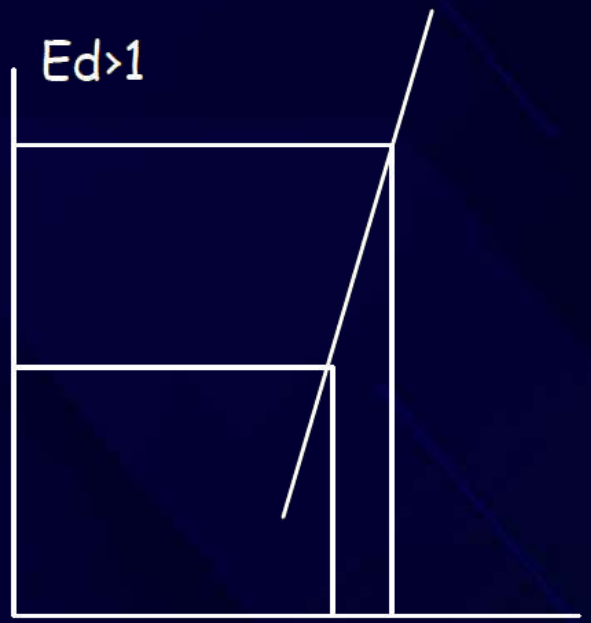
Perfectly Elastic



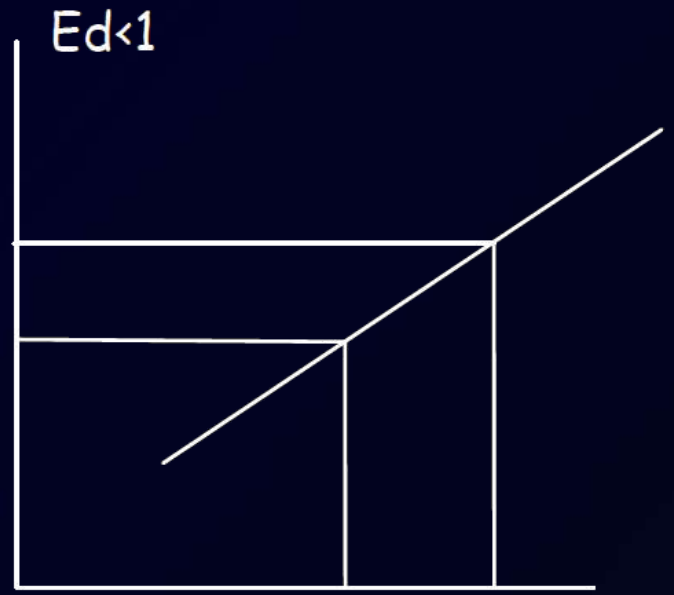
Unitary

Topic : Elasticity of supply

Types of supply elasticity



Relatively elastic



Relative InElastic

Topic : Determinants of elasticity of supply

- ✓ Long period → supply is elastic and vice versa
- ✓ Large number of producers → supply is elastic and vice versa
- ✓ Unutilized capacity is there → supply is elastic and vice versa
- ✓ Raw material and inputs cheaper → supply is elastic and vice versa
- ✓ Adequate stocks of raw material etc → supply will be elastic and vice versa
- ✓ Factor of production commonly available and can easily be substituted or increased then → supply is elastic and vice versa
- ✓ Capital and labour are occupationally mobile → supply is elastic and vice versa
- ✓ Expectation of substantial rise in price → supply would be inelastic and vice versa

Chapter Name

THEORY OF PRODUCTION & COST

UNIT 1 – THEORY OF PRODUCTION

Topic : THEORY OF PRODUCTION

Production is the organized activity of transforming resources into finished products in the form of goods and services; and the objective of production is to satisfy the demand of such transformed resources.

- ✓ Creation of utility
- ✓ Any economic activity which coverts inputs into output which are capable of satisfying human wants.
- ✓ Form utility – raw material to finished goods
- ✓ Place utility – one place to one another
- ✓ Time utility – Making available goods during Non-season

Topic : Factors of production

Land

Characteristics:-

- Land is free gift of nature
- Supply of land is fixed – perfectly inelastic
- Land is permanent and has indestructible powers
- Land is passive factor
- Land is immobile and have multiple uses
- Land is heterogeneous – not same
- All labour may not be productive
- Labour has poor bargaining power
- Labour is mobile
- There is no rapid adjustment of supply of labour to the demand for it
- Choice between hours of labour and hours of leisure(rest)

Topic : Factors of production

Labour

Means any physical or mental exertion directed to produce goods or services.

Characteristics of labour:-

- Human efforts
- Labour is perishable
- Labour is an active factor
- Labour is inseparable from the labourer
- Land power differs from labourer to labourer

Topic : Capital

Rightly defined as ‘produced means of production’ or ‘man-made instrument of production’. Capital refers to all man made goods that are used for further production of wealth.

Topic : Types of capital:

- Fixed capital – which exist in durable shape eg. Machines
- Circulating capital – single use eg. Raw material
- Real capital – physical goods eg. Plant
- Human capital – human skill and ability
- Tangible capital – can be perceived by senses
- Intangible capital – cannot be perceived by senses in form of rights and benefits
- Individual capital – personal property
- Social capital – belong to society eg. Roads

Topic : Capital formation

Capital formation means a sustained increase in the stock of real capital in a country. (eg. Capital goods)

Stages of capital formation

- Savings
- Mobilisation of savings
- Investment

Topic : Entrepreneur

Functions of entrepreneur

- Initiating business enterprise and resource co-ordination
- Risk bearing and uncertainty bearings
- Innovations

Topic : Enterprise's objectives and constraints

Objectives of an enterprise

- Organic objectives – survive and growth
- Economic objectives – profit
- Social objective – related to society
  - Continuous and sufficient supply of goods
  - Avoid profiteering and anti-social practices
  - Create employment
  - Does not cause pollution
  - Improving quality of life

Topic : Enterprise's objectives and constraints

- Human objective – related to human and employee
  - Fair deal to employee
  - Develop new skills and ability
  - Provide employee to participate in decision making
  - Make job interesting and challenging

Topic : Enterprise's objectives and constraints

- National objectives – towards nationFair deal to employee
  - Remove inequalities of opportunities
  - Produce according to national priorities
  - Country become self-reliant and avoid dependence
  - Train young man as apprentices

Topic : Enterprise's objectives and constraints

In the pursuit of this objective, an enterprise's actions may get Constrained by many factors

- Lack of knowledge and information
- Restrictions imposed in public interest by the state on the production, price and movement of factors.
- Infrastructure inadequacies and consequent supply chain bottlenecks
- Changes in business and economic conditions
- Events such as inflation, rising interest rates, unfavourable exchange rate fluctuations

Topic : Enterprise problems

- Problem relating to objectives
- Problem relating to location and size of the plant
- Problem relating to selecting and organising physical facilities
- Problem relating to finance
- Problem relating to organisational structure
- Problem relating to marketing (4p’s)
- Problem relating to legal formalities
- Problem relating to industrial relations

Topic : Production function

- The relationship between the maximum amount of output that can be produced and the input required to make that output. It is defined for a given state of technology i.e., the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge. (samuelson) L=labour K=capital

Topic : Assumptions –

- Relationship between input and output exists for a specific period of time
- There is given “state-of-the-art” in the production technology
- Whatever input combinations are included in a particular function, the output resulting from their utilization is at maximum level

Topic : Assumptions –

Short-Run – if the amount of at least one of the inputs used remains unchanged during that period.

