ECO404 - Managerial Economics Glossary For Midterm Exam Preparation Spring 2013

Glossary

Accounting Profit : Accounting Profit or business profit is equal to total revenue minus the explicit or accounting costs of production.

Adverse Selection : The situation in which low quality products or services drive high quality products or services out of the market as a result of asymmetric information between buyers and sellers.

Alternative or Opportunity Costs : The cost to the firm of using a purchased or owned input which is equal to what the input could earn in its best alternative use.

Analysis of Variance : A test of the overall explanatory power of the regression using the F-statistic.

Asymmetric Information : The situation in which one party to a transaction has more information than the other party on the quality of the product or service offered for sale.

Autocorrelation : The problem that can arise in regression analysis with time series data, where consective errors have the sane sign or change sign frequently. It leads to exaggerated t statistics and to an unreliable R2 and F-statistic.

Average Fixed Cost (AFC) : Total fixed cost divided by total output

Average Product (AP) : Total product divided by quantity of variable input used

Average Total Cost (ATC) : Total costs divided by total output

Average Variable Cost (AVC) : Total variable costs divided by output.

Barometric Firm : The oligopolistic firm that is recognized as the true interpreter or barometer of changes in demand and cost conditions warranting a price change in the industry.

Barometric Forecasting : It is the method of forecasting turning points in business cycles by the use of leading economic indicators.

Bertrand Model : The oligopoly model where each firm assumes that the other will keep its price constant. It leads to the perfectly competitive solution even with only two firms.

Binding Constraint : A variable that is fully used a a particular point.

Bundling : The form of tying in which the firm requires customers buying or leasing one of its products or services to also buy or lease another product or service when customers have different tastes but the firm cannot price discriminate (as in tying).

Business Ethics : The code or guidelines that prescribe acceptable behavior in business behavior and business transactions.

Business Profit : The revenue of the firm minus its explicit or accounting costs.

Certainty : The situation in which there is only one possible outcome to a decision and this outcome is known precisely; risk free.

Change in demand : A shift in the demand curve of a commodity as a result of a change in the consumer's income, change in the price of related commodities, tastes, or in any of the determinants of demand other than the price of the commodity.

Change in quantity demanded : The movement along a particular demand curve resulting from a change in the price of the commodity, while holding everything else constant.

Cobb-Douglas production function : A production function of the form Q = AKaLb where, Q, K and L are physical units of output, capital and labor and A, a and b are the parameters to be estimated empirically.

Coefficient of correlation 'r' : The measure of the degree of co-variation between two variables; the positive or negative square root of the coefficient of determinant ion in simple regression analysis.

Coefficient of determination 'R2' : The proportion of the explained to the total variation in the dependent variable in regression analysis.

Collusion : A formal or informal agreement among oligopolists to adopt policies to restrict or eliminate competition and increase profits.

Economic Profit : Economic Profit is equal to total revenue minus the explicit and implicit costs of production.

Macroeconomics : Macroeconomics is the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy viewed as a whole.

Marginal Revenue (MR) : Change in total revenue associated with a one unit change in output

Microeconomics : Microeconomics is the study of the economic behavior of individual decision-making units.

ECO404 - Managerial Economics Faqs For Midterm Exam Preparation Spring 2013

FAQs

Question: Differentiate between explicit and implicit costs.

Answer: Explicit costs: Explicit costs are the actual out of pocket expenditures of the firm to purchase or hire the inputs it requires in production. Implicit costs: Implicit costs refer to the value of the inputs owned and used by the firm in its own production processes.

Question: Differentiate between accounting profit and economic profit.

Answer: Business or Accounting Profit: Total revenue minus the explicit or accounting costs of production. Economic Profit: Total revenue minus the explicit and implicit costs of production.

Question: Differentiate between direct demand and derived demand.

Answer: Direct Demand Individual's demand for goods and services that directly satisfy consumer desires is known as direct demand. This is also known as consumer demand. Derived Demand Goods that are demanded not for direct consumption but rather for their use in providing other goods and services are known as derived demand. Their demand is derived from the demand for the products they are used to provide. Input demand is called derived demand. It is also called business demand.

Question: Differentiate between the situation of surplus and shortage.

Answer: Surplus: A surplus is created when producers supply more of a product at a given price than buyers demand. Surplus describes a condition of excess supply. Shortage: A shortage is created when buyers demand more of a product at a given price than producers are willing to supply. Shortage describes a condition of excess demand.

Question: Differentiate between short run and long run.

Answer: Short run: The short run is the period of time in which sellers already in the market respond to a change in equilibrium price by adjusting variable inputs. Buyers already in the market respond to changes in equilibrium price by adjusting the quantity demanded for the good or service. Long run: The long run is the period of time in which new sellers may enter a market, existing sellers may exit from a market, existing sellers may adjust fixed factors of production, and buyers may react to a change in equilibrium price by changing their tastes and preferences.

Question: Differentiate between microeconomics and macroeconomics.

Answer: Microeconomics is the study of the economic behavior of individual decision making units. Macroeconomics is the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy viewed as a whole.

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Question No. 56

What is the criticism on Maris Model of growth? (3 Marks)

CRITICISM OF MARRIS MODEL

 Marris assumes cost structure and price to be given. Therefore, he assumes that profit is given which is not true. In fact, price determination has been the major point of contention in the theory of firms whereas Marris has ignored this aspect completely. This is one of the serious drawback.
 Most industries are oligopolistic and hence businesses are interdependent. Marris ignores this interdependence among firms' decisions. This implies that product differentiation goes unnoticed.
 He fails to explain oligopolistic interdependence in non collusive firms. His theory, therefore, has limited applicability.

Question No. 57

Differentiate and discuss Risk and Uncertainty? (3 Marks)

RISK refers to a situation in which there is more than one possible outcome to a decision and the probability of each specific outcome is known or can be estimated. Thus, risk requires that the decision maker knows all the possible outcomes of the decision and have some idea of the probability of each outcome's occurrence.

UNCERTAINTY is the case when there is more than one possible outcome to a decision and where the probability of each specific outcome occurring is not known or even meaningful. This may be due to insufficient past information or instability in the structure of the variables. In extreme forms of uncertainty not even the outcomes themselves are known

Question No. 59

What are the Assumptions of Neo-Classical Theory? (5 Marks)

1. The traditional theory of the firm assumes a single owner-entrepreneur. There is no separation between ownership and management. The owner-entrepreneur takes all the decisions. All organizational problems are assumed resolved by payments to the factors employed by the firm. The entrepreneur is furthermore assumed to have unlimited information, unlimited time at his

disposal, and unlimited ability to compare all the possible alternative actions and choose the one that maximizes his profit. This behavior is described by postulating that the entrepreneur acts with global rationality. There is no time, information or other constraints in achieving the single goal of profit maximization.

2. The firm has a single goal, that of profit maximization. The firm is a profit maximize. It is assumed to make as much profit as possible. This means that model is an **optimizing' model**. The firm attempts to achieve the best possible performance, rather than simply seeking "feasible" performance which meets some set of minimum criteria. In most situations these are consistent with each other. Shareholder wealth is maximized by selecting the most profitable set of plant and equipment and then operating it in the most profitable way. BUT THERE MAY BE EXCEPTIONS - making maximum short term profit might cause entry of the new firms or government intervention.
3. This goal is attained by application of the marginalist principle. It assumes perfect certainty. Cost and demand conditions are perfectly known.

Question No. 60

Why decision making is complicated in oligopoly as compared to other market structures? Discuss? (5 Marks)

Because in oligopoly we donot know the action of revival, and take counter move without know the strategy of opponent so risk factor is very high making the decision under oligopoly as compare to other.

Managerial decision making is much more complex under oligopoly than under any other forms of market structure. For example, if firm A and firm B sell differentiated products. How does the quantity demanded for firm A's product change when firm
A change its price? The effect of a price reduction on the quantity demanded of firm A's product depends upon whether its rival firm B responds by cutting its prices too. Similarly the effect of a price increase on the quantity demanded of firm A's product depends upon whether its rival firm B responds by raising its prices too. The gist of the above discussion is that:

Main Reason is Strategic interdependence: the rival firms aren't in complete control of their own destiny!

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Question: How Game Theory can be beneficial in Risk Analysis 5 Marks

In an uncertain economic environment, value maximization is achieved using the risk-adjusted valuation models, decision trees and computer simulation. Under certain circumstances, however, when extreme uncertainty exists, game theory decision criteria may be appropriate.
Uncertainty is defined as the case where there is more than one possible outcome to a decision and the probability of each specific outcome occurring is not known or even meaningful. As a result, decision making under uncertainty is necessarily subjective, some specific decision rules are available, however, if the decision maker can identify the possible states of nature and estimate the payoff for each strategy. Two specific decision rules applicable under uncertainty are the maximin criterion and the minimax regret criterion.

How Government can exercise Monopoly Give Reasons 5 Marks

A monopoly may be established by a government franchise. In this case, the firm is set up as the sole producer and distributor of a product or service but is subjected to governmental regulation. The best example of a monopoly established by government franchise is the post office, railways, airlines. Local governments also require a license to operate many types of businesses, such as taxis, broadcasting, TV channels, medical units, and private health care clinics.

One of the major sources of monopoly is that the firm might own a **patent**. The ownership of a patent or copyright that precludes other firms from using a particular production process or producing the same product. Patents are granted by the government for a period of 17 years as an incentive to inventors in the US while in Pakistan it is granted for a period of 20 years.

In **natural monopoly** governments usually allow a single firm to operate in the market but regulate the price of the services provided, so as to allow the firm only a normal return on investment.

How Behavioral Theories contribute. 5 Marks

BEHAVIORALTHEORY: CONTRIBUTIONS
The behavioral theory has contributed to the development of the theory of the firm in several respects. Its main contributions are:
• Insight into the process of goal-formation and the internal resource allocation: an aspect neglected in traditional theory.

• Cyert and March's definition of 'slack' shows that this concept is equivalent to the 'economic rent' of factors of production of the traditional theory of the firm. The contribution of the behavioral school lies in the analysis of the stabilizing role of 'slack' on the activity of the firm.

FACTORS AFFECTING THE PRICE ELASTICITY OF DEMAND 3 Marks

There are three major influences on price elasticity:
(1) the extent to which a good is considered to be a necessity;
(2) the availability of substitute goods to satisfy a given need; and
(3) The proportion of income spent on the product.

Q: Describe Satisficing Behavior. 5 Marks

FIRM'S GOALS: THE SATISFICING MODEL

 Production Goal: A goal that output must lie within a certain satisfactory range.
 Inventory Goal: Aims at maintaining a balanced inventory of both raw materials and finished goods. A balanced stock of both raw materials and finished goods ensures continuity of production and supply of goods to the customers and also keeps the input suppliers satisfied.
 Sales Goal: A goal that there must be a satisfactory level of sales however defined.
 Market share Goal: A goal indicating a satisfactory size of market share as a measure of comparative success as well as of the growth of the firm.
 Profit Goal: is set by the top management so as to satisfy the demands of share holders and the expectations of bankers and other finance institutions; and also to create funds with which they can accomplish their own goals and projects, or satisfy the other goals of the firm.

The number of goals of the firm may be increased, but the decision-making process becomes increasingly complex. The efficiency of decision-making decreases as the number of goals increases.

Q: Difference between cost of capital and cost of debt?

5 Marks

COST OF CAPITAL

The correct discount rate (cost of capital) for each investment project is simply the **marginal cost of capital** for that project. However, determination of the correct discount rate for individual projects is not an easy task.

THE COST OF DEBT

The cost of debt is easier to explain. It is simply the interest rate that must be paid on the debt.
The cost of debt is the return that lenders require to lend their funds to the firm. Since the interest payments made by the firm on borrowed funds are deductible

from the firm's taxable income, the after-tax cost of borrowed funds to the firm (k_d) is given by the interest paid (r) multiplied by 1 minus the firm's marginal tax rate, t. That is,

$k_d = r(1 - t)$

For example, if the firm borrows at a 12.5 percent interest rate and faces a 40 percent marginal tax rate on its taxable income, the after-tax cost of debt capital to the firm is

$k_d = 12.5\%(1- 0.40) = 7.5\%$

Q: Criticism on Williamson's managerial utility? 5 marks

CRITICISM OF WİLLİAMSON'S MANAGERİAL UTİLİTY MAXİMİZATİO MODEL

1. The available evidence is not enough for the verification of the theory
2. Williamson's model fails to deal with the core problem of oligopolistic interdependence of strong oligopolistic rivalry. Williamson's model hold is said to hold only where rivalry is not strong. When rivalry is strong a profit-maximizing model is more appropriate.

Q: Write down the elements of Game theory? 5 Marks

GAME THEORY: ELEMENTS

- **Strategies:** A Strategy is a specific course of action with clearly defined values for policy variables. A strategy is dominant if it is optimal regardless of what the other player does.
- **Payoff** of a strategy is the "net gain" it will bring to the firm for any given counter-strategy of the rival firm
- **Payoff matrix** is the table giving the payoffs from all the strategies open to the firm and the rivals' responses
- **Policy Variables:** Price, Quantity, Quality, advertising Research and Development
Expenditure, Changes in the number of products.
- **Players:** players are interdependent Players are the decision-makers (the managers of oligopolist firms). Other players' actions are not entirely predictable

Q: Solve the regression equation $St=105.3(1.464)_2$ for the base year 1991 and find for 2011 and 2015?

