

**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?

**Please Turn Over**

**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 appraisal. 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

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