Long-Run – is a period of time (or planning horizon) in which all factors of production are variable.

Topic : Cob-Douglas Production Function

Where Q is output and L the quantity of labour and C the quantity of capital K and a are positive constraints

The conclusion drawn from the famous statistical study is that labour contributed about 3/4th and capital about 1/4th of the increase in the manufacturing production. It is used in economics as an approximation

Concept Of Product

Total product(TP) – TP is the total output resulting from the efforts of all factors of production combined together at any time.

Average product (AP) – AP is the total product per unit of the variable factor.

AP = TP/Q

Marginal product (MP) – MP is the change in total product per unit change in quantity of variable factor.

MPn = TPn – TPn-1

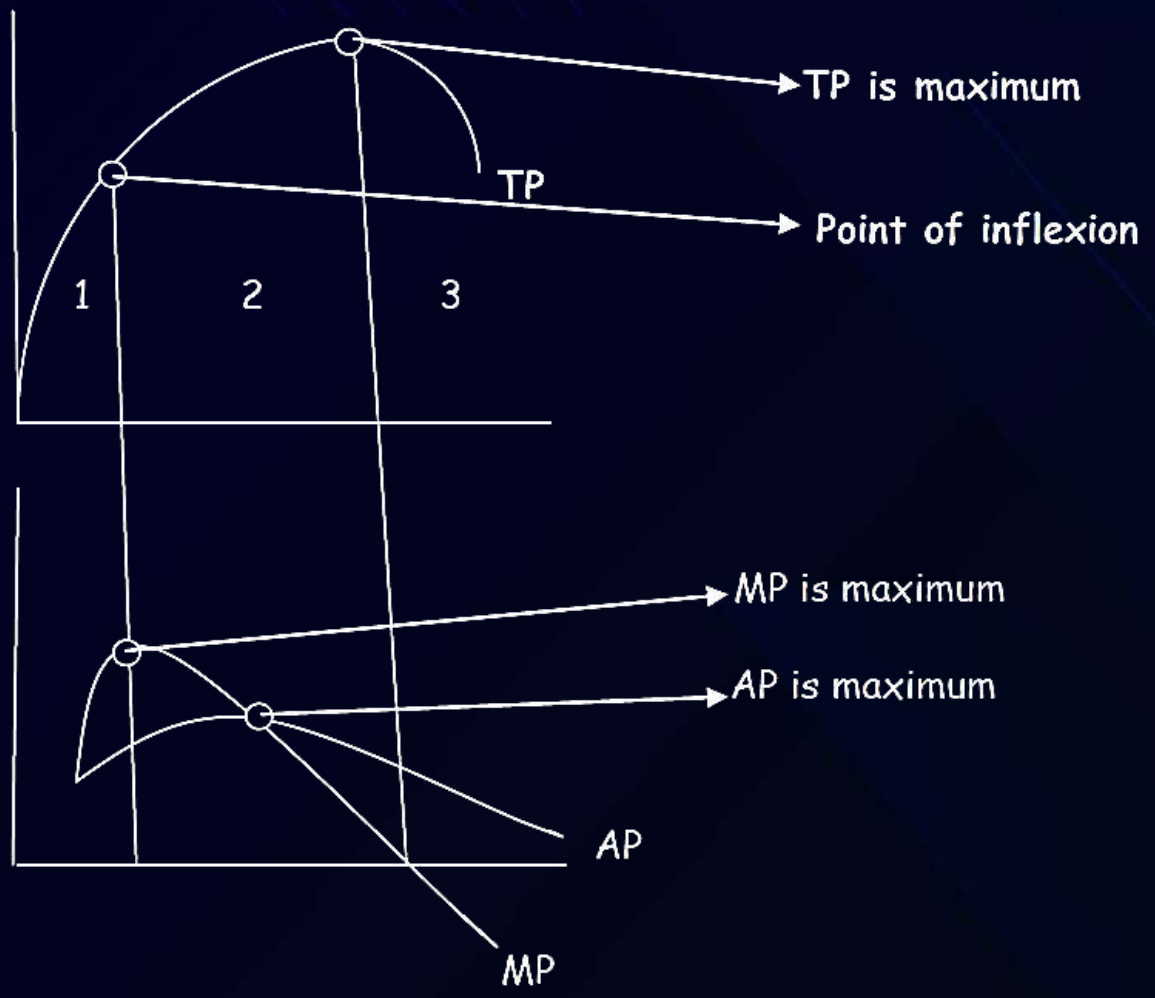
Topic : Law of variable proportions

Law of variable proportions or the law of diminishing returns

The law states that as we increase the quantity of one input which is combined with other fixed input, the marginal physical productivity of the variable input must eventually decline.

Topic : Relationship between AP and MP

- AP rises as a result of an increase in the quantity of variable input, MP is more than AP
- MP cuts the AP at its maximum
- When AP falls, MP is below AP



Topic : Stage 1: The stage of increasing returns

- Better utilization of fixed factor
- Division of labour and increase in efficiency
- Better co-ordination between factors

Topic : Stage 2: The stage of Diminishing returns

- Fixity of a factor
- Imperfect factor substitutability
- Poor co-ordination between factors

Topic : Stage 3: The stage of negative returns

- Excessive variable factor

Topic : Returns To Scale

Return to scale

Changes in output when all factors of production in a particular function are increased together.