5 marks

$$St=105.3(1.464)_2$$

Year	t	=105.3*(1.464)^t	Year	t	
1991	**2**	**225.69**	2004	15	32029.08
1992	3	330.41	2005	16	46890.58
1993	4	483.72	2006	17	68647.81
1994	5	708.16	2007	18	100500.39
1995	6	1036.75	2008	19	147132.57
1996	7	1517.80	2009	20	215402.09
1997	8	2222.07	2010	21	315348.65
1998	9	3253.10	**2011**	**22**	**461670.43**
1999	10	4762.55	2012	23	675885.51
2000	11	6972.37	2013	24	989496.39
2001	12	10207.54	2014	25	1448622.71
2002	13	14943.85	**2015**	**26**	**2120783.65**
2003	14	21877.79			

Q: Describe the flaws of customer Clinic Approach?

3 Marks

Consumer clinics also face serious shortcomings, however. First, the results are questionable because participants know that they are in an artificial situation and that they are being observed. Therefore, they are not likely to act normally, as they would in a real market situation.

Q: Difference between replacement and cost reduction investment?

3 Marks

In general, firms classify investment projects into the following categories:
1. Replacement: Investments to replace equipment that is worn out in the production process.
2. Cost reduction. Investments to replace working but obsolete equipment with new and more efficient equipment, expenditures for training programs aimed at reducing labor costs, and expenditures to move production facilities to areas where labor and other inputs are cheaper.

3. Output expansion of traditional products and markets: Investments to expand production facilities in response to increased demand for the firm's traditional products in traditional or existing markets.

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4. Expansion into new products and/or markets: Investments to develop, produce, and sell new products and/or enter new markets.
5. Government regulation. Investments made to fulfill government regulations. These include investment projects required to meet government health and safety regulations, pollution control, and to satisfy other legal requirements

Q: Describe the Marri's model?

3 Marks

MARRIS'S MODEL OF MAXIMIZATION OF GROWTH RATE (1964)

The goal of the firm in Marris's model is the maximization of the balanced rate of growth of the firm, that is, the maximization of the rate of growth of demand for the products of the firm, and of the growth of its capital supply:

Maximize $g = g_D = g_C$

Where g = balanced growth rate

g_D = growth of demand for the products of the firm

g_C = growth of the supply of capital

In pursuing this maximum balanced growth rate the firm has two constraints. Firstly, a constraint set by the available managerial team and its skills. Secondly, a financial constraint set by the desire of managers to achieve maximum job security. The rationalization of this goal is that by jointly maximizing the rate of growth of demand and capital the managers achieve maximization of their own utility as well as of the utility of the owners / shareholders.

Question: 01: Consider the following information of the firm:

Total fixed cost = Rs. 350 **Price level = Rs. 20**

Average variable cost = Rs. 10 **Target profit level = Rs. 250**

From this information, calculate the breakeven level of output and target level of output. (Marks: 2.5+2.5)

TR = P * Q

TC = TFC + (AVC) (Q)

Setting total revenue equal to total costs and substituting Q_B (the breakeven output) for Q, we have

TR = TC

$(P)(Q_B) = TFC + (AVC)(Q_B)$

Solving Equation for the breakeven output, **Q_B**, we get

$(P)(Q_B) - (AVC)(Q_B) = TFC$

$(Q_B)(P - AVC) = TFC$

$$Q_B = \frac{TFC}{P - A\,VC}$$

For example, with TFC = 350, P = 20, and AVC= 10,

QB =350

20 – 10

Q_B= 350/10

Q_B=35

We are given targeted profit

Cost-volume-profit or breakeven analysis can be used in determining the target output (Q_T) at which a target profit ($л_T$) can be achieved. To do so, we simply add $л_T$ to the numerator of Q_B equation and have:

Q_T = TFC + $л_T$

P - AVC

$$Q_T = \frac{350 + 250}{20 - 10} = \frac{600}{10} = 60$$

Question: 02

You have given the following linear programming problem:

Maximize Profit (п) = Rs. 20X + Rs. 8Y

Subject to the following constraints:

3X + 1Y + SA = 40

2X + 2Y + SB = 25

4Y + SC = 30

The corner points are given as:

Corner points X Y

From all this information, find the profit (Rs.) level at each corner point. (Marks: 5)

A 0 0	20(0)+8(0) = 0
B 7 0	20(7)+8(0) = 140
C 5 3	20(5)+8(3) =100+24=124
D 2 7	20(2)+8(7) = 40+56=96
E 0 7	20(0)+8(7) = 56

Question: 03: Given the total revenue and total cost functions:

$TR = 80Q - 0.00025Q^2$
$TC = 260,450 + 5Q + 0.00035Q^2$ **3 Marks**

Find the profit maximizing level of output under monopoly

TR=TC

80Q – 0.00025Q2 = = 260,450 + 5Q +0.00035Q2
MR=MC

80-0.0005Q = 5+0.0007Q

80-5=0.0007Q+0.0005Q
75=0.0012Q

Q = 75/0.0012

Q=62500

1-Define economies of scope. Why it is important for firms?

3 Marks

ECONOMIES OF SCOPE

Cost analysis focuses not just on how much to produce but also on what combination of products to offer. By good quality of their efficiency in the production of a given product, firms often enjoy cost advantages in the production of related products.

ECONOMIES OF SCOPE CONCEPT

Economies of scope exist when the cost of joint production is less than the cost of producing multiple outputs separately. A firm will produce products that are complementary in the sense that **producing them together costs less than producing them individually.**

In fact, the economies of scope concept explain why firms typically produce multiple products. Companies establish a working relation with an ideal group of prospective customers for stocks, bonds, and other investments. When viewed as a delivery vehicle or marketing device, money market mutual funds may be one of the industry's most profitable financial product lines.

2-Differentiate between pure oligopoly and differentiated oligopoly? 3 Marks

. If the product is homogenous, it is called pure oligopoly. If the product is differentiated, it is called differentiated oligopoly.

3-What is transfer pricing? Why does the problem of transfer pricing arises? Discuss 3 Marks

Transfer Pricing: Meaning and Nature of Transfer Pricing
Transfer pricing is the pricing strategy in which a firm optimally sets the internal price at which an upstream division sells inputs to a downstream division.

The transfer pricing problem results from **the difficulty of establishing profitable relationships** among divisions of a single company when each separate business unit stands in vertical relation to the other. A vertical relation is one where the output of one division or company is the input to another. Vertical integration occurs when a single company controls various links in the production chain from basic inputs to final output.

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Question # 2 - Baumol's sales maximization model was criticized on what grounds? discuss?

CRITICISM OF BAUMOL'S MODEL

• The sales-maximization hypothesis cannot be tested against competing behavioral hypotheses unless the demand and cost functions of individual firms are measured. However, such data are not disclosed by firms to researchers, and are commonly unknown to the firms.

• It has been argued that in the long run the sales-maximization and the profit maximization hypotheses yield identical solutions; because profits attain their normal level in the long-run and the minimum profit constraint will coincide with the maximum attainable ('normal') level of profit. This argument cannot be accepted without any empirical evidence to support it.

• The sales-maximization theory does not show how equilibrium in an industry, in which all firms are sales maximizers, will be attained. The relationship between the firm and the industry is not established by BaumoI.
• Baumol's hypothesis is based on the implicit assumption that the firm has market power, that is, it can have control on its price and expansion policies. The firm can take decisions without being affected by competitors' reactionss
• The assumption that the MR of advertising is positive (6TR/6A >

3-Briefly discuss the basic valuation model of firm. How this model can be adjusted for risk?

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4-Given the following total revenue and total cost function of a firm

TR = 22Q - 0.5Q2

TC = $(1/3)Q^3 - 8.5Q^2 + 50Q + 90$

Find out the marginal revenue and marginal cost

MR = 22-Q
MC = $Q^2 - 17Q + 50$

Q1. What is Expansion Path and what are the points on Expansion path? (3 Marks)

EXPANSION PATH

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

By connecting points of tangency between Isoquants and budget lines (*points D, E, and F*), an **expansion path** is identified that depicts optimal input combinations as the scale of production expands. For example, line ODEF in Figure (6) is the expansion path for the firm. It shows that the minimum cost of reaching Isoquants 8Q, 10Q and 14Q are $80, $100, and $140, given by the points of tangency of Isoquants and Isoquants (i.e., joining points of optimal input combinations. It also shows that with total cost of $80, $100, and $140 the maximum output that the firm can produce are 8Q, 10Q and 14Q respectively.

Question:
Deffirence between positive and negative Externaity? (3)

When actions taken by market participants create either benefits or costs that spill over to other members of society

- *Positive externalities* occur when spillover effects are beneficial to society
- *Negative externalities* occur when spillover effects are costly to society

Question:
Difference between finity repeated and infinity repeated games. (3)

Repeated Game: game is played repeatedly over a period of time.
Finitely repeated games include games that take place over fixed or uncertain period of time.

Question:
Why firm produce more than one products.

To gain the economies of scale. A firm will produce products that are complementary in the sense that producing them together costs less than producing them individually.

Not sure about this

Question:
Define capital rationing and why the practice of capital rationing is in use

Capital rationing: the practice of restricting capital expenditures to a certain amount due to:

- Rue to limits on external financing
- Management may not want to (add to equity) sell stocks in fear of losing control of the firm.

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 undertaking all the projects with positive NPV may involve such rapid expansion as to strain the managerial and other resources of the firm.

Question:
Define price discrimination give example of situation of price discriminations

Price discrimination refers to the charging of different prices for different quantities of a product, at different times, to different customer groups or in different markets, when these price differences are not justified by cost differences.

Relevant examples of price discrimination are:

(1) power (i.e., electrical and gas) companies charging lower prices to residential than to commercial users;
(2) medical and legal professions charging lower fees to low-income than to high-income people;
(3) companies charging lower prices abroad than at home for a variety of products and services, ranging from books and medicines to movies;
(4) entertainment companies charging lower prices for afternoon than for evening performances of movies, theaters, and sports events;
(5) service industries charging lower prices for children and the elderly for public transportation, and airline tickets;
(6) hotels charging lower rates for seminars, workshops and conventions.

Characteristic of Firm and what is main objective of firm (5)

Every firm has objective to maximize the profit of the organization. And as you know characteristics of the firm are vary according to the structure of the firm, it means this question is incomplete, characteristics of firms vary under perfect competition, monopoly, oligopoly, and monopolistic firm.

1) Behavioral school of theory.

The main features of the Behavioural School are:

 Firms are multi-goal, multi-decision, multi-product organizational coalitions
 Imperfect knowledge and bounded rationality. Managers have imperfect knowledge.
 Managers cannot meet the aspiration levels of all stakeholders. Managers can never really know if they are maximizing profits, sales or growth (of the firm) or not

 Managers cannot maximize, instead they have to satisfice

2) Degree of price discrimination.

DEGREES OF PRICE DISCRIMINATION

There are three types of price discrimination: first, second, and third degree. By practicing any type of price discrimination, the firm can increase its total revenue and profits by capturing all or part of the consumer's surplus.

1. First degree price discrimination creates different prices for each customer (Maximum profits).
2. Second degree price discrimination gives quantity discounts.
3. Third degree price discrimination assigns different prices by customer age, gender, income, location etc

3) Cournot oligopoly model

The Cournot model postulates that firms in oligopoly markets make simultaneous and independent output decisions. In other words Cournot model assumes that oligopoly demand curves are stable because each firm treats the output of the other firm as given, and then makes its own output decision. The relationship between an oligopoly firm's profit-maximizing output level and competitor output is called the oligopoly output- reaction curve because it shows how oligopoly firms react to competitor production decisions. A firm's reaction function shows how its optimal output varies with each possible action by its rival firm.

Q1. Differentiate between Pure and Differentiated oligopoly? (3 Marks)

If the product is homogenous, it is called pure oligopoly. If the product is differentiated, it is called differentiated oligopoly.

Q2. Calculate profit Function following data given? (3 Marks)

Qd=120-15p and P=20-0.5Q

TC=50+3Q

Qd = 120 – 15 (20 – 0.5Q)

Qd = 120 – 300 + 7.5Q

Q – 7.5Q = - 180

-6.5Q = -180

Q = -180 / -6.5

Q = 27. 69

Q = 28

P = 20 – 0.5Q

= 20 – 0.5(28)

= 20 – 14

P = 6

TR = P*Q

=28 * 6

= 168

Profit = TR – TC

= 168 – (50 + 3Q)

= 168 – (50 + 84)

= 168 – 134

Profit = 34

Define Investment Opportunity Schedule and Marginal Cost of Capital? (3 Marks)

IOS shows the pattern of returns (IRR) for all potential investment projects.
Marginal cost of capital is the extra financing cost necessary to fund an additional investment project.
Optimality requires setting **IRR = MCC.**

The investment opportunity schedule (IOS) shows the pattern of returns for all of the firm's potential investment projects.
The marginal cost of capital (MCC) is the extra financing cost necessary to fund an additional investment project, expressed on a percentage basis.

