



First Term Exam-2071

Level: MBS-I
Time: 2:00 Hrs.

Subject: Business Economics

F.M.: 100
P.M.: 40

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

Attempt **ANY TWO** Questions from each group.

Group 'A' – Managerial Economics

1. Define Managerial Economics. Explain its characteristics. How managerial economics provides the link between traditional economics and decision sciences in business decision-making? [25]
2. Critically explain the value maximization objective of a firm. [25]
3. a. An industry produces 500 units of product X and 250 units of product Y per year. The total cost is Rs 25000. If the industry produced 500 units of product X only the cost would be Rs 18000. If the industry produced 250 units of product Y only, the cost would be Rs 12000.
 - i. Calculate the degree of economies of scope.
 - ii. Why the economics of scope exist? [13]
- b. Suppose, a Corporation has the following production function $Q = 98L - 3L^2$
The corporation can sell its product at the price 30 per unit that is its Marginal Revenue will equal to Rs. 30. It can hire whatever units of labour it wants at Rs. 60 per day.

Required:

 - i. How much labour should the corporation employ each day so as to maximize its profit?
 - ii. Distinguish between marginal revenue product and marginal expenditure. [12]

Group B – Economic Policy Analysis

1. Define public policy. Explain the scope of public policy. Explain how public policy affects business decision-making? [25]
2. What are the sources of market failure? How the government does regulate public utility? [25]
3. Explain saving investment theory with diagram. Describe the situation when saving rises at constant investment and when investment rises at same saving. [25]