Topic : Returns To Scale

Constant return to scale – increase in scale in same proportion, output increases in the same proportion. (eg. 10% – 10%)

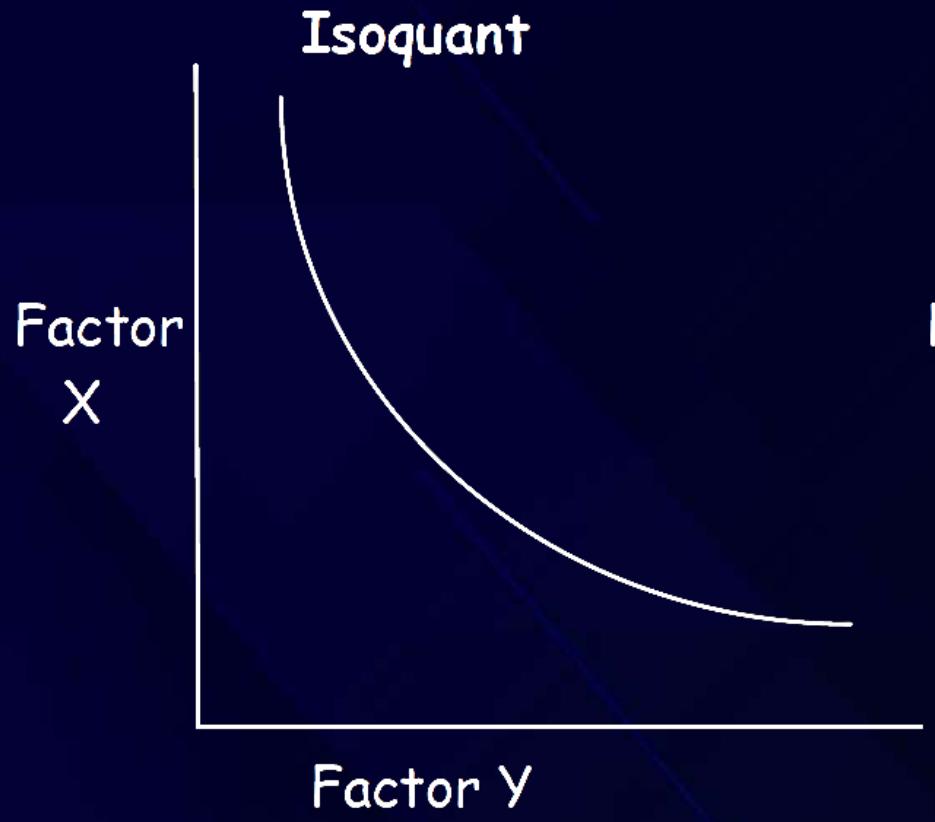
Increasing return to scale – output increases in a greater proportion than the increase in inputs (eg. 10% - 20%)

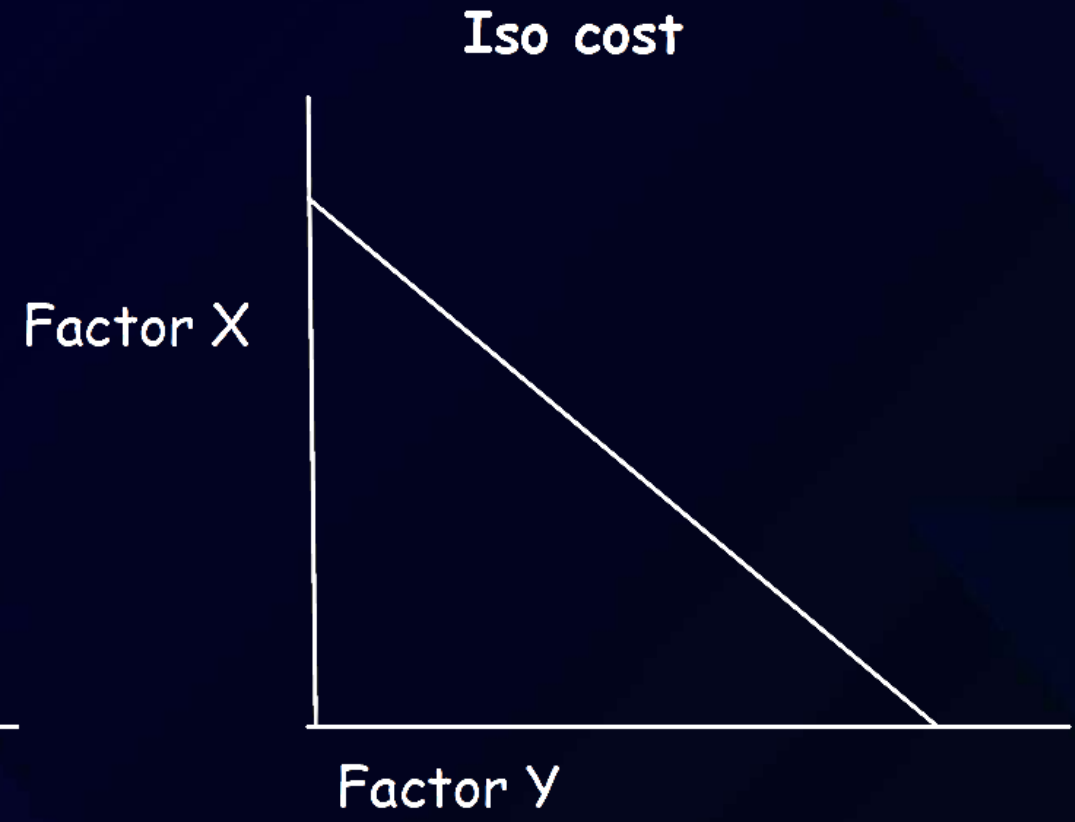
Decreasing return to scale – output increases in smaller proportion relative to an increase in all inputs (eg. 10% - 5%)

Topic : Production optimisation

- Isoquants similar to indifference curve
- All those combinations of inputs which are capable of producing the same level of output.
- Isoquants are also called equal-product curves, production indifference curve or iso-product curves
- Isoquants are convex due to diminishing marginal rate of technical substitution (MRTS)
- Iso cost or equal-cost lines similar to budget line
- Iso cost is a combination of two factors, which the firm can buy with a given outlay.