Q3. Average cost/unit of the firm in 2009 was 500 and 460 in 2010. Find Learning Rate? (3 Marks)

Learning Rate = [1 – AC2/AC1] * 100

=[1-460/500] * 100
= [1-0.92]*100
=0.08*100
=8%

Q4. Write characteristics of STACKELBERG Oligopoly model? (5 Marks)

BASIC FEATURES OF STACKELBERG MODEL

• Firms produce differentiated or homogeneous products.
• There are few firms selling serving many consumers.
• A single firm (the leader) chooses an output before all other firms choose their output. The leader commits to an output before all other firms.
• All other firms (the followers) take as given the output of the leader and choose outputs that maximize profits given the leader's output.
• Barriers to entry exist.

Q6. Data was provided: (5 Marks) Probability Cash Flow

Boom	0.25	500
Normal	0.50	400
Recession	0.25	300

a.) Find Expected Value of Firm?

Boom 0.25 *500 = 125
Normal 0.50 *400 = 200
Recession 0.25 *300 =75
Expected profit from Project = 400

b.) Find Standard Deviation?

St. Dev. = **SQRT** [(500-400)*(0.25)+(400-400)(0.50)+(300-400)*(0.25)]
St. Dev. =

Question 7. Given: Z=f(l, k) + λ (c*-Wl+ rk) Find Partial Derivative of L,K, λ with respect to Z. (5 marks

As compare to example given on:
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$L = f(Q_X, Q_Y) + \lambda(M - P_X Q_X - P_Y Q_Y)$

Z=f(l, k) + λ (c*-Wl+ rk)

To maximize L, we find the partial derivative of L with respect to Q_X, Q_Y and λ and set them equal to zero, That is the First-order conditions imply(FOC)

$$\partial L/\partial Q_X = \partial f/\partial Q_X - \lambda P_X = 0$$

$$\partial Z/\partial l = \partial f/\partial l - \lambda l = 0$$

$$\partial L/\partial Q_Y = \partial f/\partial Q_Y - \lambda P_Y = 0$$

$$\partial Z/\partial k = \partial f/\partial k - \lambda k = 0$$

$$\partial L/\partial \lambda = M - P_X Q_X - P_Y Q_Y = 0$$

$$\partial Z/\partial \lambda = c^* - Wl - rk = 0$$

3) How Opportunity cost is defined?

Opportunity cost is the foregone value associated with the current rather than next-best use of an asset. In other words, cost is determined by the highest-valued *opportunity* that must be foregone to allow current use.

4) What is by-product?? Give example.

A by-product is any output that is usually produced as a direct result of an increase in the production of some other output.

The cost and availability of any single by-product depends on the demand for others. By-products are also sometimes the unintended or unavoidable results of producing certain goods. For example pollution can be thought of as the necessary by-product of many production processes.

5) What are the characteristics of competitive competition? Discuss them.

PERFECT COMPETITION (NO MARKET POWER)

- Many buyers and sellers
- Buyers and sellers are price takers
- Product is homogeneous
- Very easy market entry and exit
- Non price competition not possible
- Perfect mobility of resources
- Economic agents have perfect knowledge

Examples: Stock Market, agricultural products, financial instruments, precious metals, petroleum products, prominent markets for intermediate goods and services, e.g., discount retailing, unskilled labor market.

7) How Game theory helps in risk analysis?

In an uncertain economic environment, value maximization is achieved using the risk-adjusted valuation models, decision trees and computer simulation. Under certain circumstances, however, when extreme uncertainty exists, game theory decision criteria may be appropriate.

Uncertainty is defined as the case where there is more than one possible outcome to a decision and the probability of each specific outcome occurring is not known or even meaningful. As a result, decision making under uncertainty is necessarily subjective, some specific decision rules are available, however, if the decision maker can identify the possible states of nature and estimate the payoff for each strategy. Two specific decision rules applicable under uncertainty are the maximin criterion and the minimax regret criterion.

8) what are the contributions of Behavioral theory??

BEHAVIORALTHEORY: **CONTRIBUTIONS**

The behavioral theory has contributed to the development of the theory of the firm in several respects. Its main contributions are:

• Insight into the process of goal-formation and the internal resource allocation: an aspect neglected in traditional theory.

• Cyert and March's definition of 'slack' shows that this concept is equivalent to the 'economic rent' of factors of production of the traditional theory of the firm. The contribution of the behavioral school lies in the analysis of the stabilizing role of 'slack' on the activity of the firm.

9) Last question is also mathematical. Question was given and the requirement was to calculate the explicit & implicit cost of entrepreneur.

Question: Implicit cost is opportunity cost?? Explain with Example....3marks

Implicit Cost is also opportunity cost equal to what a firm must give up in order to use factors which it neither purchases nor hires. It is the opposite of an explicit cost, which is borne directly.[1] In other words, an implicit cost is any cost that

results from using an asset instead of renting, selling, or lending it. The term also applies to forgone income from choosing not to work.

Question: Homogenous productions function..... 3 marks

There are two special classes of production functions that are often analyzed. The production function Q=f(X_1,X_2) is said to be homogeneous of degree n, if given any positive constant k, f(kX_1,kX_2)=k^n f(X_1, X_2). If n>1, the function exhibits increasing returns to scale, and it exhibits decreasing returns to scale if n<1. If it is homogeneous of degree 1, it exhibits constant returns to scale.

Question: Interpret following Regression Equation...3 marks

yt = 9.5 + 3.65Xt

yt= sales quanitity Xt = advertising cost

Explaining "a" that it's an intercept point, the regression line intercept Y-axis on 9.5 and 3.65 is the slope coefficient that means , one unit increase in Xt (advertisement) will cause 3.65 increase in sales (Yt)

Question: Find Profit Function...5

P = 430 + 50Q

TC = 3000 + 45Q + 0.03Q2

Solution

P = 430 – 0.05Q

TR = P*Q = (430 – 0.05Q)* Q = 430Q – 0.05Q2

MR = ∂TR/∂Q = 430 – 0.1Q

TC = 3000 + 45Q + 0.03Q2

MC = ∂TC/∂Q = 45 + 0.06Q

The firm total profit function is:

π= TR – TC = (430 - 0.05Q) Q – 3000 – 45Q - 0.03Q2

π= -0.08 Q2 + 385Q – 3000

Setting marginal revenue = marginal cost and solving for the related output quantity gives:

MR = MC

430 – 0.1Q = 45 + 0.06Q

430 – 45 = 0.07 Q

385 / 0.07 = Q

5500 = Q

At Q = 5500

P = 430 – 0.05Q

P = 430 – 0.05 (5500)

P = 430 – 275

P = 155

π= -0.08 Q2 + 385Q – 3000

=-0.08*(5500)^2 + 385*(5500) – 3000

= -305500

There are two special classes of production functions that are often analyzed. The production function Q=f(X_1,X_2) is said to be homogeneous of degree n, if given any positive constant k, f(kX_1,kX_2)=k^n f(X_1, X_2). If n>1, the function exhibits increasing returns to scale, and it exhibits decreasing returns to scale if n<1. If it is homogeneous of degree 1, it exhibits constant returns to scale.

Question: Simultaneous games and Sequential games

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ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Simultaneous games are games in which players make their strategy choices at the same time Sequential games are games in which players make their decisions sequentially. In sequential games, the first mover may have an advantage.

Question: DEGREES OF PRICE DISCRIMINATION

There are three types of price discrimination: first, second, and third degree. By practicing any type of price discrimination, the firm can increase its total revenue and profits by capturing all or part of the consumer's surplus.

1. First degree price discrimination creates different prices for each customer (maximum profits).
2. Second degree price discrimination gives quantity discounts.
3. Third degree price discrimination assigns different prices by customer age, gender, income, location etc.

Question: CAPITAL BUDGETING PROCESS

The term Capital refers to the funds employed to finance business; a budget is a detailed plan of projected inflows and outflows over future periods. Capital Budgeting is planning expenditures that generate cash flows expected to stretch beyond one year. Process of planning expenditures that give rise to revenues or returns over a number of years.

Question: PAYBACK PERIOD

Payback Period is the amount of time required for the firm to recover its initial cost in a project, as calculated from a *cash inflow.* In the case of an annuity, the payback period can be found by dividing the initial investment by the annual cash inflow.

Question: ECONOMIC INTERPRETATION OF λ

- A high value of λ indicates that Q could be increased substantially by relaxing the constraint
- A low value of λ indicates that there is not much to be gained by relaxing the constraint
- λ = 0 implies that the constraint is not binding

Question: *Management was measured as a performance ranking of on the basis of 3 criteria:*

---

1. Output goal attainment
2. Cost over- or under -fulfillment
3. Quality level of output

Question: MEASURING RISK WITH PROBABILITY DISTRIBUTIONS

The concept of probability distributions is essential in evaluating and comparing investment projects. In general, the outcome or profit of an investment project is highest when the economy is booming and smallest when the economy is in a recession. If we multiply each possible outcome or profit of an investment by its probability of occurrence and add these products, we get the expected value or profit of the project.

Question No. 55

Differentiate between Centralized Collusion and Market Based Collusion? (3 Marks)

In contrast, the traditional collusion is better called "centralized collusion". There is a "central agent" that asks the members to act in concert with the group. Such coordination kills competition and originality, invites cheating, fighting and other detrimental activities. The payment for hiring the "central agent" further reduces the joint profit.

www.vchowk.com

ECO404 Final Paper July 16th, 2012.

The paper had 56 MCQs, 4 short Questions of 3 marks each and 4 Short Questions of 5 marks each…!!! Total Marks 88…!!!

Q1. What is Expansion Path and what are the points on Expansion path? (3 Marks)
Q2. Differentiate between Centralized Collation and Market Based Collation? (3 Marks)
Q3. What is the criticism on Maris Model of growth? (3 Marks)
Q4. Differentiate and discuss Risk and Uncertainty? (3 Marks)
Q5. Consider the following information of the firm:
Total fixed cost = Rs.250
Price level = Rs. 15
Average variable cost = Rs. 5
Target profit level = Rs. 150
From this information, calculate the break even level of output and target level of output? (5 Marks)
Q6. What are the Assumptions of Neo-Classical Theory? (5 Marks)
Q7. Why decision making is complicated in oligopoly as compared to other market structures? Discuss? (5 Marks)
Q8. Differentiate Cost of Capital and Cost of Debt? (5 Marks)

Solution to Q5.

(1)

$$Q_B = \frac{TFC}{P - AVC}$$

$$= \frac{250}{15 - 5}$$

$$= \mathbf{25}$$

(2)

$$Q_T = \frac{TFC + \prod T}{P - AVC}$$

$$= \frac{250 + 150}{15 - 5}$$

$$= \mathbf{40}$$

ECO404 Final Paper July 16th, 2012.

The paper had 56 MCQs, 4 short Questions of 3 marks each and 4 Short Questions of 5 marks each…!!! Total Marks 88…!!!

Q1. Differentiate between Pure and Differentiated oligopoly? (3 Marks)

Q2. Calculate profit Function following data given? (3 Marks)

Qd=120-15p and P=20-0.5Q

TC=50+3Q

Define Investment Opportunity Schedule and Marginal Cost of Capital? (3 Marks)

Q3. Average cost/unit of the firm in 2009 was 500 and 460 in 2010. Find Learning Rate? (3 Marks)

Q4. Write characteristics of Stachelberg Oligopoly model? (5 Marks)

Q5. Why forms produce more than one product? (5 Marks)

Q6. Data was provided: (5 Marks)

	Probability	Cash Flow
Boom	0.25	500
Normal	.050	400
Recession	0.25	300

a.) Find Expected Value of Firm?

b.) Find Standard Deviation?

Q7. Given: $Z=f(l,k) + \lambda (c^*-Wl+rk)$ Find Partial Derivative of L,K, λ with respect to Z. (5 Marks)

Question: Differentiate between explicit and implicit costs.

Answer: Explicit costs: Explicit costs are the actual out of pocket expenditures of the firm to purchase or hire the inputs it requires in production. Implicit costs: Implicit costs refer to the value of the inputs owned and used by the firm in its own production processes.

Question: Differentiate between accounting profit and economic profit.

Answer: Business or Accounting Profit: Total revenue minus the explicit or accounting costs of production. Economic Profit: Total revenue minus the explicit and implicit costs of production.

Question: Differentiate between direct demand and derived demand.

Answer: Direct Demand Individual's demand for goods and services that directly satisfy consumer desires is known as direct demand. This is also known as consumer demand. Derived Demand Goods that are demanded not for direct consumption but rather for their use in providing other goods and services are known as derived demand. Their demand is derived from the demand for the products they are used to provide. Input demand is called derived demand. It is also called business demand.

Question: Differentiate between the situation of surplus and shortage.

Answer: Surplus: A surplus is created when producers supply more of a product at a given price than buyers demand. Surplus describes a condition of excess supply. Shortage: A shortage is created when buyers demand more of a product at a given price than producers are willing to supply. Shortage describes a condition of excess demand.

Question: Differentiate between short run and long run.

Answer: Short run: The short run is the period of time in which sellers already in the market respond to a change in equilibrium price by adjusting variable inputs. Buyers already in the market respond to changes in equilibrium price by adjusting the quantity demanded for the good or service. Long run: The long run is the period of time in which new sellers may enter a market, existing sellers may exit from a market, existing sellers may adjust fixed factors of production, and buyers may react to a change in equilibrium price by changing their tastes and preferences.

