2021

ECONOMICS — HONOURS

Paper : SEC-B(2)-2

(Managerial Economics)

Full Marks : 80

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

1. Answer ***any ten*** questions : 2×10

(a) Define opportunity cost with an example.

(b) How is cost related to economies of scale?

(c) What are the advantages of marginal cost pricing?

(d) Given the cost function $C = \frac{1}{3}Q^3 - 3Q^2 + 9Q$, find Q where AC is minimum.

(e) Distinguish between durable goods demand and non-durable goods demand.

(f) What is meant by derived demand?

(g) What are sunk costs?

(h) What is meant by economies of scope?

(i) What is meant by demand forecasting?

(j) What do you mean by cyclical pricing?

(k) Distinguish between marginal cost and incremental cost.

(l) What do you mean by preferred stock?

(m) When does the firm have to do capital budgeting?

(n) What do you mean by time value of money?

(o) What is profitability index?

Group - B

Answer ***any four*** questions.

2. Why are the strategies of skimming price policy and penetration price policy adopted by firms ? 5

3. Distinguish the difference between

(a) implicit and explicit costs

(b) accounting and economic costs. 2+3

4. What are the different sources of funds for long-term financing? 5

5. Describe the broad categories of capital budgeting. 5

6. Discuss the NPV and IRR methods of investment apraisal. Which one is functionally better? 4+1

7. What do you mean by inventory? What are the different types of inventory? 1+4

Group - C

Answer ***any four*** questions.

8. What is meant by product life cycle? Can there be variation in price policy in different stages of product life cycle? Why? 4+2+4

9. (a) What are the components of a time series?

(b) The price of wheat and its demand (in kg) produced by Fresh Cereals Pvt. Ltd. in 2007 is given in the following table. Fit a linear regression line and estimate the demand for wheat when price is ₹ 40 per kg and ₹ 28 per kg.

Price (₹/kg)	18	20	25	30	32
Demand (in kg)	90	85	75	70	65

2+8

10. (a) What is profit volume analysis?

(b) Break-even production of a firm is 5000 units. Its fixed cost is ₹ 50,000; the variable cost per unit is ₹ 25. Find out the price of the product. How much the firm should produce to earn a profit of ₹ 25,000? 5+5

11. (a) Explain Capital Asset Pricing Model (CAPM) of calculating cost of equity.

(b) Suppose in a market the average return on common stock is 10 per cent, while the return on government bond is 6 per cent. Find out the cost of capital using CAPM if

(i) risk associated with the firm in question $\beta = 1$

(ii) $\beta = 0.5$ 5+5

12. (a) What is Economic Order Quantity (EOQ)?

(b) Company XYZ faces an annual demand of 5,40,000 units. The purchase price of stock is ₹ 24 per thousand units, with a cost of ordering of ₹ 4. The cost of holding stock is 20 per cent of average stock value. Find the optimum order quantity and minimum acquisition cost. 5+5

13. A firm is considering a purchase of a machine for metal sheet perforation. Two machines A and B are available for the purpose in the market. Each of these machine cost ₹ 1,00,000. Earnings after taxation are expected to be as under :

Year	**Cash Flow**	
	Machine A	Machine B
1st	30,000	10,000
2nd	40,000	30,000
3rd	50,000	40,000
4th	30,000	60,000
5th	20,000	40,000

Rank the machines on the basis of :

(a) Payback Period Method

(b) Average Rate of Return Method. 5+5