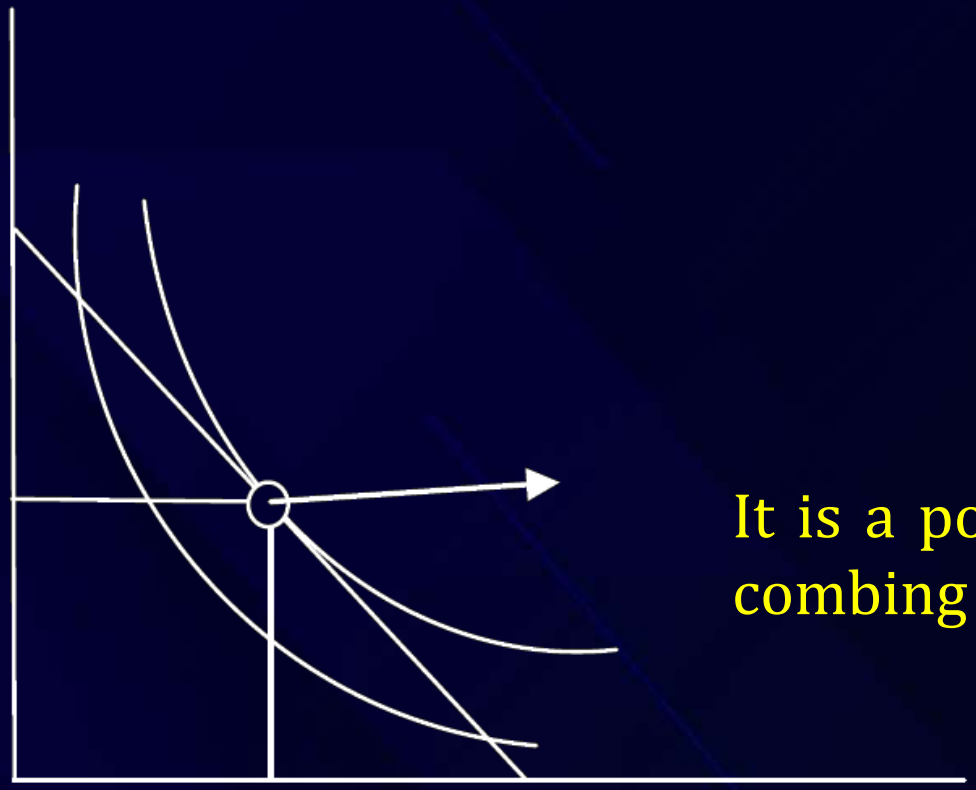
Topic : Production optimisation





Topic : Production optimisation

- Least-cost combination of factors: Producer's Equilibrium



It is a point where cost will be minimum by combing two factors

Question

#Q. 9. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:

A. when total product is rising, average and marginal product may be either rising or falling.

B. when marginal product is negative, total product and average product are falling.

C. when average product is at a maximum, marginal product equals average product, and total product is rising.

D. when marginal product is at a maximum, average product equals marginal product, and total product is rising.

Question

#Q. 44. Which of the following is a function of an entrepreneur?

A Initiating a business enterprise.

B Risk bearing.

C Innovating.

D All of the above.

Question

#Q. 46. If decreasing returns to scale are present, then if all inputs are increased by 10% then:

A output will also decrease by 10%.

B output will increase by 10%.

C output will increase by less than 10%.

D output will increase by more than 10%.

Question

#Q. 48. If the marginal product of labour is below the average product of labour, it must be true that:

A the marginal product of labour is negative.

B the marginal product of labour is zero.

C the average product of labour is falling.

D the average product of labour is negative.

Question

#Q. 50. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that

A. the technology is changing.

B. there must be some inputs whose quantity is kept fixed.

C. we consider only physical inputs and not economically profitability in monetary terms.

D. the technology is given and stable.

Question

#Q. 57. Which of the following is a variable cost in the short run?

A rent of the factory.

B wages paid to the factory labour.

C interest payments on borrowed financial capital.

D payment on the lease for factory equipment.

Question

#Q. 60. A fixed input is defined as

A. That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.

B. That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.

C. That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.

D. That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.

UNIT 2 – THEORY OF COST

Topic : COST CONCEPT

Cost Concept

Cost analysis is concerned with the financial aspects of production relations as against physical aspects which were considered in production analysis.

Explicit cost and Implicit cost.

Explicit cost	Implicit cost
✓ Costs which involve cash outflow to factors of production	✓ Costs which do not involve any cash payment to outsiders

- Economic Costs = Explicit Costs + Implicit Costs

Opportunity cost:

(a) Cost sacrifice made, or Opportunity foregone in accepting a next best alternative
(b) Opportunity Cost arises only when alternatives are available.
(c) Opportunity Costs do not involve any cash payment as such.

Direct cost vs Indirect Cost

Direct cost or traceable cost

- Direct costs are those which have direct relationship with a component of operation
- They are charged directly to product

Indirect cost or non-traceable cost

- Indirect costs are those which are not easily and definitely identifiable in relation to a plant, product, process or department.
- Apportioned on suitable basis

Fixed costs and Variable costs

Basis	Fixed Costs	Variable Costs
Meaning	Fixed Costs are costs that do not vary with output, up to a certain level of activity.	Variable Costs are costs that vary, based on the level of output.
Relation with production	They are incurred even at zero level of output, i.e. even before output is produced.	They are incurred only when production commences.
Cost per unit	Fixed cost per unit of output decreases with increase in output, and vice-versa, upto certain level of output.	Variable Cost per unit of output generally remains constant,

Committed cost and Discretionary costs

Particulars	Committed Fixed Costs	Discretionary Fixed Costs
Control	These costs cannot be controlled.	These costs can be controlled. As they are the part of decision making.
Also Known As	"Unavoidable"Fixed Costs.	"Avoidable" Fixed Costs.

Type	Explanation
Historical cost	refers to the cost incurred in the past.
Replacement cost	is the money expenditure that has to be incurred for replacing an old asset.
Incremental cost	Additional cost incurred by a firm as result of a business decision.
Sunk Cost	refer to those costs which are already incurred once and for all and cannot be recovered.
Private cost	costs actually incurred or provided for by firms and are either explicit or implicit.
Social Cost	refers to the total cost borne by the society on account of a business activity and includes private cost and external cost.

Marginal Cost: Addition made to the total cost by production of an additional unit of output.

$$\text{Marginal Costs per unit} = \frac{\text{Change in Total Cost}}{\text{Change in Output}}$$

Behaviour of Marginal Cost Curve:

- The behaviour of MC Curve is the reverse of the behaviour of the Marginal Product (MP) Curve under the Law of Variable Proportions.
- Marginal Product (MP) Curve rises first, reaches a maximum and then declines, as seen in the Law of Variable Proportions.
- So, Marginal Cost (MC) Curve of a Firm declines first, reaches its minimum and then rises. Hence, Marginal Cost Curve of a Firm is U—shaped.

Cost Function-

1. **It** refers to the mathematical relationship between cost of a product and the various determinants of cost.

2. In cost function Dependent variable is Total Cost whereas independent variable is price of factor of production, size of output, level of capacity utilization etc
3. There are two kinds of cost functions:

a) Short run Cost Function
b) Long run Cost Function

Short run an cost Behaviour

Total Fixed cost (Short run) TFC is parallel to X-axis

Total Variable cost (TVC) Costs that change with changes in level of output. It has inverse ’S’ shape and start from origin.

Semi-variable There are some costs which are neither perfectly variable, nor absolutely fixed.

Total Cost = VC + FC

AFC

AFC = TFC / Q.

AFC Curve is negatively sloped,

AFC Curve will not touch the axis since AFC cannot be = 0.

AVC

AVC = TVC / Q

AVC Curve will fall first, for the output level upto normal capacity.

AVC Curve will reach a minimum, and then rise again.