Read more: Midterm papers of ECO404 required - Virtual University of Pakistan http://vustudents.ning.com/group/eco404managerialeconomics/forum/topics/midterm-papers-of-eco404-required#ixzz1uL3otV5x

Graphically Explain shapes of isoquants

for perfect substitution

for perfect substitution(3 Marks)

Differentiate implicit and explicit (3 Marks)

Differentiate Qualitative and Quantitative Forecasting (3 Marks)

In what situation, we use engineering techniques (5 Marks)

Numerical Question: Seasonal Trend with 4 years 1st quarter data

	Actual Data ...	Forecast Data
2004.1	15.63	15
2005.1	20.63	17
2006.1	21.72	19
2007.1	23.65	21

•



Permalink Reply by Adnan Younas on December 1, 2011 at 12:27pm

Some MCQs.. from the following

1. Holding all other things constant (*ceteris paribus*

2. *Total Cost = Fixed + Variable*

3. Time series data can be represented as:

Yt = f(Tt, Ct, St, Rt)

Yt = actual value of the data at time t

Tt = trend component at t

Ct = cyclical component at t

St = seasonal component at t

Rt = random component at t

4. PROBLEMS IN REGRESSION ANALYSIS

Multicollinearity: Two or more explanatory variables are highly correlated.

Heteroskedasticity: Variance of error term is not independent of the Y variable.

Autocorrelation: Consecutive error terms are correlated.

•

Permalink Reply by Nadia Butt on November 26, 2011 at 2:27pm

I had Eco'z paper today

27 total Qz

22 WERE MCQZ,mostly frm Regression,elasticity,and last lectures

Theory Qz were Forecasting Note(3)

Lagrangian equation and partial derivatives (5)

To mazimize the function Q=f(l,k) c= W+rk How w.r.t Lagrangian eq (3)

Calculating Average trend of different quarters(5)

EXpansion path (3)

•

Permalink Reply by Kiran Sohail on November 27, 2011 at 11:53pm

ok it was 22 mcqs

3 question of 3 marks
2 q of 5 marks
one q was abt learning curve its explanation and diagram 5 marks
a numerical of 5 mark where to find forecasting for 2011 and 2015 of some firm
a 3 mark q where to explain demerits of moving average
one more q of 3 mark was to explain demerits of something which i forget may be of exponential smoothing not sure
and one q i forget completly
mcqs r very easy if u just read all the lectures u can attempt all 22 mcqs just reading all lecture can be very beneficial
mcqs were frm lec 6 to 20
i thing lectures about forecasting and regression are very imp and also the elasticity

•

Permalink Reply by shahbaz on December 1, 2011 at 8:49pm

hi nadia

i am shahbaz

from vu

i nee eco404 guidence from you if you can help me mail me on shahbaz.4499@gmail.com

•

Permalink Reply by Adnan Younas on January 12, 2012 at 7:09pm

Dear Shahbaz,

Please share your Quiz. I will share my Quiz too soon in my thread ECO404 Quiz

•

Permalink Reply by Adnan Younas on December 15, 2011 at 3:33pm

Please save your LMS Quiz in future and share on this forum or email me at adnanunos@yahoo.com.

I did not found a single MCQ paper on internet of this subject.

I will share my and my friend Quiz to you too.

Procedure for saving your Quiz (Quickly)

when you are on Quiz screen then press Print Screen button and paste into MS word and so on. Question will be saved in less then 2 seconds.

•

Permalink Reply by Nadia Butt on December 16, 2011 at 10:51am

I'll share my quiz files as well....I prefer saving questions in notepad ,later on it can be easily edited and solved for exam preperation.

•

Permalink Reply by Adnan Younas on December 16, 2011 at 11:42am

OK thanks its better way to save MCQs Quiz.

•

Permalink Reply by Adnan Younas on December 23, 2011 at 2:58pm

Here is my Quiz, Please Share your Quiz too. I will be waiting.

Quiz No. 3 ECO404

Question # 1 of 10 (Start time: 02:39:58 PM) Total Marks: 1

Multiple equation econometric models consist of:

Select correct option:

Equalities only

Identities only

Behavioral equations only

Both Identities and behavioral equations

Question # 2 of 10 (Start time: 02:40:51 PM) Total Marks: 1

Profit is maximized where:

Select correct option:

Marginal revenue = Marginal cost

Marginal revenue = Average cost

Marginal cost = Average revenue

Average revenue = Average cost

Question # 3 of 10 (Start time: 02:42:05 PM) Total Marks: 1

If a firm takes opinion of different individuals for the purpose of forecasting, this is known as:

Select correct option:

- Personal insight approach to forecasting
- Panel consensus approach to forecasting
- Delphi approach to forecasting
- Time series analysis

Question # 4 of 10 (Start time: 02:43:17 PM) Total Marks: 1

Fluctuations should be random. It is the requirement of which of the following technique(s)?

Select correct option:

- Moving average technique only
- Exponential smoothing technique only
- Both moving average and exponential techniques
- Barometric technique

Question # 5 of 10 (Start time: 02:44:32 PM) Total Marks: 1

Non-price determinant of supply includes:

Select correct option:

- Prices of other goods or services
- Input prices
- Weather conditions
- All of the given options

Question # 6 of 10 (Start time: 02:45:31 PM) Total Marks: 1

If the percentage change in profit is Rs. 400 and percentage change in sales is Rs. 100 then what will be the degree of operating leverage?

Select correct option:

- 1
- 2

3

4

Question # 7 of 10 (Start time: 02:46:43 PM) Total Marks: 1

Given the Cobb Douglas production function: Q = ALaKb
There will be decreasing returns to scale if:

Select correct option:

a + b > 1

a + b < 1

a + b = 1

a + b = 0

Question # 8 of 10 (Start time: 02:47:37 PM) Total Marks: 1

Y = a + bX + e "b" shows ---------- in this regression equation.

Select correct option:

Intercept

Slope

Elasticity

Power

Question # 9 of 10 (Start time: 02:49:01 PM) Total Marks: 1

Given the marginal cost function, MC = 5Q2 – 10Q + 50, what is dMC/dQ?

Select correct option:

5Q + 50

10Q - 10

10Q + 50

5Q – 10Q

Question # 10 of 10 (Start time: 02:49:44 PM) Total Marks: 1

In which of the following cases, cost elasticity will be more than one?

Select correct option:

When percentage change in cost is less than the percentage change in output

When percentage change in cost is greater than the percentage change in output

When percentage change in cost is equal to the percentage change in output

When percentage change in cost is less than the percentage change in input

Read more: ECO404 Current Mid Term Papers Nov 2011, (Fall 2011) - Virtual University of Pakistan http://vustudents.ning.com/group/eco404managerialeconomics/forum/topics/eco404-current-mid-term-papers-nov-2011-fall-2011#ixzz1uL5T9Eg1

13 may paperr

ECO404 final paper spring 2011

46 MCQs
1) 2 functions were given their derivatives were asked to find.
2) what is the usefulness of Game theory?
3) how oppurtunity cost is defined?
4) what is by-product?? give example
5) what are the characteristics of competitive cmpetition? discuss them
6) Why decision making is complicated in oligopoly as compared to other market structures?? dicuss
7) How Game theory helps in risk analysis?
what are the contributions of Behavioral theory??
9) last question is also mathematical. aquestion was given and the requirement was to calculate the explicit & implicit cost of enterpreneur..(the same questiion which was in assignmnet 1)

Solved by:	www.vucybarien.com	Class	WELL WISHER/BABA KK BSCS 6th Semester
Subject	ECO404	Solution Type:	Final Term Papers of Year : 2012,2011,2010,2009…2006
Institute:	Virtual University of Pakistan		

My ECO 404 Paper 10/02/2012

Question 56 Mcq's and 8 Subjective total 64

Q.No1:- Define Finitely repeated games & Infinitely repeated games Marks 3

Q.No 2:- briefly describe Risk attitude 3 Mark

Q.No3:- calculate profit Function following data given 3 Mark

Qd=120-15p and P=90-0.5Q

TC=50+3Q

Q.No 4:- Price Discrimination and types describe in detail 5 Mark

Q.No 5:- characteristic of Firm and what is main objective of firm 5 Marks

Q.No 6:- Calculate Profit Function from below data 5 Mark

P=430-0.05Q

TC=3000+45Q+0.03Q2

Q.7 :- Assumption of neoclassical theory 5 Mark

QNo8:- Cost of Capital & Cost of Debt 5Mark

important to note price discrimination aur Game theory main say mcq's zayada thay so please read these chapters

MCQ's are difficult

Quiz No. 3 ECO404

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Input prices

Weather conditions

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If the percentage change in profit is Rs. 400 and percentage change in sales is Rs. 100 then what will be the degree of operating leverage?

Select correct option:

1

2

3

4 (Correct)

Question # 7 of 10 (Start time: 02:46:43 PM) Total Marks: 1

Given the Cobb Douglas production function: Q = ALaKb There will be decreasing returns to scale if:

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a + b < 1 (Correct)

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5Q + 50

10Q - 10 (Correct)

10Q + 50

5Q – 10Q

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Select correct option:

When percentage change in cost is less than the percentage change in output

When percentage change in cost is greater than the percentage change in output (Correct)

When percentage change in cost is equal to the percentage change in output

1:-In Q =In A + a In K + b In L. This is the logarithmic form of:

Select correct option:

Investment function

Cobb Douglas production function page(94)

Simple production function

Regression function

2:- Inputs that are Fixed during the production process are known as -------- inputs.

Select correct option:

Fixed

Variable

Good

Bad

3:- No Cash is define in

implicit cost

4:- In which of the following games, players decide about their strategy choices at the same time?

Select correct option:

Repeated games

Non-repeated games

Simultaneous games

Sequential games

5:-Public utilities are an example of:

Select correct option:

Perfect competition

Natural monopoly

Monopolistic competition

Oligopoly

6:- Question # 11 of 20 (Start time: 06:11:25 PM) Total Marks: 1

Y = 3.35 + 2.63X shows slop in this regression equation.

Select correct option:

2.63

3.35

4.5

2.5

7:- GNP=C+I+G equation is

Definitional Equation

Behavior equation

8:- Cigarettes are an example of which type of market structure?

Select correct option:

Perfect competition

Monopoly

Monopolistic competition

Oligopoly

9:- Which of the following is TRUE for the law of supply'? :

Select correct option:

There is inverse relationship between the price of a good and quantity demanded of that good

There is positive relationship between the price of a good and quantity demanded of that good

There is positive relationship between the price of a good and quantity supplied of that good

10:-There is inverse relationship between income and quantity supplied of a good

Decreasing part of marginal product of labor curve shows which of the following law?

Select correct option:

Law of diminishing returns

Law of diminishing marginal utility

Law of demand

Law of supply

ONE MORE PAPER

Difference between PERFECT COMPETITION and MONOPOLY

Simultaneous games and Sequential games

DEGREES OF PRICE DISCRIMINATION

MEASURING RISK WITH PROBABILITY DISTRIBUTIONS

PAYBACK PERIOD

Question # 1

Game which is played repeatedly over a period of time is known as:

Select correct option:

Repeated game

Non-repeated game

Simultaneous game

Sequential game

Question # 2

The questionnaires which include answers like Yes or No are called:

Select correct option:

Open ended questionnaires

Closed questionnaires

Bad questionnaires

Good questionnaires

Question # 3

Change in slope of the function can be shown by:

Select correct option:

First derivative of the function

Second derivative of the function

Elasticity of the function

Tangent of the function

Geometrically, the derivative refers to the slope of the function, while the second derivative refers to the change in the slope of the function. The value of the second derivative can thus be used to determine whether we have a maximum or a minimum at the point at which the first derivative (slope) is zero.

The rule is if the second derivative is positive, we have a minimum, and if the second derivative is negative, we have a maximum.

Question # 4

The questionnaire which allows the respondents to answer according to their own choice is called:

Select correct option:

Open ended questionnaire

Closed questionnaire

Bad questionnaire

Good questionnaire

Question # 5

Break even output can be calculated as:

Select correct option:

Break even output = Total fixed cost / (Price – Average variable cost)

Break even output = Total variable cost / (Price + Average variable cost)

Break even output = Total fixed cost / (Price + Average fixed cost)

Break even output = Total fixed cost + (Price – Average variable cost)

Question # 6

Percentage change in profit due to one unit change in sales is known as:

Select correct option:

Degree of operating leverage

Economies of scale

Degree of freedom

Cost elasticity

Question # 7

Decreasing part of marginal product of labor curve shows which of the following law?

Select correct option:

Law of diminishing returns

Law of diminishing marginal utility

Law of demand

Law of supply

Question # 8

What will happen if there is an increase in wage rate?

Select correct option:

Short run cost curve will shift upward

Short run cost curve will shift downward

There is movement along the short run cost curve

No change will happen in the cost curve

Any change in the operating environment leads to a shift in short-run cost curves. For example, a general rise in wage rates leads to an upward shift; a fall in wage rates leads to a downward shift.

Question # 9

The term of regression was first used by:

Select correct option:

Milton Friedman

Francis Galton

Dominick Salvatore

J M Keynes

Question # 10

Monopoly firm breaks even at the point where:

Select correct option:

Average total cost = Price

Average total cost > Price

Average total cost < Price

Average total cost = Marginal cost

If ATC = P at best level of output, the monopolist breaks even,

and if ATC > P at the best level of output, the monopolist incur a loss.

Question # 11

Which of the following is the similarity of monopolistic competition with perfect competition?

Select correct option:

Small number of buyers and sellers

Free entry and exit of firms

Barriers to entry and exit of firms

Single buyer

Question # 12

Price always exceeds marginal revenue in which of the following market structures?

