Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER I – • EXAMINATION – SUMMER 2016

Subject Code: 2810002 **Date: 13/05/2016**

Subject Name: Economics for Managers (EFM)

Time: 10:30 AM to 01:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q. 1 (a) **Objective Questions** **06**

1. Economic is primarily the study of
   - A How to make money in the stock market
   - B How to operate a business successfully
   - C How individual/Society manages the scare resources.
   - D Government Policies
2. For Competitive firm P=
   - A MR > AR
   - B AR > MR
   - C AR = MR
   - D MR < AR
3. Oligopoly means
   - A One seller many buyer
   - B Few seller many buyer
   - C Few seller many buyers
   - D Two seller many buyers
4. Phillips curve in long run is
   - A Vertical
   - B Downward sloping
   - C Horizontal
   - D Upward sloping
5. In long run supply curve becomes
   - A Vertical
   - B Horizontal
   - C Upward sloping
   - D Downward sloping
6. According to the Law of Demand, the demand curve for a good will
   - A Shift leftward when the price of the good increases.
   - B Shift rightward when the price of the good increases.
   - C Slope downward.
   - D Slope upward.

Q.1 (b) 1. Law of Demand **04**
2. Monopoly
3. Aggregate Demand
4. Price Elasticity of Supply

Q1. (C) Discuss any four principles of Economics **04**

Q2. (a) What do you mean by a competitive firm? How it differ from Monopoly? **07**

Q2. (b) What is prisoner's dilemma and how it is related with oligopoly? **07**

OR

Q2. (b) Define natural monopoly? How it is different from monopolistic? **07**

Q3. (a) What is GDP? What does it indicate? **07**

Q3. (b) What is CPI? How it can be calculated? **07**

OR

Q3. (a) Explain various types of cost of inflation. **07**

Q3. (b) Define ATC, AVC, AFC and MC. Discuss the relationship between MC and ATC. **07**

Q4.(a) Explain the three reasons the aggregate demand curve is downward sloping. **07**

Q4.(b) Describe the economic logic behind the theory of purchasing power parity. **07**

OR

Q4. (a) List and describe four determinants of productivity. **07**

Q4. (b) Explain and describe Phillips curve. **07**

Q5. **CASE STUDY**

In 1888 the two largest diamond-mining operations joined to create the De Beers Consolidated Mines. This was the birth of South Africa's diamond industry. By 1902, De Beers controlled 90 percent of the world's diamond market. By 1939 De Beers possessed 50 percent of the world's value of uncut diamonds. The company also created the Central Selling Organization to buy and sell diamonds from other regions. Through this organization, De Beers manipulated another 20 percent of the world's value in diamonds. Today, the company still possesses about 50 percent of the world diamond value. However, many nations have been reluctant to sell their diamonds to the Central Selling Organization. This has prevented De Beers from buying up the world's diamond reserves. De Beers now focuses on maintaining its position in the market by promoting its name brand of diamonds.

For most of the 20th century, the diamond industry was an oligopolistic market. Diamond mining in South Africa flourished because of the nation's geography. At the turn of the 20th century, it appeared that the majority of the world's diamonds were in South Africa. This nation also had the best access to waterways for transporting the diamonds internationally. This geographical advantage allowed De Beers to buy the diamond mines from other African nations. When nations from other continents discovered their own diamond mines, De Beers responded. The company began to establish brand difference. It bought diamonds in bulk from other nations. Purchases were based on the premise that the De Beers brand identification would ensure the best price possible.

For a time, it appeared that De Beers had a geographic monopoly. When other nations began to mine for diamonds, the monopoly collapsed. Brand became very important to success in the diamond industry. This industry was becoming a classic model of oligopoly.

Several nations, including Canada and Russia, have opened successful diamond mines. These mines have produced unique forms of diamonds. Yet the diamond market is still far from perfect competition. Although De Beers has significantly backed away from the uncut diamond market, it still possesses the advantage of brand loyalty. De Beers has been involved with diamonds since the origin of the industry. New companies may have difficulty competing with the trust that consumers have in De Beers. Also, De Beers still owns at least 50 percent of the world's value in diamonds, as well as several productive mines. This level of resource domination provides a competitive edge in the market.

De Beers dominated the diamond industry by using the geographic advantage held by South Africa and by instilling brand loyalty. The company bought up significant portions of the world's uncut diamond supply. These actions convinced consumers that diamonds were not only worthwhile investments but also stable ones. De Beers limited the flow of diamonds during recessions and increased the flow during economic upturns. This allowed the company to keep the market value of diamonds at a relative equilibrium. De Beers used its competitive advantages and resources in the most economically profitable ways. In fact, without De Beers there would be a very small market for diamonds, since they are actually quite common.

Q5. (a) Between 1902 and 1939, did South Africa's diamond industry meet the definition of a competitive monopoly? Did this change after 1939? **07**

Q5 (b) Before other nations began mining for diamonds, did De Beers have a geographic monopoly, or was it part of a monopolistic competition? **07**

OR

Q5. (a) As more businesses and nations enter the diamond industry, why does De Beers retain such a significant share of the market? **07**

Q5. (b) How did De Beers dominate the diamond industry? **07**

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