AVC is not exactly a U-shaped curve.

ATC

AC Curve will fall first, due to sharp decline in AFC.
AC Curve will reach a minimum and then rise again, due to increase in AVC.
AC is a U-shaped curve.

MC

Marginal Costs p.u. = Diff. in TC/ Diff. in Q.
MC Curve will fall first,
MC is a U-shaped curve.
MC cuts AC from below, when AC is minimum

A firm produces 10 units of commodity at an average total cost of Z 200 and with a fixed cost of Z 500. Find out component of average variable cost in total cost.

(a) 300
(b) 200
(c) 150
(d) 100

The AC Curve and AVC Curve start increasing at the same output level only. This statement is

(a) True
(b) False
(c) Partially True
(d) Nothing can be said

A Firm producing 7 units of output has an Average Total Cost of Rs. 150 and has to pay Rs. 350 to its Fixed Factors of Production whether it produces or not. How much of the Average Total Cost is made up of Variable Costs?

(a) 200
(b) 50
(c) 300
(d) 100

Topic : Relationship Between MC & AC

The relationship between the AC and MC is that

(a) MC will always be less than the AC
(b) MC will be more than AC when MC is falling
(c) AC may be more than MC when MC is rising
(d) None of the above

Which of the following statements is correct?

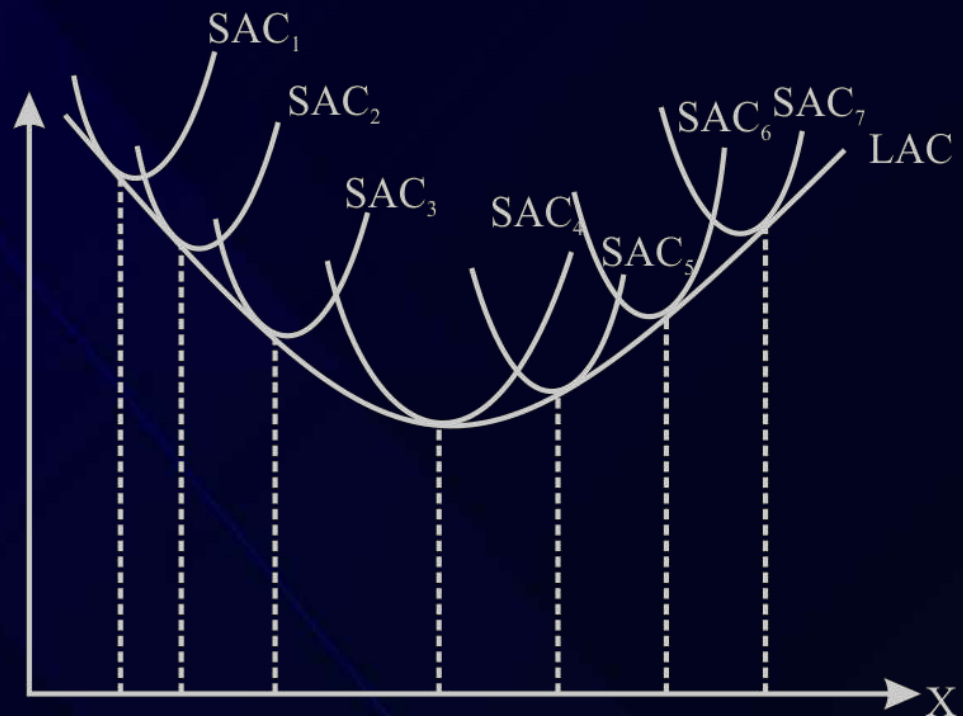
(a) When Average Cost is rising, Marginal Cost must also be rising
(b) When Average Cost is rising, Marginal Cost must be falling
(c) When Average Cost is rising, Marginal Cost is below the Average Cost
(d) When Average Cost is falling, Marginal Cost must be rising

Which of the following is true of the relationship between Marginal Cost and Average Cost Functions

(a) If MC is greater than AC, then AC is falling
(b) AC Curve intersects the MC Curve at minimum MC
(c) MC Curve intersects the AC Curve at minimum AC
(d) If MC is less than AC, then AC is increasing

Long run average cost curve

1. All factors of production are variable in long—run.
2. a Firm can shift from one Plant to another, which will ensure the least cost for that level of output, in the long—run.
3. LAC Curve is called Planning Curve.
4. SAC (Short—Term Average Cost) Curves are called Plant Curves.
5. LAC Curve is derived as an envelop / tangent of all SAC Curves.
6. LAC Curve is a U—Shaped Curve, due to the operation of Law of Returns to Scale.



7. Selecting the suitable SAC Curve at different output levels:
8. Deriving LAC Curve in case of numerous / infinite SAC Curves:

a) In the diagram, the LAC Curve is drawn as a smooth curve, so as to be tangent to each of the SAC Curves.

b) When LAC Curve is declining LAC will be tangent to the falling portions of the SAC Curves.

c) When LAC Curve is rising LAC will be tangent to the rising portions of the SAC Curves.

Chapter Name

PRICE DETERMINATION IN DIFFERENT MARKETS

TOPIC: 4.1:- Meaning and Types of Market

Meaning of Market	• In ordinary language, a market refers to a place where the buyers and sellers of a commodity gather and strike bargains. • According to Chapman, "the term market refers not necessarily to a place and always to a commodity and buyers and sellers who are in direct competition with one another". • According to the French economist Cournot, "Market is not any particular place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with each other that the prices of the same goods tend to equality easily and quickly".

Features of Market	**The above mentioned definitions reveals the following features of a market:** • **Buyers and sellers** • **A product or service** • **Bargaining for a price** • **Knowledge about market conditions; and** • **One price for a product or service at a given time**

Classification of Markets

On the basis of Geographical Area	From the marketing perspective, the geographical area in which the product sales should be undertaken has vast implications for the firm. On the basis of geographical area covered, markets are classified into:- **Local Markets:** buyers and sellers limited to a local area or region. Highly perishable goods and bulky articles **Regional markets** covers a wide area such as a few adjacent cities, parts of states, or cluster of states. **National market** demand for a commodity or service is limites to the national boundaries of a country. Eg; hindi books **International market** commodity is said to have international market when it is exchanged internationally. Eg gold

On the basis of Time	**Very short period market** – eg. Vegetables **Short period market** – output can be increased from variable factor and fixed factor remains constant **Long period market** – all factors are variable **Very long period or secular period** – is one when secular movements are recorded in certain factors over a period of time

On the basis of Nature of Transaction s	**Spot or cash Market:** Spot transactions or spot markets refer to those markets where goods are exchanged for money payable either immediately or within a short span of time. **Forward or Future Market:** In this market, transactions involve contracts with a promise to pay and deliver goods at some future date
On the basis of Regulation	**Regulated Market:** In this market, transactions are statutorily regulated so as to put an end to unfair practices. Such markets may be established for specific products or for a group of products. Eg. Stock exchange **Unregulated Market:** It is also called a free market as there are no stipulations on the transactions