Select correct option:

Perfect competition

Monopoly

Monopolistic competition

Oligopoly

Given a downward sloping monopoly demand curve, price always exceeds marginal revenue

under monopoly

Question # 13

Given the total revenue equation: TR = 26Q, marginal revenue is:

Select correct option:

Q

26Q

26

26 + Q

Question # 14

Which of the following type of demand directly satisfy consumer desires?

Select correct option:

Direct demand

Indirect demand

Derived demand

Market demand

Direct demand : This model is appropriate for analyzing individual demand for goods and services that directly satisfy consumer desires. This is also labeled as consumer demand

Question # 15

Marginal product of labor is defined as the:

Select correct option:

Change in total product due to one unit change in labor

Change in average product due to one unit change in labor

Change in total product due to one unit change in average product

Change in total product due to one unit change in cost of labor

Question # 16

Average product of labor is defined as the:

Select correct option:

Total product / Labor input

Average product / Input

Total product / Average product

Total product / Cost of labor

Question # 17

Cournot oligopoly model was developed in:

Select correct option:

1830

1838

1840

1845

Cournot oligopoly model	1838
BERTRAND MODEL:	1883
Stackelberg Model	1934
Sweezy (Kinked-Demand) Model	1939

Question # 18

If price elasticity of demand for any product is constant, the demand curve of that product will be:

Select correct option:

Horizontal

Vertical

Rectangular hyperbola

Positively sloped

Some demand curves have constant elasticity; the Demand curve assumes the shape of a

rectangular hyperbola

Question # 19

Parameters of structural equations can not be estimated by ---------- technique.

Select correct option:

Ordinary least square

Root mean square error

Simultaneous equation

Behavioral equation

we cannot use the ordinary least squares technique (OLS) to estimate the parameters of the structural equations

Question # 20

The total cost (TC) function is given as: TC = 200 + 80Q. What is the variable cost?

Select correct option:

80Q

250

340

200

ONE MORE PAPER

Had Ec0's paper today... Pattern as far as i remember: 56 or 57 mcqz 4 qz of 5 marks 4 qz of 3 marks Long qz,Public goods (5) A q from Behavioral theory (5) One q was about Costs of production,Analysis and

reasons for change in historical n current costs(5) why firms produce more than one product)5) Risk attitudes (3) Change in demand cuvre factors (3) Transfer pricing (3)Marris model assumptions (3)

ONE MORE PAPER

AOA!

this is my todays ECO404 final paper.

it contains

46 MCQs

1) 2 functions were given their derivatives were asked to find.

2) what is the usefulness of Game theory?

3) how oppurtunity cost is defined?

4) what is by-product?? give example

5) what are the characteristics of competitive cmpetition? discuss them

6) Why decision making is complicated in oligopoly as compared to other market structures?? dicuss

7) How Game theory helps in risk analysis?

what are the contributions of Behavioral theory??

9) last question is also mathematical. aquestion was given and the requirement was to calculate the explicit & implicit cost of enterpreneur..(the same questiion which was in assignmnet 1)

Quiz No. 3 ECO404

Question # 1 of 10 (Start time: 02:39:58 PM) Total Marks: 1

Multiple equation econometric models consist of:

Select correct option:

Equalities only

Identities only

Behavioral equations only

Both Identities and behavioral equations

Question # 2 of 10 (Start time: 02:40:51 PM) Total Marks: 1

Profit is maximized where:

Select correct option:

Marginal revenue = Marginal cost

Marginal revenue = Average cost

Marginal cost = Average revenue

Average revenue = Average cost

Question # 3 of 10 (Start time: 02:42:05 PM) Total Marks: 1

If a firm takes opinion of different individuals for the purpose of forecasting, this is known as:

Select correct option:

Personal insight approach to forecasting

Panel consensus approach to forecasting

Delphi approach to forecasting

Time series analysis

Question # 4 of 10 (Start time: 02:43:17 PM) Total Marks: 1

Fluctuations should be random. It is the requirement of which of the following technique(s)?

Select correct option:

Moving average technique only

Exponential smoothing technique only

Both moving average and exponential techniques

Barometric technique

Question # 5 of 10 (Start time: 02:44:32 PM) Total Marks: 1

Non-price determinant of supply includes:

Select correct option:

Prices of other goods or services

Input prices

Weather conditions

All of the given options

Question # 6 of 10 (Start time: 02:45:31 PM) Total Marks: 1

If the percentage change in profit is Rs. 400 and percentage change in sales is Rs. 100 then what will be the degree of operating leverage?

Select correct option:

1

2

3

4

Question # 7 of 10 (Start time: 02:46:43 PM) Total Marks: 1

Given the Cobb Douglas production function: Q = ALaKb There will be decreasing returns to scale if:

Select correct option:

a + b > 1

a + b < 1

a + b = 1

a + b = 0

Question # 8 of 10 (Start time: 02:47:37 PM) Total Marks: 1

Y = a + bX + e "b" shows ---------- in this regression equation.

Select correct option:

Intercept

Slope

Elasticity

Power

Question # 9 of 10 (Start time: 02:49:01 PM) Total Marks: 1

Given the marginal cost function, MC = 5Q2 – 10Q + 50, what is dMC/dQ?

Select correct option:

5Q + 50

10Q - 10

10Q + 50

5Q – 10Q

Question # 10 of 10 (Start time: 02:49:44 PM) Total Marks: 1

In which of the following cases, cost elasticity will be more than one?

Select correct option:

When percentage change in cost is less than the percentage change in output

When percentage change in cost is greater than the percentage change in output

When percentage change in cost is equal to the percentage change in output

When percentage change in cost is less than the percentage change in input

Question: 01

Consider the following information of the firm:

Total fixed cost = Rs. 350

Price level = Rs. 20

Average variable cost = Rs. 10

Target profit level = Rs. 250

From this information, calculate the break even level of output and target level of output.

(Marks: 2.5+2.5)

Question: 02

You have given the following linear programming problem:

Maximize Profit (π) = Rs. 20X + Rs. 8Y

Subject to the following constraints:

3X + 1Y + SA = 40

2X + 2Y + SB = 25

4Y + SC = 30

The corner points are given as:

Corner points	X	Y
A	0	0
B	7	0
C	5	3
D	2	7
E	0	7

From all this information, find the profit (Rs.) level at each corner point.

(Marks: 5)

Question: 03

Given the total revenue and total cost functions:

TR = 80Q – 0.00025Q2

TC = 260,450 + 5Q +0.00035Q2

Find the profit maximizing level of output under monopoly

Total 64 Questions out of which 56 MCQ'S,4 question of 3 marks and 4 of 5 marks.

3 Marks Questions:

1-Define economies of scope.why it is important for firms?

2-Differentiate between pure oligopoly and differentiated oligopoly?

3-What is transfer pricing ? why does the problem of transfer pricing arises ? discuss

4-Differentiate between replacement investment and cost reduction investment?

5 Marks Questions:

1-Why marginal decision making is complicated under oligopoly as compared to the market structure? discuss

2-Baumol's sales maximization model was criticized on what grounds? discuss?

3-Briefly discuss the basic valuation model of firm.How this model can be adjusted for risk?

4-Given the following total revenue and total cost function of a firm

TR = 22Q - 0.5Q2

TC = (1/3)Q3 - 8.5Q2 + 50Q + 90

Find out the marginal revenue and marginal cost

ONE MORE PAPER

There were total 60 Question mcqs can be easily solved if you have read the handouts Mostly mcqs were on perfection competition, Games and product and their classification like Wheat Market, Cigarettes, Mining industry etc

How Game Theory can be beneficial in Risk Analysis 5 Marks

How Government can exercise Monopoly Give Reasons 5 Marks

How Behavioral Theories contributed in Economy of Sales 5 Marks

Best of luck to all students.

ONE MORE PAPER

Today Final Term Paper Fall 2012

On 20 Feb 2013

Total Questions: 60

Total Marks: 78

Total MCQs: 54 (Each of 1 Mark)

Total Short Questions: 3 (Each of 3 Mark)

Total Long Questions: 3 (Each of 5 Mark)

Question No. 55

Differentiate between Centralized Collation and Market Based Collation? (3 Marks)

Question No. 56

What is the criticism on Maris Model of growth? (3 Marks)

Question No. 57

Differentiate and discuss Risk and Uncertainty? (3 Marks)

Question No. 58

Consider the following information of the firm:

Total fixed cost = Rs.250

Price level = Rs. 15

Average variable cost = Rs. 5

Target profit level = Rs. 150

From this information, calculate the breakeven level of output and target level of output? (5 Marks)

Question No. 59

What are the Assumptions of Neo-Classical Theory? (5 Marks)

Question No. 60

Why decision making is complicated in oligopoly as compared to other market structures? Discuss? (5 Marks)

ONE MORE PAPER

SUBJECTIVE QUESTIONS:

Q1. Describe the types of price discrimination briefly? 3marks

Q2. What is opportunity loss? Define 3marks

Q3. Differentiate between the simultaneous move game and the sequential move game? 3marks

Q4. What are the contribution of MARRIS MODEL? Discuss briefly 3marks

Q5. Discuss the characterisitics of oligopoly? 5marks

Q6. Data was provided: (5 Marks)

	Probability	Cash Flow
Boom	0.25	500
Normal	.050	400
Recession	0.25	300

a.) Find Expected Value of Firm?

b.) Find Standard Deviation? MARKS 2+3

Q7. Criticism of WILLIAMSON's managerial utility of Maximization model? 5marks

Q8. some data was given and have to find out EXPLICIT COST AND IMPLICIT COST :(? 5marks

ONE MORE PAPER

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(Marks: 2.5+2.5)

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ONE MORE PAPER

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7) How Game theory helps in risk analysis?

[IMG]file:///C:\Users\irfan\AppData\Local\Temp\msohtmlclip1\01\ clip_image001.gif[/IMG] what are the contributions of Behavioral theory??

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ONE MORE PAPER

MY PAPER:
total 60 questions
52 MCQS, 8 subjective questions
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Best of luck to all students.

ONE MORE PAPER

my paper
53 mcq & 7 subjective question:
(3 mark) Define
Investment opportunity schedule
Marginal capital cost
(3 mark) Oligopoly respond cost curve

(3 mark) Maris model critic

(5 mark) Oligopoly charactersatatic
(5 mark) William model critic
(5 mark) Capital rational bounding
(5 mark) Game theory elements

ONE MORE PAPER

ECO404 Final Paper July 16

th

, 2012.

The paper had 56 MCQs, 4 short Questions of 3 marks each and 4 Short Questions of 5 marks each…!!! Total Marks 88…!!!

Q1. What is Expansion Path and what are the points on Expansion path? (3 Marks)

Q2. Differentiate between Centralized Collation and Market Based Collation? (3 Marks)

Q3. What is the criticism on Maris Model of growth? (3 Marks)

Q4. Differentiate and discuss Risk and Uncertainty? (3 Marks)

Q5. Consider the following information of the firm:

Total fixed cost = Rs.250

Price level = Rs. 15

Average variable cost = Rs. 5

Target profit level = Rs. 150

From this information, calculate the break even level of output and target level of output? (5 Marks)

Solution to Q5.

(1)

$$Q_B = \frac{TFC}{P - AVC}$$

$$= \frac{250}{15 - 5}$$

$$= \mathbf{25}$$

(2)

$$Q_T = \frac{TFC + \prod T}{P - AVC}$$

$$= \frac{250 + 150}{15 - 5}$$

$$= \mathbf{40}$$

Q6. What are the Assumptions of Neo-Classical Theory? (5 Marks)

Q7. Why decision making is complicated in oligopoly as compared to other market structures? Discuss? (5 Marks)

Q8. Differentiate Cost of Capital and Cost of Debt? (5 Marks)

ONE MORE PAPER

The paper had 56 MCQs, 4 short Questions of 3 marks each and 4 Short Questions of 5 marks each…!!! Total Marks 88…!!!

Q1. Differentiate between Pure and Differentiated oligopoly? (3 Marks)

Q2. Calculate profit Function following data given? (3 Marks)

Qd=120-15p and P=20-0.5Q

TC=50+3Q

Define Investment Opportunity Schedule and Marginal Cost of Capital? (3 Marks)

Q3. Average cost/unit of the firm in 2009 was 500 and 460 in 2010. Find Learning Rate? (3 Marks)

Q4. Write characteristics of Stachelberg Oligopoly model? (5 Marks)

Q5. Why forms produce more than one product? (5 Marks)

Q6. Data was provided: (5 Marks)

	Probability	Cash Flow
Boom	0.25	500
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Recession	0.25	300

a.) Find Expected Value of Firm?

b.) Find Standard Deviation?

Q7. Given: $Z=f(l,k) + \lambda (c^*-Wl+rk)$ Find Partial Derivative of L,K, λ with respect to Z. (5 Marks)

ONE MORE PAPER

16-Jul-2012

Zufi

Final paper of Eco404 There were 64 Qz Q: difference between cost of capital and cost of debt? 5marks Q: criticism on william's managerial utility? 5 marks Q: solve the regration equation St=105.3(1.464)2 for the base year 1991 and find for 2011 and 2015? 5 marks Q: Write down the elements of Game theory? 5 Marks Q: describe the flaws of customer Clinic Approach? 3 Marks Q: Difference between replacement and cost reduction investment? 3 Marks Q: Slope of Average cost AC=400Q3+463Q2/Q+12Q+10? 3marks Q: describe the marri's model? 3 marks MCQz ware easy and 3 to 5 were from midterm.

