

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA-SEMESTER-I-EXAMINATION-WINTER-2024

Subject Code: MB01095021**Date: 17/01/2025****Subject Name: Micro Economics****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.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

Q. No	Question Text and Description	Marks
Q.1	Explain the terms with suitable examples a) Marginal Cost b) Price Discrimination c) Deadweight Loss d) Equi-Marginal Principle e) Giffen Goods f) Indifference Curve g) Consumer Surplus	14
Q.2	(A) How does the Equi-Marginal Principle help managers in resource allocation? Provide a simple illustration.	7
Q.2	(B) Explain the Law of Demand with an example of a real-world product.	7
	OR	
Q.2	(B) Differentiate between a movement along the supply curve and a shift in the supply curve. Explain the factors that cause a shift in the supply curve.	7
Q.3	(A) What is elasticity? Discuss various types of elasticity of demand.	7
Q.3	(B) A person consumes two apples and feels satisfied, but the third apple gives less satisfaction than the first two. Analyze this scenario using the Law of Diminishing Marginal Utility.	7
	OR	
Q.3	(A) Describe how a demand forecasting model can help an e-commerce platform during a flash sale event.	7
Q.3	(B) Illustrate the concept of the Law of Diminishing Marginal Rate of Substitution with an example of a consumer trading off between leisure and work hours.	7
Q.4	(A) Consider a restaurant that increases its number of chefs but observes that the additional output produced by each additional chef decreases after a certain point. How does this illustrate the Law of Variable Proportions?	7
Q.4	(B) Explain linear homogeneous production function with example.	7
	OR	
Q.4	(A) Explain how a firm can use the short-run cost curve to decide whether it should continue production at a loss or shut down temporarily during an economic downturn.	7
Q.4	(B) What are economies of scale, and how do they affect a firm's cost structure?	7
Q.5	Pratibha Foods Pvt. Ltd. is a mid-sized food company based in India, known for producing a variety of food products, including staple items like rice, wheat flour, sugar, and packaged snacks like chips, biscuits, and namkeens. The company has been operating for over two decades and has recently expanded its product portfolio to include organic honey.	

Pratibha Foods is facing challenges in determining the right pricing strategy for its different products across varying market structures. The company has to make strategic decisions regarding how to price its products while taking into account market competition, consumer demand, and cost factors. Below is an overview of the company's situation:

For basic food items like rice, wheat flour, and sugar, Pratibha Foods competes in a perfectly competitive market. The company operates in a market with many small producers and distributors. The products are homogenous, meaning there is little to no differentiation between Pratibha's offerings and those of its competitors. The price for these products is largely determined by the supply and demand forces in the market, leaving little room for Pratibha to influence the prices. Due to the competitive nature of this market, Pratibha Foods is considered a price taker.

For its packaged snacks (such as chips, biscuits, and namkeens), Pratibha Foods operates in a monopolistically competitive market. The company's products are differentiated by packaging, branding, and quality. Many other brands offer similar products, but consumers have preferences for certain brands due to perceived quality or unique flavors. Pratibha Foods has to compete with both large national brands and local players. Its pricing strategy for this product line must take into account its brand positioning, consumer loyalty, and the need to remain competitive in a market where product differentiation plays a significant role.

The company recently launched organic honey, a unique product in the market with no close substitutes. Currently, Pratibha Foods holds a monopoly in the organic honey market in India. As the exclusive producer of organic honey, the company has significant pricing power and can set the price based on production costs, demand elasticity, and consumer willingness to pay. While competition is expected to increase in the future, for now, Pratibha Foods has a clear pricing advantage due to its unique product offering.

Pratibha Foods also produces biscuits and snacks, competing against a few large established players in the Indian market, such as Britannia and Parle. This market structure can be described as oligopolistic because a small number of firms dominate the market, and each company's pricing decisions impact the others. The market is highly competitive, and price wars are common. However, Pratibha Foods also competes on factors like innovation, packaging, advertising, and customer loyalty programs to avoid solely relying on price competition.

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| Q.5 | (A) | Explain how pricing and output decisions are made for each of the company's product lines. | 7 |
| | (B) | In the context of monopolistic competition and monopoly, what factors govern the pricing decisions for Pratibha Foods? How should the company approach pricing for its packaged snacks and organic honey? | 7 |
| | OR | | |
| Q.5 | (A) | Discuss the objectives of pricing policy for Pratibha Foods in the context of monopolistic competition and monopoly. How do these objectives differ across the company's product lines, and how would the company determine the appropriate pricing strategy for each? | 7 |
| | (B) | Explain the pricing methods such as cost-plus pricing and marginal cost pricing. Which method would be most suitable for Pratibha Foods in each of its market structures. Justify your answer. | 7 |