On the basis of Volume of business	**Wholesale Market:** The wholesale market is the market where the commodities are bought and sold in bulk or large quantities. Transactions generally take place between traders. **Retail Market:** When the commodities are sold in small quantities, it is called retail market. This is the market for ultimate consumers.
On the basis of Competition	Based on the type of competition markets are classified into a) perfectly competitive market and b) imperfectly competitive market

Topic : Meaning and Types of Market

Types of Market

The Market Structures analysed in Economics are --

1) Perfect Competition: Many Sellers selling identical products to many Buyers.
2) Monopoly: Single Seller producing differentiated products for many Buyers.
3) Monopolistic Competition: Many Sellers offering differentiated products to many Buyers.
4) Oligopoly: A Few Sellers selling competing products to many Buyers.
5) Duopoly: Duopoly is a market situation in which there are only two Firms in the market. It is a sub—set of Oligopoly,

Topic : Meaning and Types of Market

6. Monopsony: Monopsony is a market characterized by a Single Buyer of a product or service. It is mostly applicable to Factor Markets in which a Single Firm is the only Buyer of a Factor.
7. Oligopsony: Oligopsony is a market characterized by a small number of large buyers. It is also mostly relevant to Factor Markets.
8. Bilateral Monopoly: It is a market structure in which there is only a Single Buyer and a Single Seller. Thus, it is a combination of Monopoly Market and a Monopsony Market.

Topic : Meaning and Types of Market

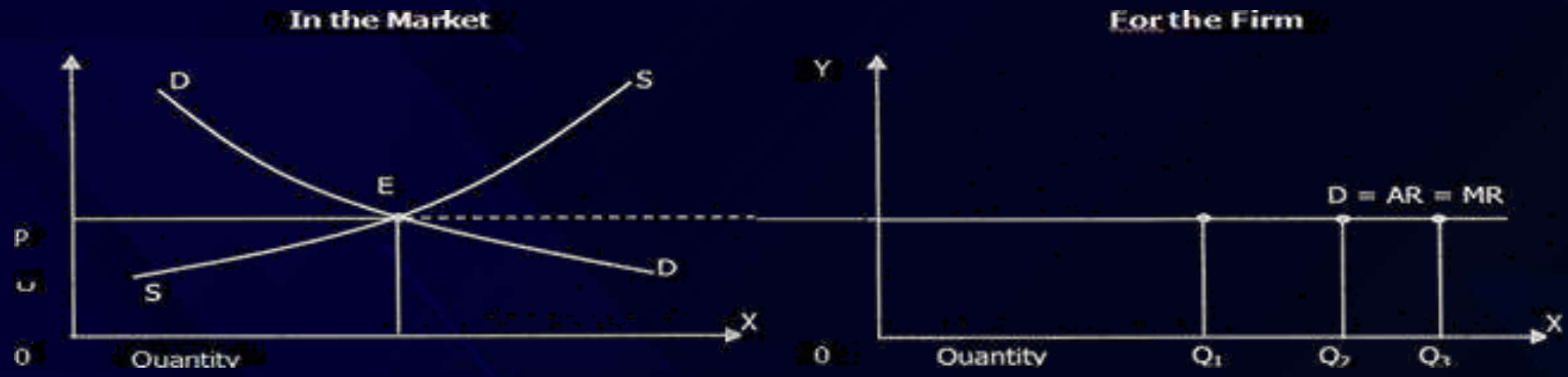
Perfect Competition

Characterstics

A. Large No of Buyers & Sellers
B. Homogeneous Products
C. Free Entry / Exit
D. Perfect Knowledge
E. Mobility of Factors of Production
F. Price Taker

Topic : Meaning and Types of Market

Price determination under perfect competition and short run profit maximization by a competitive firm