ONE MORE PAPER

1) behavioral school of theories

2) degree of price discrimination

3) cournot oligopoly model

4) 2 numericals

baki abe yaad nae :P

and 56 mcqs

ONE MORE PAPER

hi my todays paper

subjective questions are

deffirence between positive and negative externaity (3)

difference between finity repeated and infinity repeated games(3)

why firm produce more than one products

define capital rationing and why the practice of capital rationing are in use

define price discrimination give example of situation of price discriminations

calculate unknown variations from the data its numerical

like this : year sale (y) estimated line of regression

1 20 19.5

2 18 14.6

ONE MORE PAPER

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Q8. Differentiate Cost of Capital and Cost of Debt? (5 Marks)

ONE MORE PAPER

Final paper of Eco404

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Q: Difference between replacement and cost reduction investment? 3 Marks

Q: Slope of Average cost AC=400Q3+463Q2/Q+12Q+10? 3marks

Q: describe the Marris model? 3 marks

ONE MORE PAPER

My ECO-404 Paper
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== ==ALL PAPERS GIVEN ABOVE ARE OF YEAR 2012===

ONE MORE PAPER(2011)

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ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Question No. 56

What is the criticism on Maris Model of growth? (3 Marks)

CRITICISM OF MARRIS MODEL

 Marris assumes cost structure and price to be given. Therefore, he assumes that profit is given which is not true. In fact, price determination has been the major point of contention in the theory of firms whereas Marris has ignored this aspect completely. This is one of the serious drawback.
 Most industries are oligopolistic and hence businesses are interdependent. Marris ignores this interdependence among firms' decisions. This implies that product differentiation goes unnoticed.
 He fails to explain oligopolistic interdependence in non collusive firms. His theory, therefore, has limited applicability.

Question No. 57

Differentiate and discuss Risk and Uncertainty? (3 Marks)

RISK refers to a situation in which there is more than one possible outcome to a decision and the probability of each specific outcome is known or can be estimated. Thus, risk requires that the decision maker knows all the possible outcomes of the decision and have some idea of the probability of each outcome's occurrence.

UNCERTAINTY is the case when there is more than one possible outcome to a decision and where the probability of each specific outcome occurring is not known or even meaningful. This may be due to insufficient past information or instability in the structure of the variables. In extreme forms of uncertainty not even the outcomes themselves are known

Question No. 59

What are the Assumptions of Neo-Classical Theory? (5 Marks)

1. The traditional theory of the firm assumes a single owner-entrepreneur. There is no separation between ownership and management. The owner-entrepreneur takes all the decisions. All organizational problems are assumed resolved by payments to the factors employed by the firm. The entrepreneur is furthermore assumed to have unlimited information, unlimited time at his

disposal, and unlimited ability to compare all the possible alternative actions and choose the one that maximizes his profit. This behavior is described by postulating that the entrepreneur acts with global rationality. There is no time, information or other constraints in achieving the single goal of profit maximization.

2. The firm has a single goal, that of profit maximization. The firm is a profit maximize. It is assumed to make as much profit as possible. This means that model is an **optimizing' model**. The firm attempts to achieve the best possible performance, rather than simply seeking "feasible" performance which meets some set of minimum criteria. In most situations these are consistent with each other. Shareholder wealth is maximized by selecting the most profitable set of plant and equipment and then operating it in the most profitable way. BUT THERE MAY BE EXCEPTIONS - making maximum short term profit might cause entry of the new firms or government intervention.
3. This goal is attained by application of the marginalist principle. It assumes perfect certainty. Cost and demand conditions are perfectly known.

Question No. 60

Why decision making is complicated in oligopoly as compared to other market structures? Discuss? (5 Marks)

Because in oligopoly we donot know the action of revival, and take counter move without know the strategy of opponent so risk factor is very high making the decision under oligopoly as compare to other.

Managerial decision making is much more complex under oligopoly than under any other forms of market structure. For example, if firm A and firm B sell differentiated products. How does the quantity demanded for firm A's product change when firm
A change its price? The effect of a price reduction on the quantity demanded of firm A's product depends upon whether its rival firm B responds by cutting its prices too. Similarly the effect of a price increase on the quantity demanded of firm A's product depends upon whether its rival firm B responds by raising its prices too. The gist of the above discussion is that:

Main Reason is Strategic interdependence: the rival firms aren't in complete control of their own destiny!

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Question: How Game Theory can be beneficial in Risk Analysis 5 Marks

In an uncertain economic environment, value maximization is achieved using the risk-adjusted valuation models, decision trees and computer simulation. Under certain circumstances, however, when extreme uncertainty exists, game theory decision criteria may be appropriate.
Uncertainty is defined as the case where there is more than one possible outcome to a decision and the probability of each specific outcome occurring is not known or even meaningful. As a result, decision making under uncertainty is necessarily subjective, some specific decision rules are available, however, if the decision maker can identify the possible states of nature and estimate the payoff for each strategy. Two specific decision rules applicable under uncertainty are the maximin criterion and the minimax regret criterion.

How Government can exercise Monopoly Give Reasons 5 Marks

A monopoly may be established by a government franchise. In this case, the firm is set up as the sole producer and distributor of a product or service but is subjected to governmental regulation. The best example of a monopoly established by government franchise is the post office, railways, airlines. Local governments also require a license to operate many types of businesses, such as taxis, broadcasting, TV channels, medical units, and private health care clinics.

One of the major sources of monopoly is that the firm might own a **patent**. The ownership of a patent or copyright that precludes other firms from using a particular production process or producing the same product. Patents are granted by the government for a period of 17 years as an incentive to inventors in the US while in Pakistan it is granted for a period of 20 years.

In **natural monopoly** governments usually allow a single firm to operate in the market but regulate the price of the services provided, so as to allow the firm only a normal return on investment.

How Behavioral Theories contribute. 5 Marks

BEHAVIORALTHEORY: CONTRIBUTIONS
The behavioral theory has contributed to the development of the theory of the firm in several respects. Its main contributions are:
• Insight into the process of goal-formation and the internal resource allocation: an aspect neglected in traditional theory.

• Cyert and March's definition of 'slack' shows that this concept is equivalent to the 'economic rent' of factors of production of the traditional theory of the firm. The contribution of the behavioral school lies in the analysis of the stabilizing role of 'slack' on the activity of the firm.

FACTORS AFFECTING THE PRICE ELASTICITY OF DEMAND 3 Marks

There are three major influences on price elasticity:
(1) the extent to which a good is considered to be a necessity;
(2) the availability of substitute goods to satisfy a given need; and
(3) The proportion of income spent on the product.

Q: Describe Satisficing Behavior. 5 Marks

FIRM'S GOALS: THE SATISFICING MODEL

 Production Goal: A goal that output must lie within a certain satisfactory range.
 Inventory Goal: Aims at maintaining a balanced inventory of both raw materials and finished goods. A balanced stock of both raw materials and finished goods ensures continuity of production and supply of goods to the customers and also keeps the input suppliers satisfied.
 Sales Goal: A goal that there must be a satisfactory level of sales however defined.
 Market share Goal: A goal indicating a satisfactory size of market share as a measure of comparative success as well as of the growth of the firm.
 Profit Goal: is set by the top management so as to satisfy the demands of share holders and the expectations of bankers and other finance institutions; and also to create funds with which they can accomplish their own goals and projects, or satisfy the other goals of the firm.

The number of goals of the firm may be increased, but the decision-making process becomes increasingly complex. The efficiency of decision-making decreases as the number of goals increases.

Q: Difference between cost of capital and cost of debt?

5 Marks

COST OF CAPITAL

The correct discount rate (cost of capital) for each investment project is simply the **marginal cost of capital** for that project. However, determination of the correct discount rate for individual projects is not an easy task.

THE COST OF DEBT

The cost of debt is easier to explain. It is simply the interest rate that must be paid on the debt.
The cost of debt is the return that lenders require to lend their funds to the firm. Since the interest payments made by the firm on borrowed funds are deductible

from the firm's taxable income, the after-tax cost of borrowed funds to the firm (k_d) is given by the interest paid (r) multiplied by 1 minus the firm's marginal tax rate, t. That is,

$k_d = r(1 - t)$

For example, if the firm borrows at a 12.5 percent interest rate and faces a 40 percent marginal tax rate on its taxable income, the after-tax cost of debt capital to the firm is

$k_d = 12.5\%(1- 0.40) = 7.5\%$

Q: Criticism on Williamson's managerial utility? 5 marks

CRITICISM OF WİLLİAMSON'S MANAGERİAL UTİLİTY MAXİMİZATİO MODEL

1. The available evidence is not enough for the verification of the theory
2. Williamson's model fails to deal with the core problem of oligopolistic interdependence of strong oligopolistic rivalry. Williamson's model hold is said to hold only where rivalry is not strong. When rivalry is strong a profit-maximizing model is more appropriate.

Q: Write down the elements of Game theory? 5 Marks

GAME THEORY: ELEMENTS

- **Strategies:** A Strategy is a specific course of action with clearly defined values for policy variables. A strategy is dominant if it is optimal regardless of what the other player does.
- **Payoff** of a strategy is the "net gain" it will bring to the firm for any given counter-strategy of the rival firm
- **Payoff matrix** is the table giving the payoffs from all the strategies open to the firm and the rivals' responses
- **Policy Variables:** Price, Quantity, Quality, advertising Research and Development
Expenditure, Changes in the number of products.
- **Players:** players are interdependent Players are the decision-makers (the managers of oligopolist firms). Other players' actions are not entirely predictable

Q: Solve the regression equation $St=105.3(1.464)_2$ for the base year 1991 and find for 2011 and 2015?

5 marks

$$St=105.3(1.464)_2$$

Year	t	=105.3*(1.464)^t	Year	t	
1991	**2**	**225.69**	2004	15	32029.08
1992	3	330.41	2005	16	46890.58
1993	4	483.72	2006	17	68647.81
1994	5	708.16	2007	18	100500.39
1995	6	1036.75	2008	19	147132.57
1996	7	1517.80	2009	20	215402.09
1997	8	2222.07	2010	21	315348.65
1998	9	3253.10	**2011**	**22**	**461670.43**
1999	10	4762.55	2012	23	675885.51
2000	11	6972.37	2013	24	989496.39
2001	12	10207.54	2014	25	1448622.71
2002	13	14943.85	**2015**	**26**	**2120783.65**
2003	14	21877.79			

Q: Describe the flaws of customer Clinic Approach?

3 Marks

Consumer clinics also face serious shortcomings, however. First, the results are questionable because participants know that they are in an artificial situation and that they are being observed. Therefore, they are not likely to act normally, as they would in a real market situation.

Q: Difference between replacement and cost reduction investment?

3 Marks

In general, firms classify investment projects into the following categories:
1. Replacement: Investments to replace equipment that is worn out in the production process.
2. Cost reduction. Investments to replace working but obsolete equipment with new and more efficient equipment, expenditures for training programs aimed at reducing labor costs, and expenditures to move production facilities to areas where labor and other inputs are cheaper.

3. Output expansion of traditional products and markets: Investments to expand production facilities in response to increased demand for the firm's traditional products in traditional or existing markets.

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4. Expansion into new products and/or markets: Investments to develop, produce, and sell new products and/or enter new markets.
5. Government regulation. Investments made to fulfill government regulations. These include investment projects required to meet government health and safety regulations, pollution control, and to satisfy other legal requirements

Q: Describe the Marri's model?

3 Marks

MARRIS'S MODEL OF MAXIMIZATION OF GROWTH RATE (1964)

The goal of the firm in Marris's model is the maximization of the balanced rate of growth of the firm, that is, the maximization of the rate of growth of demand for the products of the firm, and of the growth of its capital supply:

Maximize $g = g_D = g_C$

Where g = balanced growth rate

g_D = growth of demand for the products of the firm

g_C = growth of the supply of capital

In pursuing this maximum balanced growth rate the firm has two constraints. Firstly, a constraint set by the available managerial team and its skills. Secondly, a financial constraint set by the desire of managers to achieve maximum job security. The rationalization of this goal is that by jointly maximizing the rate of growth of demand and capital the managers achieve maximization of their own utility as well as of the utility of the owners / shareholders.