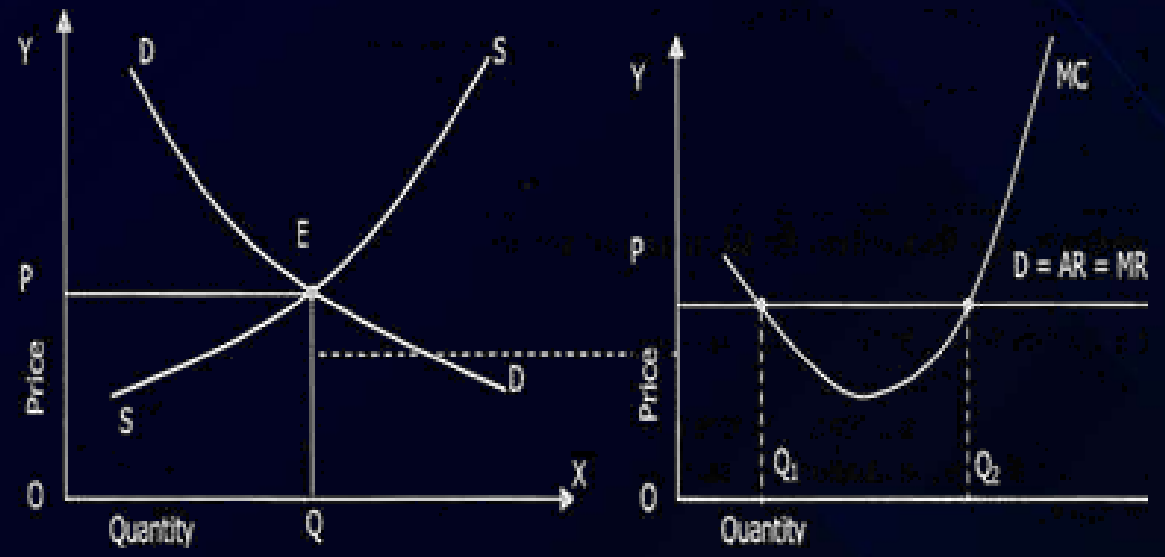


Topic : Meaning and Types of Market

Short Run price determination, Optimum output and profit Determination

For Equilibrium

1. MC = MR
2. MC Must be rising



Topic : Meaning and Types of Market

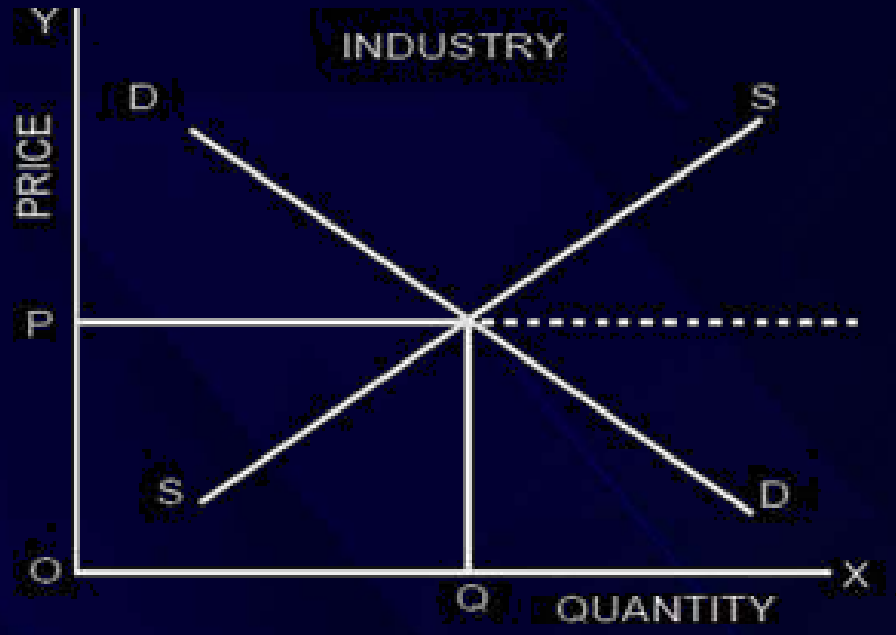
For Determination of profit or loss

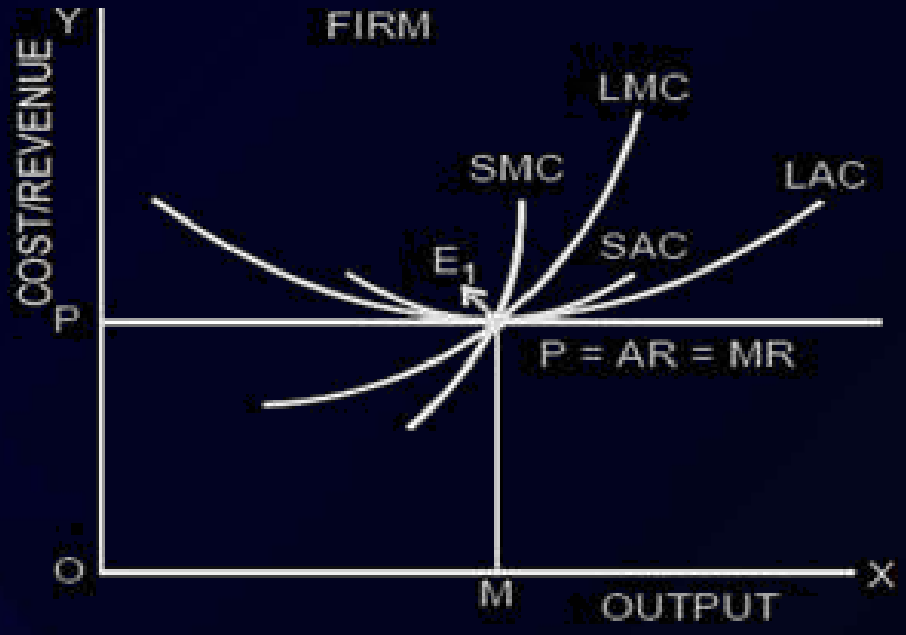
Super profits:	Normal profits:	Losses	Shut Down point
AR > ATC.	AR = ATC. It is also called B.E.P (Break- even-Point) means No P/L	AR < ATC.	A Firm will shut down, if AR < AVC, at a point where MC = MR (MC cutting from below)

Topic : Meaning and Types of Market

Long – run Equilibrium of a firm under Perfect Competition.

SMC = LMC = SAC = LAC = P = MR





Topic : Monopoly

Features of Monopoly

a) Single Seller
b) Firm = Industry
c) Entry Restrictions- (i) economic, (ii) institutional, (iii) legal, or (iv) artificial.
d) No close substitutes.
e) Ed < 1
f) Price—Maker,

Topic : Monopoly

Why Monopoly Arise?

Monopoly is caused by "barrier to entry", i.e. other Firms cannot enter the market. Some reasons for occurrence and continuation of Monopoly are -

i. Strategic Control over scarce resources
Ii. control over a unique product.
Iii. Patents and Copyrights
iv. Governments granting exclusive rights
V. Substantial Goodwill
Vi. Natural Monopoly due to large economies of scale
Vii. Stringent Legal and Regulatory Requirements
Viii. Very high initial start—up costs
ix. Use of Anti—Competitive Practices or Predatory Tactics.
X. Business Combinations or Cartels

Topic : Monopoly

Determination of Demand/ Revenue curve

Market Demand Curve = Firm's Demand Curve = Average Revenue (AR).

Relationship between AR & MR under Monopoly:

i. Both AR and MR are negatively sloped (downward sloping) curves.

ii. MR Curve lies half—way between the AR Curve and the Y—axis, i.e. it cuts the horizontal line between Y axis and AR into two equal parts.

iii. AR cannot be zero, but MR can be zero or even negative.

Topic : Monopoly

7. Short Run price determination, Optimum output and profit Determination

For Equilibrium

a) MR = MC

b) MC must be rising

Price Discrimination

Price Discrimination occurs when a Producer sells a commodity to different Buyers, at different prices, for reasons not related to differences in cost.

Note:

The Monopolist will be charging different prices in the two markets —

- a higher price in Market with lower elasticity of demand, and
- a lower price in Market with higher elasticity of demand.

Objectives:

a) To earn Maximum Profit
b) To Dispose of Surplus stock
c) To enjoy Economies of Scale
d) To capture foreign markets
e) To secure equity thorough pricing.

Topic : Monopoly

Conditions for Price discrimination

a) Full control over supply

b) Division of market into two or more sub-markets

c) Different price elasticity under different markets

d) No possibility to resale

Topic : Relationship Between AR/MR/Price Elasticity

The relationship between AR, MR and price elasticity of demand can be examined with the formula —

$$MR = AR \times \frac{e-1}{e}$$

Where, e = price elasticity of demand.

- If e=1, MR = 0
- If e > 1, MR will be positive i.e. MR > 0
- If e<1, MR will be negative i.e. MR<0

Topic : Monopolistic Competition

1. Imperfect competition is found in the industry where there are a large numbers of small sellers, selling differentiated but close substitutes products. E.g. Colgate, Pepsodent, Dantkanti etc. This market contains features of both competitive and monopoly markets.
   (a) Large number of sellers and buyers
   (b) Free entry and exit of firms.
   (c) Product differentiation
   (d) Non price competition
   (e) Every firm is price maker and price taker of his own product
   (f) Imperfect mobility
   (g) AR and MR: In monopolistic competition AR/MR will be more elastic than monopoly market.