Question: 01: Consider the following information of the firm:

Total fixed cost = Rs. 350 **Price level = Rs. 20**

Average variable cost = Rs. 10 **Target profit level = Rs. 250**

From this information, calculate the breakeven level of output and target level of output. (Marks: 2.5+2.5)

TR = P * Q

TC = TFC + (AVC) (Q)

Setting total revenue equal to total costs and substituting Q_B (the breakeven output) for Q, we have

TR = TC

$(P)(Q_B) = TFC + (AVC)(Q_B)$

Solving Equation for the breakeven output, **Q_B**, we get

$(P)(Q_B) - (AVC)(Q_B) = TFC$

$(Q_B)(P - AVC) = TFC$

$$Q_B = \frac{TFC}{P - A\,VC}$$

For example, with TFC = 350, P = 20, and AVC= 10,

QB =350

20 – 10

Q_B= 350/10

Q_B=35

We are given targeted profit

Cost-volume-profit or breakeven analysis can be used in determining the target output (Q_T) at which a target profit ($л_T$) can be achieved. To do so, we simply add $л_T$ to the numerator of Q_B equation and have:

Q_T = TFC + $л_T$

P - AVC

$$Q_T = \frac{350 + 250}{20 - 10} = \frac{600}{10} = 60$$

Question: 02

You have given the following linear programming problem:

Maximize Profit (п) = Rs. 20X + Rs. 8Y

Subject to the following constraints:

3X + 1Y + SA = 40

2X + 2Y + SB = 25

4Y + SC = 30

The corner points are given as:

Corner points X Y

From all this information, find the profit (Rs.) level at each corner point. (Marks: 5)

A 0 0	20(0)+8(0) = 0
B 7 0	20(7)+8(0) = 140
C 5 3	20(5)+8(3) =100+24=124
D 2 7	20(2)+8(7) = 40+56=96
E 0 7	20(0)+8(7) = 56

Question: 03: Given the total revenue and total cost functions:

$TR = 80Q - 0.00025Q^2$
$TC = 260,450 + 5Q + 0.00035Q^2$ **3 Marks**

Find the profit maximizing level of output under monopoly

TR=TC

80Q – 0.00025Q2 = = 260,450 + 5Q +0.00035Q2
MR=MC

80-0.0005Q = 5+0.0007Q

80-5=0.0007Q+0.0005Q
75=0.0012Q

Q = 75/0.0012

Q=62500

1-Define economies of scope. Why it is important for firms?

3 Marks

ECONOMIES OF SCOPE

Cost analysis focuses not just on how much to produce but also on what combination of products to offer. By good quality of their efficiency in the production of a given product, firms often enjoy cost advantages in the production of related products.

ECONOMIES OF SCOPE CONCEPT

Economies of scope exist when the cost of joint production is less than the cost of producing multiple outputs separately. A firm will produce products that are complementary in the sense that **producing them together costs less than producing them individually.**

In fact, the economies of scope concept explain why firms typically produce multiple products. Companies establish a working relation with an ideal group of prospective customers for stocks, bonds, and other investments. When viewed as a delivery vehicle or marketing device, money market mutual funds may be one of the industry's most profitable financial product lines.

2-Differentiate between pure oligopoly and differentiated oligopoly? 3 Marks

. If the product is homogenous, it is called pure oligopoly. If the product is differentiated, it is called differentiated oligopoly.

3-What is transfer pricing? Why does the problem of transfer pricing arises? Discuss 3 Marks

Transfer Pricing: Meaning and Nature of Transfer Pricing
Transfer pricing is the pricing strategy in which a firm optimally sets the internal price at which an upstream division sells inputs to a downstream division.

The transfer pricing problem results from **the difficulty of establishing profitable relationships** among divisions of a single company when each separate business unit stands in vertical relation to the other. A vertical relation is one where the output of one division or company is the input to another. Vertical integration occurs when a single company controls various links in the production chain from basic inputs to final output.

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Question # 2 - Baumol's sales maximization model was criticized on what grounds? discuss?

CRITICISM OF BAUMOL'S MODEL

• The sales-maximization hypothesis cannot be tested against competing behavioral hypotheses unless the demand and cost functions of individual firms are measured. However, such data are not disclosed by firms to researchers, and are commonly unknown to the firms.

• It has been argued that in the long run the sales-maximization and the profit maximization hypotheses yield identical solutions; because profits attain their normal level in the long-run and the minimum profit constraint will coincide with the maximum attainable ('normal') level of profit. This argument cannot be accepted without any empirical evidence to support it.

• The sales-maximization theory does not show how equilibrium in an industry, in which all firms are sales maximizers, will be attained. The relationship between the firm and the industry is not established by BaumoI.
• Baumol's hypothesis is based on the implicit assumption that the firm has market power, that is, it can have control on its price and expansion policies. The firm can take decisions without being affected by competitors' reactionss
• The assumption that the MR of advertising is positive (6TR/6A >

3-Briefly discuss the basic valuation model of firm. How this model can be adjusted for risk?

Page 266

4-Given the following total revenue and total cost function of a firm

TR = 22Q - 0.5Q2

TC = $(1/3)Q^3 - 8.5Q^2 + 50Q + 90$

Find out the marginal revenue and marginal cost

MR = 22-Q
MC = $Q^2 - 17Q + 50$

Q1. What is Expansion Path and what are the points on Expansion path? (3 Marks)

EXPANSION PATH

ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

By connecting points of tangency between Isoquants and budget lines (*points D, E, and F*), an **expansion path** is identified that depicts optimal input combinations as the scale of production expands. For example, line ODEF in Figure (6) is the expansion path for the firm. It shows that the minimum cost of reaching Isoquants 8Q, 10Q and 14Q are $80, $100, and $140, given by the points of tangency of Isoquants and Isoquants (i.e., joining points of optimal input combinations. It also shows that with total cost of $80, $100, and $140 the maximum output that the firm can produce are 8Q, 10Q and 14Q respectively.

Question:
Deffirence between positive and negative Externaity? (3)

When actions taken by market participants create either benefits or costs that spill over to other members of society

- *Positive externalities* occur when spillover effects are beneficial to society
- *Negative externalities* occur when spillover effects are costly to society

Question:
Difference between finity repeated and infinity repeated games. (3)

Repeated Game: game is played repeatedly over a period of time.
Finitely repeated games include games that take place over fixed or uncertain period of time.

Question:
Why firm produce more than one products.

To gain the economies of scale. A firm will produce products that are complementary in the sense that producing them together costs less than producing them individually.

Not sure about this

Question:
Define capital rationing and why the practice of capital rationing is in use

Capital rationing: the practice of restricting capital expenditures to a certain amount due to:

- Rue to limits on external financing
- Management may not want to (add to equity) sell stocks in fear of losing control of the firm.

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 undertaking all the projects with positive NPV may involve such rapid expansion as to strain the managerial and other resources of the firm.

Question:
Define price discrimination give example of situation of price discriminations

Price discrimination refers to the charging of different prices for different quantities of a product, at different times, to different customer groups or in different markets, when these price differences are not justified by cost differences.

Relevant examples of price discrimination are:

(1) power (i.e., electrical and gas) companies charging lower prices to residential than to commercial users;
(2) medical and legal professions charging lower fees to low-income than to high-income people;
(3) companies charging lower prices abroad than at home for a variety of products and services, ranging from books and medicines to movies;
(4) entertainment companies charging lower prices for afternoon than for evening performances of movies, theaters, and sports events;
(5) service industries charging lower prices for children and the elderly for public transportation, and airline tickets;
(6) hotels charging lower rates for seminars, workshops and conventions.

Characteristic of Firm and what is main objective of firm (5)

Every firm has objective to maximize the profit of the organization. And as you know characteristics of the firm are vary according to the structure of the firm, it means this question is incomplete, characteristics of firms vary under perfect competition, monopoly, oligopoly, and monopolistic firm.

1) Behavioral school of theory.

The main features of the Behavioural School are:

 Firms are multi-goal, multi-decision, multi-product organizational coalitions
 Imperfect knowledge and bounded rationality. Managers have imperfect knowledge.
 Managers cannot meet the aspiration levels of all stakeholders. Managers can never really know if they are maximizing profits, sales or growth (of the firm) or not

 Managers cannot maximize, instead they have to satisfice

2) Degree of price discrimination.

DEGREES OF PRICE DISCRIMINATION

There are three types of price discrimination: first, second, and third degree. By practicing any type of price discrimination, the firm can increase its total revenue and profits by capturing all or part of the consumer's surplus.

1. First degree price discrimination creates different prices for each customer (Maximum profits).
2. Second degree price discrimination gives quantity discounts.
3. Third degree price discrimination assigns different prices by customer age, gender, income, location etc

3) Cournot oligopoly model

The Cournot model postulates that firms in oligopoly markets make simultaneous and independent output decisions. In other words Cournot model assumes that oligopoly demand curves are stable because each firm treats the output of the other firm as given, and then makes its own output decision. The relationship between an oligopoly firm's profit-maximizing output level and competitor output is called the oligopoly output- reaction curve because it shows how oligopoly firms react to competitor production decisions. A firm's reaction function shows how its optimal output varies with each possible action by its rival firm.

Q1. Differentiate between Pure and Differentiated oligopoly? (3 Marks)

If the product is homogenous, it is called pure oligopoly. If the product is differentiated, it is called differentiated oligopoly.

Q2. Calculate profit Function following data given? (3 Marks)

Qd=120-15p and P=20-0.5Q

TC=50+3Q

Qd = 120 – 15 (20 – 0.5Q)

Qd = 120 – 300 + 7.5Q

Q – 7.5Q = - 180

-6.5Q = -180

Q = -180 / -6.5

Q = 27. 69

Q = 28

P = 20 – 0.5Q

= 20 – 0.5(28)

= 20 – 14

P = 6

TR = P*Q

=28 * 6

= 168

Profit = TR – TC

= 168 – (50 + 3Q)

= 168 – (50 + 84)

= 168 – 134

Profit = 34

Define Investment Opportunity Schedule and Marginal Cost of Capital? (3 Marks)

IOS shows the pattern of returns (IRR) for all potential investment projects.
Marginal cost of capital is the extra financing cost necessary to fund an additional investment project.
Optimality requires setting **IRR = MCC.**

The investment opportunity schedule (IOS) shows the pattern of returns for all of the firm's potential investment projects.
The marginal cost of capital (MCC) is the extra financing cost necessary to fund an additional investment project, expressed on a percentage basis.

Q3. Average cost/unit of the firm in 2009 was 500 and 460 in 2010. Find Learning Rate? (3 Marks)

Learning Rate = [1 – AC2/AC1] * 100

=[1-460/500] * 100
= [1-0.92]*100
=0.08*100
=8%

Q4. Write characteristics of STACKELBERG Oligopoly model? (5 Marks)

BASIC FEATURES OF STACKELBERG MODEL

• Firms produce differentiated or homogeneous products.
• There are few firms selling serving many consumers.
• A single firm (the leader) chooses an output before all other firms choose their output. The leader commits to an output before all other firms.
• All other firms (the followers) take as given the output of the leader and choose outputs that maximize profits given the leader's output.
• Barriers to entry exist.

Q6. Data was provided: (5 Marks) Probability Cash Flow

Boom	0.25	500
Normal	0.50	400
Recession	0.25	300

a.) Find Expected Value of Firm?

Boom 0.25 *500 = 125
Normal 0.50 *400 = 200
Recession 0.25 *300 =75
Expected profit from Project = 400

b.) Find Standard Deviation?

St. Dev. = **SQRT** [(500-400)*(0.25)+(400-400)(0.50)+(300-400)*(0.25)]
St. Dev. =

Question 7. Given: Z=f(l, k) + λ (c*-Wl+ rk) Find Partial Derivative of L,K, λ with respect to Z. (5 marks

As compare to example given on:
Page # 19

$L = f(Q_X, Q_Y) + \lambda(M - P_X Q_X - P_Y Q_Y)$

Z=f(l, k) + λ (c*-Wl+ rk)

To maximize L, we find the partial derivative of L with respect to Q_X, Q_Y and λ and set them equal to zero, That is the First-order conditions imply(FOC)

$$\partial L/\partial Q_X = \partial f/\partial Q_X - \lambda P_X = 0$$

$$\partial Z/\partial l = \partial f/\partial l - \lambda l = 0$$

$$\partial L/\partial Q_Y = \partial f/\partial Q_Y - \lambda P_Y = 0$$

$$\partial Z/\partial k = \partial f/\partial k - \lambda k = 0$$

$$\partial L/\partial \lambda = M - P_X Q_X - P_Y Q_Y = 0$$

$$\partial Z/\partial \lambda = c^* - Wl - rk = 0$$

3) How Opportunity cost is defined?

Opportunity cost is the foregone value associated with the current rather than next-best use of an asset. In other words, cost is determined by the highest-valued *opportunity* that must be foregone to allow current use.

4) What is by-product?? Give example.

A by-product is any output that is usually produced as a direct result of an increase in the production of some other output.

The cost and availability of any single by-product depends on the demand for others. By-products are also sometimes the unintended or unavoidable results of producing certain goods. For example pollution can be thought of as the necessary by-product of many production processes.

5) What are the characteristics of competitive competition? Discuss them.

PERFECT COMPETITION (NO MARKET POWER)

- Many buyers and sellers
- Buyers and sellers are price takers
- Product is homogeneous
- Very easy market entry and exit
- Non price competition not possible
- Perfect mobility of resources
- Economic agents have perfect knowledge

Examples: Stock Market, agricultural products, financial instruments, precious metals, petroleum products, prominent markets for intermediate goods and services, e.g., discount retailing, unskilled labor market.

7) How Game theory helps in risk analysis?

In an uncertain economic environment, value maximization is achieved using the risk-adjusted valuation models, decision trees and computer simulation. Under certain circumstances, however, when extreme uncertainty exists, game theory decision criteria may be appropriate.

Uncertainty is defined as the case where there is more than one possible outcome to a decision and the probability of each specific outcome occurring is not known or even meaningful. As a result, decision making under uncertainty is necessarily subjective, some specific decision rules are available, however, if the decision maker can identify the possible states of nature and estimate the payoff for each strategy. Two specific decision rules applicable under uncertainty are the maximin criterion and the minimax regret criterion.

8) what are the contributions of Behavioral theory??

BEHAVIORALTHEORY: **CONTRIBUTIONS**

The behavioral theory has contributed to the development of the theory of the firm in several respects. Its main contributions are:

• Insight into the process of goal-formation and the internal resource allocation: an aspect neglected in traditional theory.

• Cyert and March's definition of 'slack' shows that this concept is equivalent to the 'economic rent' of factors of production of the traditional theory of the firm. The contribution of the behavioral school lies in the analysis of the stabilizing role of 'slack' on the activity of the firm.

9) Last question is also mathematical. Question was given and the requirement was to calculate the explicit & implicit cost of entrepreneur.

Question: Implicit cost is opportunity cost?? Explain with Example....3marks

Implicit Cost is also opportunity cost equal to what a firm must give up in order to use factors which it neither purchases nor hires. It is the opposite of an explicit cost, which is borne directly.[1] In other words, an implicit cost is any cost that

results from using an asset instead of renting, selling, or lending it. The term also applies to forgone income from choosing not to work.

Question: Homogenous productions function..... 3 marks

There are two special classes of production functions that are often analyzed. The production function Q=f(X_1,X_2) is said to be homogeneous of degree n, if given any positive constant k, f(kX_1,kX_2)=k^n f(X_1, X_2). If n>1, the function exhibits increasing returns to scale, and it exhibits decreasing returns to scale if n<1. If it is homogeneous of degree 1, it exhibits constant returns to scale.

Question: Interpret following Regression Equation...3 marks

yt = 9.5 + 3.65Xt

yt= sales quanitity Xt = advertising cost

Explaining "a" that it's an intercept point, the regression line intercept Y-axis on 9.5 and 3.65 is the slope coefficient that means , one unit increase in Xt (advertisement) will cause 3.65 increase in sales (Yt)

Question: Find Profit Function...5

P = 430 + 50Q

TC = 3000 + 45Q + 0.03Q2

Solution

P = 430 – 0.05Q

TR = P*Q = (430 – 0.05Q)* Q = 430Q – 0.05Q2

MR = ∂TR/∂Q = 430 – 0.1Q

TC = 3000 + 45Q + 0.03Q2

MC = ∂TC/∂Q = 45 + 0.06Q

The firm total profit function is:

π= TR – TC = (430 - 0.05Q) Q – 3000 – 45Q - 0.03Q2

π= -0.08 Q2 + 385Q – 3000

Setting marginal revenue = marginal cost and solving for the related output quantity gives:

MR = MC

430 – 0.1Q = 45 + 0.06Q

430 – 45 = 0.07 Q

385 / 0.07 = Q

5500 = Q

At Q = 5500

P = 430 – 0.05Q

P = 430 – 0.05 (5500)

P = 430 – 275

P = 155

π= -0.08 Q2 + 385Q – 3000

=-0.08*(5500)^2 + 385*(5500) – 3000

= -305500

There are two special classes of production functions that are often analyzed. The production function Q=f(X_1,X_2) is said to be homogeneous of degree n, if given any positive constant k, f(kX_1,kX_2)=k^n f(X_1, X_2). If n>1, the function exhibits increasing returns to scale, and it exhibits decreasing returns to scale if n<1. If it is homogeneous of degree 1, it exhibits constant returns to scale.

Question: Simultaneous games and Sequential games

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ECO404 – SOLVED Question

Past Paper Question (FINAL TERM)

Simultaneous games are games in which players make their strategy choices at the same time Sequential games are games in which players make their decisions sequentially. In sequential games, the first mover may have an advantage.

Question: DEGREES OF PRICE DISCRIMINATION

There are three types of price discrimination: first, second, and third degree. By practicing any type of price discrimination, the firm can increase its total revenue and profits by capturing all or part of the consumer's surplus.

1. First degree price discrimination creates different prices for each customer (maximum profits).
2. Second degree price discrimination gives quantity discounts.
3. Third degree price discrimination assigns different prices by customer age, gender, income, location etc.

Question: CAPITAL BUDGETING PROCESS

The term Capital refers to the funds employed to finance business; a budget is a detailed plan of projected inflows and outflows over future periods. Capital Budgeting is planning expenditures that generate cash flows expected to stretch beyond one year. Process of planning expenditures that give rise to revenues or returns over a number of years.

Question: PAYBACK PERIOD

Payback Period is the amount of time required for the firm to recover its initial cost in a project, as calculated from a *cash inflow.* In the case of an annuity, the payback period can be found by dividing the initial investment by the annual cash inflow.

Question: ECONOMIC INTERPRETATION OF λ

- A high value of λ indicates that Q could be increased substantially by relaxing the constraint
- A low value of λ indicates that there is not much to be gained by relaxing the constraint
- λ = 0 implies that the constraint is not binding

Question: *Management was measured as a performance ranking of on the basis of 3 criteria:*

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1. Output goal attainment
2. Cost over- or under -fulfillment
3. Quality level of output

Question: MEASURING RISK WITH PROBABILITY DISTRIBUTIONS

The concept of probability distributions is essential in evaluating and comparing investment projects. In general, the outcome or profit of an investment project is highest when the economy is booming and smallest when the economy is in a recession. If we multiply each possible outcome or profit of an investment by its probability of occurrence and add these products, we get the expected value or profit of the project.

Question No. 55

Differentiate between Centralized Collusion and Market Based Collusion? (3 Marks)

In contrast, the traditional collusion is better called "centralized collusion". There is a "central agent" that asks the members to act in concert with the group. Such coordination kills competition and originality, invites cheating, fighting and other detrimental activities. The payment for hiring the "central agent" further reduces the joint profit.

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Subjective questions are ECO 404.....

diffirence between positive and negative externaity (3) (P-298)

difference between finity repeated and infinity repeated games(3) (P-209)

why firm produce more than one products

define capital rationing and why the practice of capital rationing are in use (P-283)

define price discrimination give example of situation of price discriminations

calculate unknown variations from the data its numerical (P-188,191,197)

like this : year sale (y) estimated line of regression

1 20 19.5

2 18 14.6

2nd

Q1. Differentiate between Pure and Differentiated oligopoly? (3 Marks) (P-187)

Q2. **Calculate profit Function** following data given? (3 Marks) (P-13,98,115,248)

Qd=120-15p and P=20-0.5Q

TC=50+3Q

Define Investment Opportunity Schedule and Marginal Cost of Capital?(3 Marks)(P-288)

Q3. Avg cost/unit of the firm in 2009 was 500 and 460 in 2010. Find Learning Rate? 3 (P-124)

Q4. Write characteristics of Stachelberg Oligopoly model? (5 Marks) (P-194)

Q5. Why forms produce more than one product? (5 Marks) (P-221)

Q6. Data was provided: (5 Marks)

Probability Cash Flow (P-280)

Boom 0.25 500

Normal .050 400

Recession 0.25 300

a.) Find Expected Value of Firm?

b.) Find Standard Deviation?

Q7. Given: Z=f(l,k) + λ (c*-Wl+rk) **Find Partial Derivative** of L,K, λ with respect to Z. (5 marks (P-13)

implicit cost is opportunity cost?? explain with Example....3marks (P-100)

homogenous production function ..... 3 marks (P-185)

interpret following Regression Equation...3 marks (P-44)

yt = 9.5 + 3.65Xt

yt= sales quanitity

Xt = advertising cost

Find Production cost of the function...5 (P-246)

P = 430 + 50Q

TC = 3000 + 45Q + 0.03Q2(square on Q)

another question from production function dnt remembr exactly asking aby he **marginal change in (P-105)**

Q= f(L,K)....5mark

Q: difference between cost of capital and cost of debt? 5marks (P-288)

Q: criticism on william's managerial utility? 5 marks (P-235)

Q: solve the **regration equation** St=105.3(1.464) (P-48)

2

for the base year 1991

and find for 2011 and 2015? 5 marks

Q: Write down the elements of Game theory? 5 Marks (P-199)

Q: describe the flaws of customer Clinic Approach? 3 Marks (P-35)

Q: Difference between replacement and cost reduction investment? 3 (P-279)

Q: **Slope of Average cost** AC=400Q (P-237)

3

+463Q

2

/Q+12Q+10? 3marks

Q: describe the marri's model? 3 marksn (P-241)

Q1. What is Expansion Path and what are the points on Expansion path? (3 Marks) (P-88)

Q2. Differentiate between Centralized Collation and Market Based Collation? (3 (P-197)

Q3. What is the criticism on Maris Model of growth? (3 Marks) (P-241)

Q4. Differentiate and discuss Risk and Uncertainty? (3 Marks) (P-263)

Q5. Consider the following information of the firm:

Total fixed cost = Rs.250

Price level = Rs. 15

Average variable cost = Rs. 5

Target profit level = Rs. 150

From this information, **calculate the break even level of output and target level**

of output? (5 Marks) (P-83)

Q6. What are the Assumptions of Neo-Classical Theory? (5 Marks) (P-234)

Q7. Why decision making is complicated in oligopoly as compared to other market

structures? Discuss? (5 Marks) (P-161)

Q8. Differentiate Cost of Capital and Cost of Debt? (5 Marks) (P-288)

Solution to Q5.

(1) QB = TFC

P – AVC

= 250

15 – 5

= 25

(2) $QT = \frac{TFC + \prod T}{P - AVC}$

$= 250 + 150$

Q.No1:- Define Finitely repeated games & Infinitely repeated games Marks 3 (P-208)

Q.No 2:- briefly describe Risk attitude 3 Mark (P-263)

Q.No3:- calculate profit Function following data given 3 Mark

Qd=120-15p and P=90-0.5Q

TC=50+3Q

Q.No 4:- Price Discrimination and types describe in detail 5 Mark (P-213)

Q.No 5:- characteristic of Firm and what is main objective of firm 5 Marks

Difference between PERFECT COMPETITION and MONOPOLY (P-180)

Simultaneous games and Sequential games

DEGREES OF PRICE DISCRIMINATION

MEASURING RISK WITH PROBABILITY DISTRIBUTIONS

CAPITAL BUDGETING PROCESS

PAYBACK PERIOD

1) 2 functions were given their derivatives were asked to find. (P-13)
2) what is the usefulness of Game theory? (P-199)
3) how opportunity cost is defined? (P-101)
4) what is by-product?? give example
5) what are the characteristics of competitive competition? discuss them (P-161)
6) Why decision making is complicated in oligopoly as compared to other market structures?? dicuss (P-187)
7) How Game theory helps in risk analysis? (P-199)
what are the contributions of Behavioral theory?? (P-255)
9) last question is also mathematical. aquestion was given and the requirement was to calculate the explicit & implicit cost of enterpreneur..(the same questiion which was in assignmnet 1)

Consider the following information of the firm:
Total fixed cost = Rs. 350
Price level = Rs. 20
Average variable cost = Rs. 10
Target profit level = Rs. 250
From this information, calculate the break even level of output and target level of output.
(Marks: 2.5+2.5)
Question: 02
You have given the following linear programming problem:

Maximize Profit (π) = Rs. 20X + Rs. 8Y
Subject to the following constraints:
3X + 1Y + SA = 40
2X + 2Y + SB = 25
4Y + SC = 30
The corner points are given as:
Corner points X Y
A 0 0
B 7 0
C 5 3
D 2 7
E 0 7
From all this information, find the profit (Rs.) level at each corner point. (Marks: 5) (P-148, 150)
Given the total revenue and total cost functions:
TR = 80Q – 0.00025Q2
TC = 260,450 + 5Q +0.00035Q2
Find the profit maximizing level of output under monopoly
Total 64 Questions out of which 56 MCQ'S,4 question of 3 marks and 4 of 5 marks.

3 Marks Questions:
1-Define economies of scope. why it is important for firms? (P-116)
3-What is transfer pricing?why does the problem of transfer pricing arises?discuss (P-227)

2-Baumol's sales maximization model was criticized on what grounds? discuss? (P-235)
3-Briefly discuss the basic valuation model of firm. How this model can be adjusted for risk? (P-266)
4-Given the following total revenue and total cost function of a firm
TR = 22Q - 0.5Q2
TC = (1/3)Q3 - 8.5Q2 + 50Q + 90
Find out the **marginal revenue and marginal cost (P-6, 105)**

Mostly mcqs were on perfection competition, Games and product and their classification like Wheat Market, Cigarettes, Mining industry etc

How Game Theory can be beneficial in Risk Analysis 5 Marks (P-257)

How Government can exercise Monopoly Give Reasons 5 Marks (P-162)

How Behavioral Theories contributed in Economy of Sales 5 Marks (P-235)

SUBJECTIVE QUESTIONS:
Q1. Describe the types of price discrimination briefly? 3marks (P-231)

Q2. What is opportunity loss? Define 3marks

Q3. Differentiate between the simultaneous move game and the sequential move game? 3marks (P-208)

Q4. What are the contribution of MARRIS MODEL? Discuss briefly 3marks (P-241)

Q5. Discuss the characterisitics of oligopoly? 5marks (P-187)

Q6. Data was provided: (5 Marks)

	Probability	Cash Flow
Boom	0.25	500
Normal	.050	400
Recession	0.25	300

a.) **Find Expected Value of Firm**?

b.) **Find Standard Deviation**? MARKS 2+3

Find Expected Value of Firm?
b.) Find Standard Deviation? MARKS 2+3
Question: 01
Consider the following information of the firm:
Total fixed cost = Rs. 350
Price level = Rs. 20
Average variable cost = Rs. 10
Target profit level = Rs. 250