Topic : OLIGOPOLY MARKET

1. An oligopoly is a market in which there are few producers of a product. Oligopoly is an important form of imperfect competition.
2. Types of Oligopoly
   a) Pure / Perfect oligopoly - deals in homogeneous products- Aluminum industry Differentiated / imperfect oligopoly - deals in product differentiated.
   b) Open oligopoly - New firms can enter the market and compete with existing firms Closed oligopoly - new entry is restricted.
   c) Collusive oligopoly - common understanding or collusion in fixing price and output Competitive oligopoly - Lack of understanding and compete with each other.
   d) Partial oligopoly - when industry is dominated by one large firm i.e. price leader Full oligopoly - absences of price leadership.

Topic : OLIGOPOLY MARKET

2. Types of Oligopoly

e) Syndicated oligopoly - Firms sells their products through centralized syndicate/channel

f) Organized oligopoly -: Firms Organize into a central association for fixing price, output etc

Topic : OLIGOPOLY MARKET

3. Features

a) Few sellers

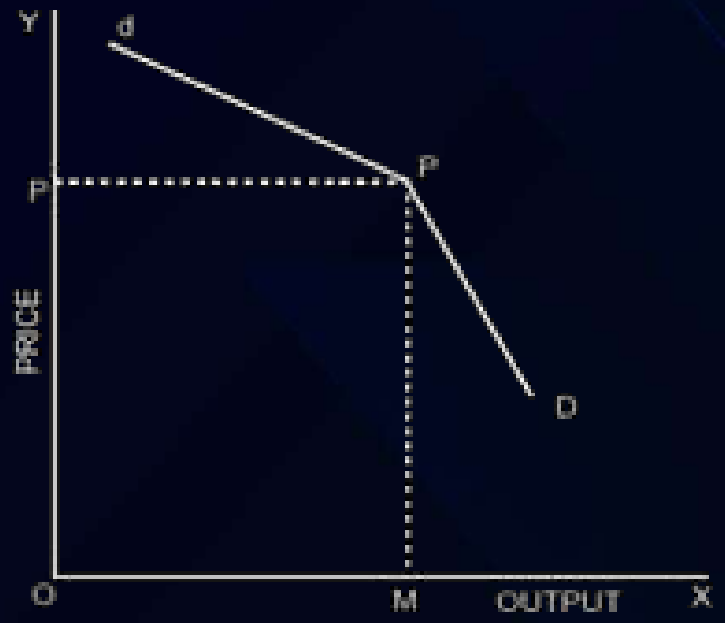
b) Interdependence

c) Advertising and selling costs (Non price competition):

d) There is no generally accepted theory of group behaviour.

e) Kinked demand curve / Indeterminateness of demand curve

f) Kinked demand curve hypothesis given by an American economist Paul A. Sweezy. This is called as Sweezy Model.



Topic : DETERMINATION OF PRICES

QUESTION- 01

#Q. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and e > 1, then MR will be —

A Positive

B Negative

C Zero

D Infinity

QUESTION- 02

#Q. What should Firm do when Marginal Revenue is greater than Marginal Cost?

A. Firm should expand output

B. Efforts should be made to make then equal

C. Prices of the products should be lowered down

D. All of the above

QUESTION- 03

#Q. When the Firm is said to be in equilibrium?

A When it maximizes its Profit

B When it maximizes its Losses

C When Revenue is equal to Cost

D None of these

QUESTION- 04

#Q. Suppose that a Sole Proprietorship Firm is earning Total Revenues of Rs.120,000 and is incurring Explicit Costs of Rs. 90,000. If the Owner could work for another Company for Rs. 50,000 a year, we would conclude that

A. The Firm is incurring an Economic Loss

B. Implicit Costs are Rs. 90,000

C. The total Economic Costs are Rs. 100,000

D. The Individual is earning an Economic Profit of Rs. 25,000

QUESTION- 05

#Q. With a given supply curve, a decrease in demand causes

A an overall decrease in price but an increase in equilibrium quantity.

B an overall increase in price but a decrease in equilibrium quantity

C an overall decrease in price and a decrease in equilibrium quantity.

D no change in overall price but a reduction in equilibrium quantity.

QUESTION– 06

#Q. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

A. The firm should shutdown in order to minimize its losses.

B. The firm should raise its price enough to cover its losses.

C. The firm should move its resources to another industry

D. The firm should continue to operate in the short run in order to minimize its losses.

QUESTION- 07

#Q. A firm having kinked demand curve indicates that:

(i) If the firm reduces the price, competitive firms also reduce the price

(ii) If the firm increases the price, competitive firms also increases the price

(iii) If the firm reduces the price, competitive firms do not reduce the price

(iv) If the firm increases the price, competitive firms do not increase the price

A Only (i) above

B Both (i) and (iv) above

C Both (ii) and (iv) above

D Both (ii) and (iii) above

QUESTION- 08

#Q. If supply increases in a greater proportion than demand

A. The new equilibrium price and quantity will be greater than the original equilibrium price and quantity

B. The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher

C. The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.

D. The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.

QUESTION- 09

#Q. In the long—run, if the Firm is unable to cover the Average Total Cost then it —

A. Decreases the Selling Price

B. Increases the Labour to increase production

C. Decreases the Labour to decrease production

D. Moves out of the business

QUESTION- 10

#Q. If AR < AVC and the Firm stops production, then —

A. There is no profit no loss

B. There is a Loss equivalent to Fixed Costs

C. There is a Profit

D. None of the above

QUESTION- 11

#Q. Which of the following is not a characteristic of a competitive market?

A. There are many buyers and sellers in the market.

B. The goods offered for sales are largely the same

C. Firms generate small but positive supernormal profits in the long run.

D. Firms can freely enter or exit the market.

QUESTION- 12

#Q. A purely competitive firm's supply schedule in the short run is determined by

A its average revenue

B its marginal revenue

C its marginal utility for money curve

D its marginal cost curve

QUESTION- 13

#Q. The firm in a perfectly competitive market is a price taker. 'This designation as a price taker is based on the assumption that:

A. The firm has some but not complete control over its product price

B. There are so many buyers and sellers in the market that any one buyer or seller cannot affect the market

C. Each firm produces a homogeneous product

D. There is easy entry into or exit from the market place.

QUESTION- 14

#Q. Under monopoly price discrimination depends upon:

A. Elasticity of demand for commodity

B. Elasticity of supply for commodity

C. Size of market

D. All of above

QUESTION- 15

#Q. Monopolistic competition differs from perfect competition primarily because

A in monopolistic competition, firms can differentiate their products.

B in perfect competition, firms can differentiate their products

C in monopolistic competition, entry into the industry is blocked

D in monopolistic competition, there are relatively few barriers to entry